

Unaudited Consolidated Financial Statements of

ENHANCED OIL RESOURCES INC.

Nine months ended September 30, 2009 and 2008

ENHANCED OIL RESOURCES INC.

Consolidated Balance Sheets (Unaudited)

(all amounts expressed in thousands of Canadian dollars)

	September 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 1,188	\$ 5,241
Receivables (Note 4)	864	624
Equipment held for sale, net (Note 4)	1,072	2,020
Other current assets	220	269
	<u>3,344</u>	<u>8,154</u>
Property and Equipment (Note 3)		
Oil and gas properties, net	28,964	28,427
Resource properties, net	100,194	97,675
Other property and equipment	499	706
	<u>129,657</u>	<u>126,808</u>
Other Assets		
Restricted cash	1,611	2,263
Other	83	82
	<u>\$ 134,695</u>	<u>\$ 137,307</u>
Liabilities And Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$ 1,893</u>	<u>\$ 1,776</u>
	1,893	1,776
Asset retirement obligation (Note 5)	5,607	5,296
Future income tax liabilities (Note 7)	7,899	7,899
Shareholders' equity		
Equity instruments (Notes 6(b), 6(c) and 6(d))	167,279	168,114
Equity instruments subscribed	53	53
Contributed surplus (Note 6(e))	18,311	14,827
Common shares acquired, at cost	(168)	(168)
Deficit	<u>(66,179)</u>	<u>(60,490)</u>
	<u>120,284</u>	<u>122,336</u>
	<u>\$ 134,695</u>	<u>\$ 137,307</u>

Going Concern (Note 1)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

/s/ Thomas G. Milne

Thomas G. Milne
Director

/s/ Barry D. Lasker

Barry D. Lasker
Director

ENHANCED OIL RESOURCES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(all amounts expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenues (Note 8)				
Oil and gas sales, net of royalties	\$ 1,442	\$ 1,855	\$ 3,075	\$ 3,632
Interest and other	6	133	19	607
	<u>1,448</u>	<u>1,988</u>	<u>3,094</u>	<u>4,239</u>
Expenses				
Lease operating expense	753	770	2,093	2,581
General and administrative	756	1,697	3,159	3,935
Accretion of asset retirement obligation (Note 5)	101	91	314	247
Depreciation and depletion	320	400	1,154	655
Foreign currency translation (gain) loss	384	(310)	461	(350)
Stock-based compensation (Note 6)	204	884	841	4,093
Loss on notes receivable	-	1,142	-	1,142
Impairment on equipment held for sale	761	-	761	-
Interest and other, net	-	33	-	48
	<u>3,279</u>	<u>4,707</u>	<u>8,783</u>	<u>12,351</u>
Loss for the year before income taxes	(1,831)	(2,719)	(5,689)	(8,112)
Income taxes (Note 7)	-	-	-	-
Loss and comprehensive loss for the period	<u>(1,831)</u>	<u>(2,719)</u>	<u>(5,689)</u>	<u>(8,112)</u>
Deficit, beginning of period	(64,348)	(55,753)	(60,490)	(50,360)
Deficit, end of period	<u>(66,179)</u>	<u>(58,472)</u>	<u>(66,179)</u>	<u>(58,472)</u>
<i>Loss per share - basic and diluted</i>	\$ (0.01)	\$ (0.02)	\$ (0.04)	\$ (0.07)

Going Concern (Note 1)

See accompanying notes to consolidated financial statements.

ENHANCED OIL RESOURCES INC.

