

**ANNUAL FINANCIAL STATEMENTS**

**MANITOK EXPLORATION INC.**

**JUNE 30, 2010 AND 2009**

## **MANAGEMENT'S REPORT**

### **To the Shareholders of Manitok Exploration Inc.**

The financial statements of Manitok Exploration Inc. were prepared by management within the acceptable limits of materiality and are in accordance with accounting principles generally accepted in Canada. Management is responsible for ensuring that the financial and operating information presented in the management's discussion and analysis is consistent with that shown in the financial statements.

The financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of financial statements for reporting purposes.

Kenway Mack Slusarchuk Stewart LLP, an independent firm of Chartered Accountants appointed by shareholders, have conducted an examination of the corporate accounting records in order to express their opinion on the financial statements.

The Audit Committee, consisting of non-management directors, has met with representatives of Kenway Mack Slusarchuk Stewart LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

(signed) *"Massimo M. Geremia"*

**Massimo M. Geremia,**  
*President and Chief Executive Officer*

(signed) *"Robert G. Dion"*

**Robert G. Dion,**  
*Vice President, Finance & Chief Financial Officer*

October 14, 2010



**Manitok Exploration Inc.**

**June 30, 2010**

**Auditors' Report**

To: The Shareholders of:  
**Manitok Exploration Inc.**

We have audited the balance sheet of **Manitok Exploration Inc.** as at **June 30, 2010** and the statements of net earnings (loss), comprehensive earnings (loss) and retained earnings (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Kenway Mack Slusarchuk Stewart LLP*

Chartered Accountants

Calgary, Alberta  
October 14, 2010

**MANITOK EXPLORATION INC.**  
**BALANCE SHEETS**  
**(\$)**

| As at   | June 30, 2010     | June 30, 2009 |
|---|-------------------|---------------|
| <b>ASSETS</b>   |                   |               |
| CURRENT   |                   |               |
| Cash  | 70,648            | 70,765        |
| Accounts receivable (note 8)                                | 575,820           | 287,595       |
| Prepaid and deposits  | 335,631           | 291,562       |
|   | <b>982,099</b>    | 649,922       |
| Deferred financing charges (note 4)                         | 327,947           | -             |
| Petroleum and natural gas properties and equipment (note 5) | 16,281,462        | 15,909,155    |
|   | <b>17,591,508</b> | 16,559,077    |
| <b>LIABILITIES</b>  |                   |               |
| CURRENT   |                   |               |
| Accounts payable and accrued liabilities                    | 779,114           | 479,066       |
| Revolving credit facility (note 6)                          | 1,040,105         | 615,769       |
|   | <b>1,819,219</b>  | 1,094,835     |
| Asset retirement obligations (note 9)                       | 790,780           | 1,010,190     |
| Future income taxes (note 10)                               | 891,519           | 1,156,880     |
| <b>SHAREHOLDERS' EQUITY</b>                                 |                   |               |
| Share capital (note 11)                                     | 16,954,840        | 14,436,550    |
| Contributed surplus (note 12)                               | 514,390           | 458,861       |
| Retained earnings (deficit)                                 | (3,379,240)       | (1,598,239)   |
|   | <b>14,089,990</b> | 13,297,172    |
| Commitments and contingent liabilities (note 14)            |                   |               |
| Subsequent events (note 16)                                 |                   |               |
|   | <b>17,591,508</b> | 16,559,077    |

*See accompanying notes to the financial statements*

**APPROVED BY THE BOARD**

(signed) "Bruno P. Geremia"  
**Bruno P. Geremia CA, Director**

(signed) "Massimo M. Geremia"  
**Massimo M. Geremia, Director**

**MANITOK EXPLORATION INC.****STATEMENTS OF NET EARNINGS (LOSS), COMPREHENSIVE EARNINGS (LOSS) & RETAINED EARNINGS (DEFICIT)**  
**(\$, except share amounts)**