Consolidated Statements of Cash Flows
(all amounts expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Cash (used in) provided by:				
Operating activities				
Net loss for the year	\$ (1,831)	\$ (2,719)	\$ (5,689)	\$ (8,112)
Add (deduct) noncash and other items:				
Depreciation and depletion	320	400	1,154	655
Accretion of asset retirement obligation	101	91	314	247
Stock-based compensation expense	204	884	841	4,093
Impairment on asset held for sale	761	-	761	-
Other	(30)	-	(3)	-
	(475)	(1,344)	(2,622)	(3,117)
Changes in non-cash working capital	562	(40)	438	192
Cash provided by (used in) operations	87	(1,384)	(2,184)	(2,925)
Investing activities				
Property acquisitions	(207)	(64)	(1,612)	(4,676)
Exploration and development expenditures	(815)	(17,528)	(2,718)	(40,551)
Repayments on notes receivable	-	-	-	437
(Increases) decreases in restricted cash	43	(356)	652	(832)
Cash used in investing activities	(979)	(17,948)	(3,678)	(45,622)
Financing activities				
Issuance of equity instruments for cash, net of issue costs	165	30,187	1,809	41,622
Proceeds from equity instruments subscribed	(150)	(9,389)	-	-
Cash provided by financing activities	15	20,798	1,809	41,622
Change in cash and cash equivalents	(877)	1,466	(4,053)	(6,925)
Cash and cash equivalents, beginning of period	2,065	12,132	5,241	20,523
Cash and cash equivalents, end of period	1,188	13,598	1,188	13,598
Non-cash investing and financing activities:				
Subscribed shares for private placement receivable	\$ -	\$ 19,423	\$ -	\$ 19,423

Going Concern (Note 1)

See accompanying notes to consolidated financial statements.

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Notes to Unaudited Interim Consolidated Financial Statements, Page 1
(All amounts in thousands of Canadian dollars unless otherwise indicated)

Nine months ended September 30, 2009

(1) Going Concern

Enhanced Oil Resources Inc. (a company incorporated in British Columbia, Canada) and its wholly owned subsidiaries (the “Company”) principally operates in the United States and is engaged in the business of developing its helium and carbon dioxide (“CO₂”) project in eastern Arizona/western New Mexico (“St. Johns Field”) and crude oil and natural gas production, including enhanced oil recovery projects, in the Permian Basin in eastern New Mexico and West Texas. The Company has spent approximately \$100.4 million in acquiring, exploring and developing the St. Johns Field and \$30.6 million in acquiring and developing its oil fields in the Permian Basin. As disclosed in the Unaudited Interim Consolidated Financial Statements of Operations, Comprehensive Loss and Deficit and Cash Flows, respectively, the Company incurred a net loss of \$5.7 million for the nine months ended September 30, 2009 and used \$2.2 million and \$3.7 million of cash in operating activities and investing activities, respectively, during the nine months ended September 30, 2009. At September 30, 2009, the Company had cash on hand of \$1.2 million and working capital of \$1.5 million.

In addition to development of its New Mexico crude oil properties, the continuation of operations and realization of the capitalized cost of resource properties are dependent upon the Company, developing an economic justification to finance a direct delivery of CO₂ to our crude oil properties, constructing the appropriate facilities, obtaining additional external financing and achieving profitable operations. Management is currently focused on the activities necessary to develop the St. Johns Field and develop its oil and natural gas properties, including (i) establishing positive cash flow from operations by increasing its reserves of oil and natural gas, (ii) initiating tertiary recovery projects through CO₂ flooding, (iii) initiating development of a helium plant at the St. Johns Field for recovery of helium from a CO₂ gas stream, (iv) designing and structuring joint crude oil flood projects with other producers employing CO₂ injection, and (v) developing other CO₂ uses, through the application of other emerging technologies, to its CO₂ source field. In addition, the current economic uncertainty and financial market volatility will likely affect the Company’s operations and activities in the next twelve months. If the Company is not successful in the activities discussed above, the Company may not be able to fully realize its assets. There are no assurances that the Company will be successful in the initiatives discussed above, which causes significant doubt concerning the Company’s ability to continue operations.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) which assumes the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future, which may or may not be appropriate, and does not reflect adjustments that would otherwise be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

(2) Summary of Significant Accounting Policies

These interim consolidated financial statements are presented in Canadian dollars unless otherwise stated and are prepared in accordance with Canadian GAAP and have been prepared following the same accounting policies and methods of computation as the financial statements of the Company for the year ended December 31, 2008, with the exception of the changes in accounting policies noted below. The disclosure herein is incremental to that included in the annual financial statements. In this regard, these interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2008.

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(all amounts in thousands of Canadian dollars unless otherwise indicated)

Nine months ended September 30, 2009

Measurement Uncertainty

Impairment of Long Lived Assets. The Company reviews the carrying amount of long lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. This is accomplished by determining whether the sum of the projected undiscounted future cash flows from the use and eventual disposition of the assets exceed the net carrying amount of the assets as of the assessment date. Estimates of future cash flow and fair value require judgment and may change over time.

At September 30, 2009, as a result of the adverse business climate, the Company conducted an impairment test on its assets. Estimates of future cash flows used to test the recoverability of the assets included key assumptions related to, among other things, the ability to obtain financing to complete the project, production, product prices, the U.S./Canada exchange rate, royalties, operating costs and capital costs. The Company concluded that the recognition of an impairment loss for the assets was not required. Given the inherent imprecision and importance of the key assumptions, it is possible that changes in future conditions may lead management to use different key assumptions, which could require a material change in the net carrying amount of these assets.

In addition, specific estimates made by management include asset retirement obligations, fair values of equity instruments, taxes, impairment reviews of other assets, depletion computations and the fair value of equipment held for sale. Actual results could differ from those estimated.

The objectivity and integrity of data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management of the Company. In management's opinion, the financial statements have been properly prepared and are within the framework of the Company's accounting policies.

Changes in Accounting Policies and Practices

Effective January 1, 2009, the Company has adopted a new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets. The adoption of this standard requires retroactive application to prior period financial statements and does not have an impact on the Company's financial statements.

Future Changes in Accounting Policies

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit oriented Canadian publicly accountable enterprises. The Company will be required to report its results in interim and annual financial statements in accordance with IFRS beginning in 2011. The Company is developing a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information.

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(all amounts in thousands of Canadian dollars unless otherwise indicated)

Nine months ended September 30, 2009

(3) Property and Equipment

Cost:	Resource Properties	Oil and Gas Properties	Other Property and Equipment	Total
Balance, December 31, 2008	\$ 97,875	\$ 29,154	\$ 996	\$ 128,025
Property acquisitions	1,599	13	-	1,612
Delay rentals	463	-	-	463
Asset retirement obligation - initial measurement	-	-	-	-
Expenditures	457	1,471	-	1,928
Balance, September 30, 2009	\$ 100,394	\$ 30,638	\$ 996	\$ 132,028
Accumulated depreciation and impairment:				
Balance, December 31, 2008	\$ (200)	\$ (727)	\$ (290)	\$ (1,217)
Impairment	-	-	-	-
Depreciation and depletion	-	(947)	(207)	(1,154)
Balance, September 30, 2009	\$ (200)	\$ (1,674)	\$ (497)	\$ (2,371)
Net book value:				
December 31, 2008	\$ 97,675	\$ 28,427	\$ 706	\$ 126,808
Balance, September 30, 2009	\$ 100,194	\$ 28,964	\$ 499	\$ 129,657

(a) Resource properties – helium and CO₂ fields

Resource property expenditures represent the Company's inception-to-date activities on the St. Johns Field. Approximately \$20.0 million of the \$100.4 million in total expenditures represents the value assigned to the holdings acquired in the Company's acquisition of Arizona Resources Industries Inc. during November 1997, and which are without tax basis. The balance of the expenditures comprises lease acquisition and delay rental costs and drilling costs. There is no amortization or depletion of resource amounts capitalized since there is no production currently from the properties.

(b) Oil and gas properties

In 2007, the Company initiated crude oil and natural gas operations with property acquisitions of minimally producing property interests located in New Mexico. These acquisitions represented essentially unproved properties with unevaluated potential for enhanced oil recovery projects, which the Company initiated evaluation processes for during 2008. The projects on these properties are being accounted for under the full-cost method of accounting. Substantially all the costs related to these properties are being carried as major development project costs pending the completion and evaluation of pilot CO₂ injection projects currently underway to evaluate enhanced oil recovery feasibility and estimated economics for development. Accordingly, capitalized costs of \$21.4 million and \$19.5 million for the nine months ended September 30, 2009 and 2008, respectively, have been excluded from costs

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Nine months ended September 30, 2009

subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties. The Company has not capitalized general and administrative expenses related to acquisition, exploration or development activities.

No impairment of oil and gas properties was determined to be required for the periods ended in 2008 or 2009 as a result of application of the ceiling test or the impairment evaluations by management.