|  | <b>For the years ended June 30</b> |             |
|--|------------------------------------|-------------|
|  | <b>2010</b>                        | <b>2009</b> |
| <b>REVENUE</b>   |                                    |             |
| Petroleum and natural gas                                    | <b>2,821,722</b>                   | 3,420,534   |
| Royalties  | <b>(427,912)</b>                   | (620,074)   |
| Interest and other   | <b>555</b>                         | 67,764      |
|  | <b>2,394,365</b>                   | 2,868,224   |
| <b>EXPENSES</b>  |                                    |             |
| Operating  | <b>1,053,512</b>                   | 1,024,127   |
| Transportation and marketing                                 | <b>131,175</b>                     | 126,034     |
| General and administrative, net                              | <b>1,334,300</b>                   | 975,925     |
| Interest   | <b>17,246</b>                      | 550         |
| Stock-based compensation (note 12)                           | <b>55,529</b>                      | 118,390     |
| Depletion, depreciation and accretion                        | <b>2,167,940</b>                   | 2,283,147   |
|  | <b>4,759,702</b>                   | 4,528,173   |
| <b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>                   | <b>(2,365,337)</b>                 | (1,659,949) |
| <b>INCOME TAXES</b>  |                                    |             |
| Current income taxes expense                                 | -                                  | -           |
| Future income taxes expense (recovery) (note 10)             | <b>(584,336)</b>                   | (405,000)   |
|  | <b>(584,336)</b>                   | (405,000)   |
| <b>NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)</b> | <b>(1,781,001)</b>                 | (1,254,949) |
| <b>RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD</b>      | <b>(1,598,239)</b>                 | (343,290)   |
| <b>RETAINED EARNINGS (DEFICIT), END OF PERIOD</b>            | <b>(3,379,240)</b>                 | (1,598,239) |
| Net earnings (loss) per common share (note 13)               |                                    |             |
| Basic  | <b>(0.19)</b>                      | (0.16)      |
| Diluted  | <b>(0.19)</b>                      | (0.16)      |
| Weighted average common shares (note 13)                     |                                    |             |
| Basic  | <b>9,264,080</b>                   | 7,950,158   |
| Diluted  | <b>9,264,080</b>                   | 7,950,158   |

*See accompanying notes to the financial statements*

**MANITOK EXPLORATION INC.  
STATEMENTS OF CASH FLOWS  
(\$)**

|   | <b>For the years ended June 30</b> |             |
|---|------------------------------------|-------------|
|   | <b>2010</b>                        | <b>2009</b> |
| <b>OPERATING ACTIVITIES</b>                                   |                                    |             |
| Net earnings (loss)   | <b>(1,781,001)</b>                 | (1,254,949) |
| Adjustments for items not affecting cash:                     |                                    |             |
| Depletion, depreciation and accretion expense                 | <b>2,167,940</b>                   | 2,283,147   |
| Stock-based compensation expense                              | <b>55,529</b>                      | 118,390     |
| Future income taxes expense (recovery)                        | <b>(584,336)</b>                   | (405,000)   |
|   | <b>(141,868)</b>                   | 741,588     |
| Changes in non-cash working capital (note 15)                 | <b>269,163</b>                     | 33,816      |
|   | <b>127,295</b>                     | 775,404     |
| <b>FINANCING ACTIVITIES</b>                                   |                                    |             |
| Increase (decrease) in revolving credit facility (note 6)     | <b>424,336</b>                     | 615,769     |
| Proceeds from share issuances, net (note 11)                  | <b>2,837,265</b>                   | 6,020,170   |
| Deferred financing fees paid                                  | <b>(327,947)</b>                   | -           |
|   | <b>2,933,654</b>                   | 6,635,939   |
| <b>INVESTING ACTIVITIES</b>                                   |                                    |             |
| Expenditures on petroleum and natural gas assets              | <b>(2,799,657)</b>                 | (5,882,469) |
| Proceeds from disposition of petroleum and natural gas assets | <b>40,000</b>                      | -           |
| Changes in non-cash investing working capital (note 15)       | <b>(301,409)</b>                   | (2,347,526) |
|   | <b>(3,061,066)</b>                 | (8,229,995) |
| <b>NET INCREASE (DECREASE) IN CASH</b>                        | <b>(117)</b>                       | (818,652)   |
| <b>CASH, BEGINNING OF PERIOD</b>                              | <b>70,765</b>                      | 889,417     |
| <b>CASH, END OF PERIOD</b>                                    | <b>70,648</b>                      | 70,765      |
| Cash interest paid  | <b>17,246</b>                      | 550         |
| Cash taxes paid   | -                                  | -           |