(c) Other property and equipment

Other property and equipment consist primarily of field vehicles and office equipment.

(4) Receivables

The Company's receivables at September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Due from sales of crude oil and natural gas	\$ 629	\$ 397
Other	235	227
Balance, end of period	\$ 864	\$ 624

On November 21, 2007, the Company advanced Forster US\$0.2 million to fund a security deposit on a drilling rig and subsequently advanced an additional US\$1.5 million on December 3, 2007, to allow Forster to complete its acquisition of the drilling rig and related equipment. In connection with these transactions, Forster executed a 10% secured note payable to a subsidiary of the Company in the amount of US\$1.7 million effective December 3, 2007, due March 27, 2008. Effective March 27, 2008, the Company extended the term of the secured note to June 27, 2008, and increased the rate of interest to 12% with interest payable monthly. On July 2, 2008 the Company and Forster executed an agreement that called for, among other things, a mutual release of certain matters regarding a drilling contract between the parties and agreed to a 60 day joint marketing arrangement intended to dispose of the drilling rig and equipment securing the note. On November 14, 2008, the Company accepted an assignment of the drilling rig and related equipment from Forster in extinguishment of and in lieu of foreclosure by the Company on Forster's note, which was past due and unpaid. The Company recorded the rig and related equipment at US\$1,650,000 based on an independent appraisal obtained in October 2008, net of estimated selling costs. In addition, the Company expensed costs of US\$437,000 which the Company had incurred in connection with the rig. The rig and related equipment is classified as a current asset of equipment held for sale. In connection with the continuing depressed economic conditions affecting the market for oilfield equipment, the Company recognized an additional impairment on the rig and equipment of US \$650,000.

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Nine months ended September 30, 2009

(5) Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of resource properties and oil and gas properties:

Balance, December 31, 2008	\$	5,296
Accretion		314
Plug & Abandonment Costs Incurred		(3)
Liabilities incurred		-
Balance, September 30, 2009	\$	5,607

The total undiscounted amount of estimated cash flows required to settle the obligations as of September 30, 2009 is US\$21.1 million, which has been discounted using a credit-adjusted risk free rate from 7.2% to 9.85% and assumes an inflation rate from 1.5% to 4%. Most of these obligations are expected to be settled over the next nine to thirty-one years and will be funded from general Company resources at the time of retirement.

(6) Equity Instruments

(a) Authorized

25 million preference shares of no par value (1,000 shares issued to a wholly owned subsidiary of the Company)

Unlimited common shares of no par value

(b) Issued

	Number of Common Shares	Amount
Balance, December 31, 2008	141,439,886	\$ 143,575
Shares issued in private placements, net	4,333,333	1,565
Shares issued on exercise of stock options	125,500	55
Balance, September 30, 2009	145,898,719	\$ 145,195

The weighted average number of common shares outstanding used for purposes of the computation of basic per share data, was 141,808,453 shares for the nine months ended September 30, 2009 (2008 -- 107,497,332 shares). Since the Company incurred a net loss for each of the nine month periods ended in 2009 and 2008, no common stock equivalents were included in the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

On June 3, 2009, the Company closed a non-brokered private placement of 4,333,333 units priced at \$0.45 each and consisted of one common share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$0.60 until June 30, 2010. Gross proceeds totaled \$2.0 million and the Company incurred offering costs of \$0.2 million thereby realizing net proceeds of \$1.8 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$0.2 million using the Black

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Scholes option pricing model and assuming an expected volatility of 106.6% (assuming the warrants are held to maturity) and a risk free interest rate of 0.5%.

On June 30, 2008, the Company closed a non-brokered private placement of 22,975,681 units priced at \$1.24 each and consisted of one common share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$1.80 until June 20, 2010. Gross proceeds totaled \$28.5 million and the Company incurred offering costs of \$2.0 million thereby realizing net proceeds of \$26.5 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$6.9 million using the Black Scholes option pricing model and assuming an expected volatility of 91% (assuming the warrants are held to maturity) and a risk free interest rate of 3.14%.