*See accompanying notes to the financial statements*

**MANITOK EXPLORATION INC.**  
**Notes to the Financial Statements**  
**For the years ended June 30, 2010 and 2009**

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**1. NATURE OF OPERATIONS**

Manitok Exploration Inc. (“**Manitok**” or the “**Corporation**”) was incorporated under the Alberta Business Corporations Act on April 20, 2005. The Corporation is engaged in the exploration for, and the development, production and acquisition of, petroleum and natural gas reserves in Western Canada. Manitok’s financial year end is June 30 and will be changing to December 31, effective 2010.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The annual audited Financial Statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“**GAAP**”), within an acceptable level of materiality, utilizing the framework of the accounting policies below. All dollar amounts are presented in Canadian dollars unless otherwise stated.

*a) Basis of accounting*

The Corporation’s Financial Statements include the accounts of Manitok. There are no subsidiary companies.

*b) Revenue recognition*

Revenue associated with sales of petroleum and natural gas are recorded when the commodities are delivered and title passes to the purchaser. Revenue associated with sales of petroleum and natural gas are recorded gross of transportation and marketing charges.

*c) Joint venture activities*

A portion of the Corporation’s exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Corporation’s proportionate interest in such activities.

*d) Measurement uncertainty*

The preparation of timely Financial Statements necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management. Actual results could differ materially from those estimated.

Amounts recorded for depletion, depreciation and, asset retirement and amounts used for impairment test calculations are based on estimates of petroleum and natural gas reserves which include estimates of future commodity prices, future costs and other relevant assumptions. The Corporation’s reserves are estimated and evaluated, at a minimum, annually by an independent engineering firm. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. By their nature, these estimates are subject to measurement uncertainty and the impact of changes in such estimates on the Financial Statements of future periods could be material.

*e) Cash and cash equivalents*

Cash and cash equivalents includes cash and highly liquid short-term investments having a maturity date of not more than ninety days at the time of purchase.

**MANITOK EXPLORATION INC.**  
**Notes to the Financial Statements**  
**For the years ended June 30, 2010 and 2009**

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*(f) Petroleum and natural gas properties and equipment*

*Capitalized costs*

The Corporation follows the full cost method of accounting whereby all costs relating to the exploration, acquisition and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, production equipment, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and corporate charges directly related to acquisition, exploration and development activities. Proceeds from the sale of properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion and depreciation by 20% or more.

*Depletion and depreciation*

Depletion and depreciation of petroleum and natural gas properties and equipment, together with the estimated future costs to be incurred in developing proved reserves, are depleted or depreciated using the unit-of-production method based on the proved reserves before royalties as estimated by independent engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content of six thousand cubic feet of natural gas to one barrel of oil. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or the properties are considered to be impaired.

*Impairment*

Petroleum and natural gas properties are evaluated each reporting period through an impairment test to determine the recoverability of capitalized costs. The carrying amount is assessed as recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments. Reserves are determined pursuant to National Instrument 51-101, *Standards of Disclosures for Oil and Gas Activities*. Undeveloped land and unproved properties are assessed regularly to determine whether impairment has occurred.

*Administrative assets*

The Corporation records depreciation on its office furniture and equipment, which includes computer equipment, on a straight-line basis using an expected useful life of four years. The Corporation records depreciation on its leasehold improvements, on a straight-line basis over the term of the building lease of five years.