On June 27, July 16 and July 31, 2008, the Company closed three tranches of a brokered private placement of 5,383,500 units. The units were priced at \$1.24 each and consisted of one common share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$1.80 until 2 years after the closing date. Gross proceeds totaled \$6.7 million. The Company incurred offering costs of \$0.6 million thereby realizing net proceeds of \$6.1 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$1.4 million using the Black Scholes option pricing model and assuming an expected volatility of 91% (assuming the warrants are held to maturity) and a risk free interest rate of 2.86 - 3.14%. The Company also issued to the Agent an option to acquire 376,845 units. The options expire two years after the closing dates. The Company assigned \$0.4 million as the fair value of this option as calculated by using the Black Scholes option pricing model and assuming an expected volatility of 91% and a weighted average risk free interest rate of 2.86 - 3.14%.

In January 2008, certain holders (See footnote 10 - Related Party Transaction) of the Company's \$1.00 common stock purchase warrants with a scheduled expiration date of January 19, 2008, exercised the warrants prior to their expiration in exchange for promissory notes issued by the individuals (the "Notes"). The Notes aggregating \$2,074,000 were due in full on July 19, 2009, with interest at 8.5% per annum. The indebtedness was made with full recourse to the individuals and was collateralized by all the shares purchased. The shares purchased were delivered to the Company under arrangements which required the sale of the shares during the period from July 19, 2008 through July 19, 2009, until the principal and interest were repaid. There were no sales of the common shares pledged to the Notes and no collections had been received. In addition, the underlying market price of the Company's Common Shares had declined to \$0.43 per share. In November 2008, the Company agreed to cancel the Notes in exchange for surrender of the shares pledged as security for the loans and 2,074,000 common shares were cancelled. These transactions were accounted for under Canadian Institute of Chartered Accountants ("CICA") Handbook Emerging Issues Committee ("EIC") - 132, "Share Purchase Financing". EIC 132 requires that this type of loan receivable should be presented as a deduction from shareholders equity, interest income is recorded as a contributed capital transaction when received, if any, and earnings per share should be calculated by deducting the number of shares securing the loans. EIC 132 also requires that the number of shares securing the loans should be treated as stock options and accounted for pursuant to CICA Section 3870, "Stock-based Compensation and Other Stock Based Payments". Accordingly,

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Nine months ended September 30, 2009

the Company recorded stock-based compensation expense of \$1,120,000 for the period ended March 31, 2008, as restated, related to the shares issued and, upon restatement, accounted for the Notes as a deduction from shareholders equity until they were cancelled in December 2008. No interest income was recognized on the Notes in accordance with EIC 132 for the period ended June 30, 2008, as restated.

(c) Warrants

	Number of Warrants	Amount
Balance December 31, 2008	32,478,413	\$ 20,614
Issued in private placements	2,166,666	205
Warrants extended	-	90
Warrants underlying Agency Options expired	-	(52)
Expired (transferred to Contributed Surplus)	(60,050)	-
Balance, September 30, 2009	34,585,029	\$ 20,857

The following table sets forth the exercise price and expiration dates of outstanding common share purchase warrants at September 30, 2009:

Issue Date	Number of Warrants ⁽¹⁾	Exercise Price	Expiration Date
June 28, 2007	1,195,500 ⁽⁵⁾	\$ 1.80	June 30, 2010
July 4, 2007	3,515,371	\$ 1.80	June 30, 2010
July 9, 2007	1,426,600 ⁽²⁾	\$ 1.80	June 30, 2010
July 23, 2007	6,395,500 ⁽²⁾	\$ 1.80	June 30, 2010
July 27, 2007	1,063,000 ⁽²⁾	\$ 1.80	June 30, 2010
October 10, 2007	4,642,800	\$ 2.50	October 10, 2009
June 27, 2008	1,219,250 ⁽³⁾	\$ 1.80	June 27, 2010
June 30, 2008	11,487,842 ⁽³⁾	\$ 1.80	June 3, 2010
July 16, 2008	827,500 ⁽³⁾	\$ 1.80	July 16, 2010
July 31, 2008	645,000 ⁽³⁾	\$ 1.80	July 31, 2010
June 3, 2009	2,166,666 ⁽⁴⁾	\$ 0.60	June 30, 2010
	34,585,029		

(1) The warrant numbers presented represent the number of whole warrants outstanding for each grant.