*(g) Asset retirement obligations*

The Corporation recognizes the estimated liability associated with future abandonment and reclamation costs in the Financial Statements when a well or related asset is drilled, constructed or acquired including facilities. Costs are estimated by management in consultation with the Corporation's engineers based on current costs and technology in accordance with current legislation and industry practices. The obligation is initially measured at fair value, and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The asset retirement cost is capitalized to petroleum and natural gas properties and equipment and amortized into earnings in depletion expense on a basis consistent with depletion and depreciation. Actual site

**MANITOK EXPLORATION INC.**  
**Notes to the Financial Statements**  
**For the years ended June 30, 2010 and 2009**

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restoration and abandonment expenditures are applied directly against the asset retirement obligation. The Corporation reviews the obligation regularly and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the asset retirement obligation.

*(h) Future income taxes*

The Corporation accounts for its income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the differences between the accounting and tax basis of assets and liabilities using substantively enacted tax rates anticipated to apply in relevant future periods. Future income tax assets are recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period of substantive enactment.

*(i) Stock-based compensation*

The Corporation accounts for its stock-based compensation plans using the fair value method to value stock options and performance warrants granted to officers, directors, employees and consultants. Under this method, compensation cost attributed to stock options and performance warrants ("stock awards") granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of stock awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Corporation does not incorporate an estimated forfeiture rate for stock awards that will not vest, but instead accounts for forfeitures as a change in estimate in the period in which they occur. In the event that vested stock awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed.

*(j) 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. The Corporation records the carrying value of the expenditures in petroleum and natural gas properties and equipment as incurred. The Corporation records the future income taxes associated with the renunciation of expenditures with a corresponding reduction to share capital when the expenditures are renounced.

*(k) Financial instruments*

All financial instruments are initially recognized at fair value on the balance sheet. The Corporation has classified each financial instrument into the following categories: "held for trading" financial assets and financial liabilities; "loans or receivables"; and "other financial liabilities". Subsequent measurement of the financial instruments is based on their classification. The Corporation has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses from revaluation are recognized in net income.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value.
- Revolving credit facilities, accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value.

**MANITOK EXPLORATION INC.**  
**Notes to the Financial Statements**  
**For the years ended June 30, 2010 and 2009**

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*(l) Derivative financial instruments*

Derivative financial instruments are used by the Corporation to manage economic exposure to market risks relating to commodity prices. Manitok's policy is not to utilize derivative financial instruments for speculative purposes.

Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are classified as held-for-trading and are recorded using the mark-to-market method of accounting whereby instruments are recorded in the Balance Sheet as either an asset or liability with changes in fair value recognized in net income.

*(m) Per share information*

Per share information is computed using the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options or performance warrants plus the unamortized stock-based compensation expense amounts would be used to purchase common shares at the average market price during the period. No adjustment to diluted income per share is made if the result of these calculations is anti-dilutive. The average market price is estimated by management, as Manitok was a private company as at June 30, 2010, and its common shares did not trade on a public exchange.

**3. CHANGES IN ACCOUNTING POLICIES**

On July 1, 2009, the Corporation adopted the following Canadian Institute of Chartered Accountant ("CICA") Handbook Sections:

- Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation adopted these new standards for its fiscal year beginning July 1, 2009. The adoption of this Section did not have an impact on the Corporation's financial statements.
- Section 3855, *Financial Instruments — Recognition and Measurement* and Section 3025, *Impaired Loans*. In August 2009, the Accounting Standards Board ("AcSB") amended these Sections to converge with international standards (IAS 39, *Financial Instruments: Recognition and Measurement*) for impairment of debt instruments by changing the categories into which debt instruments are required or permitted to be classified. These amendments are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008. The adoption of these Sections did not have an impact on the Corporation's financial statements.

**MANITOK EXPLORATION INC.**  
**Notes to the Financial Statements**  
**For the years ended June 30, 2010 and 2009**

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- Section 3862, *Financial Instruments — Disclosures*. In June 2009, the CICA amended this section to include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards under IFRS. The Corporation has included the applicable disclosures related to this Section in Note 8 of the Financial Statements.

**Future Accounting Policy Changes**

Section 1582, *Business Combinations*. In January 2009, the CICA issued Handbook Section 1582, *Business Combinations* that replaces the Section 1581 of the same name. Under the new standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the new standard generally requires all acquisition costs to be expensed while current standards allow for the capitalization of these costs as part of the purchase price. This new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently remeasured at each reporting period until settled. The current standards require only contingent liabilities that are due to be recognized. The new standard requires any negative goodwill to be recognized as a charge to earnings rather than the current standard which reduces the fair value of non-current assets in the purchase price allocation. The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Corporation does not intend to early adopt the new standard.

**Convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”)**

In February 2008, the AcSB confirmed that IFRS will replace Canadian GAAP beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Manitok for the twelve months ended June 30, 2010 and the six months ended December 31, 2010, including the opening balance sheet as at July 1, 2009.

IFRS uses a conceptual framework similar to Canadian GAAP; however, there could be significant differences in recognition, measurement and disclosures that will need to be addressed. The impact of IFRS on the Corporation’s financial statements is not reasonably determinable at this time; however Manitok expects to be fully compliant by January 1, 2011.

**4. DEFERRED FINANCING CHARGES**

The charges with respect to an amalgamation with a reporting issuer and an issuance of common shares have been deferred. The costs will be charged to share capital once the amalgamation and issuance of shares has been completed, and as indicated in note 16, the transactions closed on July 8, 2010.

At June 30, 2010, the Corporation incurred \$327,947 (June 30, 2009 – \$NIL) in deferred financing charges which consist primarily of professional fees.

**MANITOK EXPLORATION INC.**  
**Notes to the Financial Statements**  
**For the years ended June 30, 2010 and 2009**

**5. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT**

|                                  |                   | June 30, 2010                                |                   |
|----------------------------------|-------------------|--|-------------------|
| (\$)                             |                   |  |                   |
|                                  | Cost              | Accumulated<br>Depletion and<br>Depreciation | Net Book Value    |
| Petroleum and natural gas assets | 22,862,687        | (6,638,552)                                  | 16,224,135        |
| Office furniture and equipment   | 120,206           | (62,879)                                     | 57,327            |
|                                  | <b>22,982,893</b> | <b>(6,701,431)</b>                           | <b>16,281,462</b> |

|                                  |                   | June 30, 2009                                |                   |
|----------------------------------|-------------------|--|-------------------|
| (\$)                             |                   |  |                   |
|                                  | Cost              | Accumulated<br>Depletion and<br>Depreciation | Net Book Value    |
| Petroleum and natural gas assets | 20,425,775        | (4,569,000)                                  | 15,856,775        |
| Office furniture and equipment   | 91,871            | (39,491)                                     | 52,380            |
|                                  | <b>20,517,646</b> | <b>(4,608,491)</b>                           | <b>15,909,155</b> |

As at June 30, 2010, the cost of petroleum and natural gas properties and equipment includes \$3,354,945 (June 30, 2009 – \$997,804) relating to unproved properties which have been excluded from costs subject to depletion and depreciation. Estimated future development costs of \$2,184,000 (June 30, 2009 – \$2,385,000) associated with the development of the corporation's proved reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Capitalized general and administrative costs at June 30, 2010 were \$NIL (June 30, 2009 - \$NIL)

The Corporation performed an impairment test at June 30, 2010 to ensure the carrying value of its petroleum and natural gas properties and equipment is recoverable and does not exceed fair value. The petroleum and natural gas future prices are based on June 30, 2010 commodity price forecasts of the Corporation's independent reserve evaluators. The following table summarizes the benchmark prices used in the impairment test calculation:

| Year       | WTI Oil<br>(\$US/bbl) | CDN/US Exchange<br>Rate | Edmonton Par<br>(\$CDN/bbl) | Hardisty Heavy<br>(\$CND/bbl) | AECO Gas<br>(\$CDN/mmbtu) |
|------------|-----------------------|-------------------------|-----------------------------|-------------------------------|---------------------------|
| 2010       | 76.77                 | \$0.934                 | 80.41                       | 66.74                         | 4.58                      |
| 2011       | 80.46                 | \$0.934                 | 84.35                       | 69.16                         | 5.12                      |
| 2012       | 82.72                 | \$0.934                 | 86.75                       | 69.40                         | 5.45                      |
| 2013       | 86.47                 | \$0.934                 | 90.75                       | 70.79                         | 6.65                      |
| 2014       | 90.22                 | \$0.934                 | 94.74                       | 72.00                         | 7.76                      |
| 2015       | 91.57                 | \$0.934                 | 96.17                       | 73.09                         | 7.89                      |
| 2016       | 92.94                 | \$0.934                 | 97.62                       | 74.19                         | 8.02                      |
| 2017       | 94.34                 | \$0.934                 | 99.10                       | 75.31                         | 8.15                      |
| 2018       | 95.75                 | \$0.934                 | 100.59                      | 76.45                         | 8.28                      |
| 2019       | 97.19                 | \$0.934                 | 102.11                      | 77.60                         | 8.42                      |
| 2020       | 98.65                 | \$0.934                 | 103.65                      | 78.78                         | 8.55                      |
| Thereafter | 1.5%                  | \$0.934                 | 1.5%                        | 1.5%                          | 1.5%                      |

The benchmark prices were adjusted for quality and transportation in determining cash flow for purposes of the impairment test.

Based on the impairment test, Manitok concluded that its petroleum and natural gas properties and equipment were not impaired at June 30, 2010 and 2009.

**MANITOK EXPLORATION INC.**  
**Notes to the Financial Statements**  
**For the years ended June 30, 2010 and 2009**

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**6. REVOLVING CREDIT FACILITY**

On February 22, 2010, the Corporation amended its agreement with a major Canadian lender which decreased its demand revolving credit facility from \$3,100,000 to \$2,500,000. The revolving credit facility allows for prime-based loans in Canadian dollars which bear interest at the prime lending rate plus 1.5%.

The facility is subject to the lender's redetermination of the borrowing base upon receipt of the Corporation's reserve report and any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall must be eliminated by the Corporation. The revolving credit facility is secured by a general security agreement encompassing all of the Corporation's assets.

At June 30, 2010, the Corporation had drawn \$1,040,105 (June 30, 2009 – \$615,769) on the credit facility and the overall effective interest rate applicable to the prime-based loans in the Credit Facility was 3.7% for the year June 30, 2010 (June 30, 2009 – 3.6%).

**7. CAPITAL MANAGEMENT**

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations; to maintain a capital structure that allows Manitok the ability to finance its growth strategy using internally-generated cash flow and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

Manitok strives to properly exploit its current asset base and to acquire top quality assets. As such, the Corporation is not averse to maintaining a higher ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality. However, the Corporation manages its capital structure and makes adjustments considering changes in economic conditions and the risk characteristics of the assets. In order to maintain or adjust the capital structure, Manitok may issue new shares or debt, increase the credit facility limits, or adjust its capital spending to manage current and projected debt levels. Management expects to be able to continue to raise equity and obtain debt financing sufficient to meet both its short-term and long-term growth requirements in the current environment.

There were no changes in the Corporation's approach to capital management during the June 30, 2010 fiscal period. The capital structure of the Corporation is as follows:

| (\$)  | June 30, 2010     | June 30, 2009     | Change %  |
|---|-------------------|-------------------|-----------|
| Total shareholders' equity <sup>(1)</sup>           | 14,089,990        | 13,297,172        | 6%        |
| Total shareholders' equity as a % of total capital  | 94%               | 97%               |           |
| Working capital deficiency (surplus) <sup>(2)</sup> | (202,985)         | (170,856)         |           |
| Revolving credit facility                           | 1,040,105         | 615,769           |           |
| Total net debt                                      | 837,120           | 444,913           | 88%       |
| Total net debt as a % of total capital              | 6%                | 3%                |           |
| <b>Total Capital</b>                                | <b>14,927,110</b> | <b>13,742,085</b> | <b>9%</b> |

(1) Shareholders' equity is defined as share capital plus contributed surplus plus retained earnings (deficit).

(2) Working capital deficiency (surplus) is defined as current assets less current liabilities excluding the current portion of the amount drawn on the revolving credit facility. Working capital (surplus) is only included if the company is in a net debt position.

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During the year ended June 30, 2010, total shareholders' equity increased mainly due to the issuance of common shares (note 11(k), note 11(l), and note 11(m)); recording of stock-based compensation expense (note 12); and offset by the net loss reported in the period.