(2) These Warrants were issued in connection with the Company's brokered private placement announced on June 28, 2007.

(3) These Warrants were issued in connection with the Company's brokered private placement announced on June 23, 2008.

(4) These Warrants were issued in connection with the Company's brokered private placement announced on June 16, 2009.

(5) These warrants were to expire on June 28, 2009, but were extended until June 30, 2010 announced on June 16, 2009.

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Nine months ended September 30, 2009

(d) Agency Options

	Number of Agency Options	Amount
Balance December 31, 2008	3,015,713	3,925
Issued in private placements	-	-
Expired (transferred to Contributed Surplus)	(1,896,020)	(2,698)
Balance, September 30, 2009	1,119,693	\$ 1,227

The following table sets forth the exercise price and expiration dates of outstanding agency options at September 30, 2009:

Issue Date	Number of Agency Options	Exercise Price	Expiration Date
October 10, 2007	742,848 ⁽¹⁾	\$ 1.80	October 10, 2009
June 27, 2008	170,695 ⁽²⁾	\$ 1.80	June 27, 2010
July 16, 2008	115,850 ⁽²⁾	\$ 1.80	July 16, 2010
July 31, 2008	90,300 ⁽²⁾	\$ 1.80	July 31, 2010
	1,119,693		

(1) These Agency Options were issued in connection with the Company's brokered private placement which closed on October 10, 2007, and entitle the holder to acquire one Unit for \$1.80. Each Unit entitles the holder to one share of Common Stock and a Warrant to purchase 1/2 share of Common Stock for \$2.50.

(2) These Agency Options were issued in connection with the Company's brokered private placement which closed on June 27, July 16, and July 31, 2008 and entitle the holder to acquire one Unit for \$1.80. Each Unit entitles the holder to one share of Common Stock and a Warrant to purchase 1/2 share of Common Stock for \$1.80.

(e) Contributed surplus

Balance December 31, 2008	\$ 14,827
Fair value of stock option grants	751
Fair value of exercised stock options	(17)
Warrants Expired	52
Agency options expired	2,698
Balance, September 30, 2009	\$ 18,311

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(all amounts in thousands of Canadian dollars unless otherwise indicated)

Nine months ended September 30, 2009

(f) Stock option plan

The Company has a Stock Option Plan under which a rolling amount is reserved for issuance of up to 10% of the outstanding common shares as of any particular grant date. These options have been granted with a five-year expiry. Options as of September 30 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	10,795	\$ 0.83
Granted	4,584	0.28
Exercised	(126)	0.30
Forfeited	(3,894)	(0.92)
Expired	-	-
Outstanding, September 30, 2009	11,359	0.58
Exercisable at September 30, 2009	7,709	\$ 0.74

The following table summarizes information about stock options as at September 30, 2009 (shares in thousands):

Options Outstanding					Options Exercisable		
Range of Prices		Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price	
Low	High						
\$ 0.30	\$ 0.62	7,524	4.5	\$ 0.30	3,874	\$ 0.34	
\$ 0.95	\$ 1.20	2,810	2.6	\$ 1.06	2,810	\$ 1.06	
\$ 1.24	\$ 1.89	1,025	3.8	\$ 1.35	1,025	\$ 1.35	
\$ 0.59	\$ 1.89	11,359		\$ 0.58	7,709	\$ 0.74	

(g) Stock-based compensation

The Company records stock-based compensation expense in the consolidated financial statements for stock options granted using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. Depending on the terms of vesting for each option, compensation expense is recognized over the vesting period. Compensation expense of \$0.8 million has been recognized during the nine months ended September 30, 2009 based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock-based compensation.

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The estimated fair value of share options issued during the three months ended September 30, 2009 was determined using the Black Scholes option-pricing model with the following assumptions:

	2009	2008
Risk-free interest rate	1.90% to 3.13%	1.18% to 3.70%
Expected option life	5 years	5 years
Volatility in the price of the Company's shares	87% to 92%	78% to 98%
Dividend yield	-	-

The weighted average fair value of all options granted during the nine months ended September 30, 2009 was \$0.18 per option using the Black-Scholes option-pricing model.

(7) Income Taxes

At September 30, 2009, the Company and its subsidiaries had unrecognized future tax deductions aggregating approximately \$138 million (of which approximately \$124.3 million relates to U.S. subsidiaries). The potential benefit of these deductions has not been recognized in these financial statements. In addition, the Company had Canadian non-capital losses of approximately \$9.7 million that expire over various years up to 2029 and U.S. non-capital losses of \$17.4 million available to be utilized over the next twenty years. Substantially all of the Company's future income tax liability is related to temporary differences between the accounting and tax bases of the Company's resource properties.

The income tax provision differs from the amount that would be obtained by applying the Canadian basic federal and provincial income tax rate to earnings (loss) before income taxes for the nine months ended in 2009 and 2008 are as follows:

	September 30	
	2009	2008
Statutory tax rate	29.00%	29.50%
Loss for the year before income taxes	\$ (5,689)	\$ (5,393)
Expected income tax benefit	1,650	1,591
Adjustments to reconcile expected income tax benefit to actual:		
Unrecognized benefit of losses	(1,577)	(819)
Stock-based compensation	(244)	(1,207)
Benefit related to changes in future tax rates	-	-
Other	171	435
Actual income tax benefit	\$ -	\$ -

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	September 30	
	2009	2008
Future income tax liabilities		
resource properties	\$ (7,899)	\$ (7,899)
Future income tax assets		
Non-capital losses	9,191	6,645
Asset retirement obligation	2,182	1,964
Share issue costs	1,053	1,456
Other	669	(5)
Less - valuation allowance	(13,095)	(10,060)
Net tax asset	\$ -	\$ -

(8) Segment Information

At September 30, 2009, the Company and its subsidiaries operated in one geographic area (United States) but two reportable business segments 1) helium and CO₂ resources and 2) crude oil and natural gas production..

Identifiable assets, revenues and net loss in each of the Company's two business segments areas are as follows:

At and for the period end September 30, 2009	Identifiable Assets	Revenues	Net Income/(Loss)
Helium & CO ₂ resources	\$ 100,194	\$ -	\$ (761)
Crude oil and natural gas production	32,221	3,075	(486)
Corporate	2,280	19	(4,442)
	\$ 134,695	\$ 3,094	\$ (5,689)
At and for the year ended December 31, 2008			
Helium & CO ₂ resources	\$ 97,675	\$ -	\$ -
Crude oil and natural gas production	36,220	4,463	(5,107)
Corporate	3,412	490	(5,023)
	\$ 137,307	\$ 4,953	\$ (10,130)

(9) Financial instruments

(a) Fair Value Disclosure

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities (cash and cash equivalents, and receivables) approximates fair value at the balance sheet dates due to the short-term maturity of these instruments. The fair value of accounts payable and accrued liabilities is lower than its carrying value.

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(b) Risk management

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian and US banks, principally in over-night money market funds investing in government treasury instruments. The Company's receivables consist of amounts due from sales of its crude oil and natural gas production.

With respect to its crude oil and natural gas production receivables, the Company is the operator of all its property interests and owns all of the working interest in producing and non-producing properties and, therefore, does not jointly participate with others in operating the properties and is not exposed to credit risk related to joint operations. Receivables related to the sale of crude oil production is with a single major reputable marketer with an excellent credit rating and proceeds are collected within approximately 25 days following the month of delivery. The Company produces a limited amount of natural gas which is sold to a reputable purchaser and collections occur within approximately 55 day of the end of any monthly period. As the operator of all its net oil and gas property interests, the Company takes its production in kind in all instances to further mitigate this risk and, with respect to the majority of operated production, remits royalty and severance taxes to the other royalty and working interest owners of the leaseholds interests.

At September 30, 2009, the Company's exposure to credit risk for these financial instruments was as follows (all amounts in thousands):

Cash and cash equivalents	\$	1,188
Receivables		864

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within six months or less. At September 30, 2009, the Company had a limited degree of liquidity with \$1.2 million in cash and cash equivalents. The Company had no unsecured or secured credit facilities at September 30, 2009. The Company has historically financed its expenditures and working capital requirements through the sale of common stock or, on occasion, through the issuance of short-term debt.

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Foreign exchange risk

Substantially all of the Company's expenditures are made with US dollars. As a result of the Company's limited liquidity and drilling commitments for 2009, related to its resource properties, the Company had limited ability to manage its foreign exchange exposure (principally US Dollar) on cash flows related to these purchases. At September 30, 2009, the Company had no outstanding foreign exchange option contracts.

The Company has performed sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of US\$1.2 million at September 30, 2009, to determine how a change in the US dollar exchange rate would impact net earnings. On September 30, 2009, a 10% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in an approximate \$0.5 million decrease or increase, respectively, in the Company's net loss for the nine months ended September 30, 2009.

Interest rate risk

The Company's exposure to interest rate fluctuations at September 30, 2009, is primarily related to cash deposits denominated in Canadian or US dollars invested in short-term (less than 90 days) money market funds through its bank accounts and interest earned on its cash and cash equivalents. In addition, the Company's cash secured bonds posted for the Company's oil and gas operations in the state of New Mexico are also exposed to interest rate risk.

The Company has performed sensitivity analysis on interest rate risk at September 30, 2009, to determine how a change in interest rates would impact net loss. During the nine months ended September 30, 2009, the Company earned \$0.02 million of interest income on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased or decreased the net loss by \$0.002 million. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Equity price risk

The Company has not invested in available-for-sale equity securities, and consequently, is not exposed to equity price risk related to equity investments.

Commodity price risk

The Company has no crude oil or natural gas derivative contracts in effect. The Company is therefore subject to the fluctuations in world commodity prices for the products it sells.

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(10) Related Party Transactions

Each of the following transactions was initially recorded at the exchange amount.

In August 2007, the Company advanced \$0.4 million on behalf of Forster, of which two outside directors of the Company are shareholders, to purchase a drilling rig and related drilling equipment. In connection with this rig purchase, Forster executed a 10% secured note due December 31, 2007, which was paid in full January 3, 2008, including accrued interest.

On November 21, 2007, the Company advanced Forster US\$0.2 million to fund a security deposit on a drilling rig and subsequently advanced an additional US\$1.5 million on December 3, 2007, to allow Forster to complete its acquisition of the drilling rig and related equipment. In connection with these transactions, Forster executed a 10% secured note payable to a subsidiary of the Company in the amount of US\$1.7 million effective December 3, 2007, due March 27, 2008. Effective March 27, 2008, the Company extended the term of the secured note to June 27, 2008, and increased the rate of interest to 12% with interest payable monthly. On November 14, 2008 Forster assigned the rig and related equipment to the Company. The rig and equipment are classified as equipment held for sale at September 30, 2009.

Certain share purchase loans (See Note 6(b) Equity Instruments – Shares Issued) in connection with transaction made in January 2008 were cancelled in November 2008, including loans to two officers and one director aggregating \$440,128 in connection with warrants exercised prior to their expiration in January. These related parties returned a total of 440,128 shares to the Company and which were cancelled in December 2008.

(11) Commitments

The Company is committed to the following future payments, principally related to office leases as of September 30, 2009:

2009	\$	63,745
2010		282,280
2011		250,877
2012		128,085
Thereafter		-
Total	\$	724,987

(12) Reclassifications

Certain reclassifications have been made in amounts presented for prior periods to conform to current classifications and presentations in the financial statements.

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(13) Capital Disclosures

The Company attempts to manage its capital to maintain its ability to continue as a going concern, complete its development projects, to adjust to changing market conditions, to maintain flexibility while achieving the objectives, and ultimately to provide returns to shareholders and benefits to other stakeholders. To manage the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or sell assets. The Company's objectives in managing its capital structure are to maintain a flexible financial structure, to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations. At September 30, 2009, total capitalization of the Company is as follows:

Debt	-
Total Shareholders' Equity	120,284
Total Capitalization	120,284
Debt to Capitalization Ratio	0.0%

The Company manages its capital structure and makes adjustments to it in light of market and economic conditions as well as the risk characteristics of the Company's underlying assets. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the use of credit facilities, adjusting capital spending or by undertaking other strategies as deemed appropriate under the specific circumstances.

The Company monitors capital and its financing requirements through an annual budget process and updates to the budget forecast and working capital projections. Currently, the Company has no funded indebtedness.