Total debt increased during the year ended June 30, 2010 largely due to the professional fees incurred relating to both the amalgamation and issuance of shares on July 8, 2010, as described in note 16.

The Corporation's lender requires quarterly compliance that the "working capital ratio" (as defined by the lender) is not less than the required ratio of 1:1. Manitok was in compliance with the financial covenant as at June 30, 2010 and 2009.

**8. FINANCIAL INSTRUMENTS & RISK MANAGEMENT**

Manitok is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews risk management activities and all outstanding positions, if any. Management identifies and analyzes the risks faced by the Corporation, monitors risks and adherence to market conditions and the Corporation's activities.

**Credit Risk**

Cash consists of bank balances, but may also include short term investments. Counter-parties for the short term investments will be selected based on credit ratings and management will monitor all investments to ensure a stable return, and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the balance sheet date is very low.

Credit risk is the risk of financial loss to the Corporation if a customer fails to meet its contractual obligations. A substantial portion of the Corporation's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the maximum credit risk associated with these customers. Of the Corporation's significant individual accounts receivable at June 30, 2010, about 39% were due from two marketers (June 30, 2009 – 69%, two marketers) and about 34% was related to a tenant inducement for leasehold improvements to the Corporation's office premises in the June 2010 fiscal period . Of the Corporation's revenues during the year ended June 30, 2010 approximately 97% was received from two marketers as compared to 94% for the comparable prior period.

The following table illustrates the Corporation's maximum exposure for receivables:

| (\$)                     | June 30, 2010  | June 30, 2009  |
|--------------------------|----------------|----------------|
| Marketers                | 230,943        | 206,899        |
| Joint venture partners   | 76,876         | 55,274         |
| Other                    | 268,001        | 25,422         |
| <b>Total Receivables</b> | <b>575,820</b> | <b>287,595</b> |

Receivables from marketers are normally collected on the 25<sup>th</sup> day of the month following production. Manitok mitigates the credit risk associated with these balances by establishing marketing relationships with credit worthy purchasers. The Corporation historically has not experienced any material collection issues with its marketers. Manitok attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the commencement of the joint venture project. However, joint venture receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent

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on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risks exist with joint venture partners as disagreements arise that increase the potential for non-collection. The Corporation's accounts receivables are aged as follows:

| (\$)                        | June 30, 2010  | June 30, 2009  |
|-----------------------------|----------------|----------------|
| Current (less than 30 days) | 445,422        | 217,260        |
| 30 to 60 days               | 5,766          | 540            |
| 61 to 90 days               | 3,771          | 5,665          |
| Over 90 days                | 120,861        | 64,130         |
| <b>Total Receivables</b>    | <b>575,820</b> | <b>287,595</b> |

At June 30, 2010, approximately 21% of Manitok's total accounts receivable are aged over 90 days and considered past due. The majority of this amount is due from a joint venture partner and the Corporation is currently in the process of resolving the outstanding balance.

Should Manitok determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Corporation subsequently determines an account is uncollectible, the account is written off with a corresponding charge to allowance for doubtful accounts. At June 30, 2010, Manitok's allowance for doubtful accounts balance was \$NIL (June 30, 2009 – \$NIL).

**Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Manitok's approach to managing liquidity risk is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

All of the Corporation's contractual financial liabilities at June 30, 2010 and 2009 are to be settled in cash. Manitok utilizes prudent cash and debt management to mitigate the likelihood of encountering difficulties in meeting its financial obligations. The Corporation also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25<sup>th</sup> of each month.

Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are reviewed and updated as considered necessary. Petroleum and natural gas production is monitored regularly and used to provide monthly current cash flow estimates. Also, Manitok utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

To facilitate the capital expenditure program, the Corporation has a reserve-based revolving credit facility, as disclosed in note 6, which is reviewed at least annually by the lender. At June 30, 2010, \$1,459,895 (June 30, 2009 – \$2,484,231) in unused credit was available to fund future obligations.

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The following table lists the contractual obligations of the Corporation's financial liabilities as at June 30, 2010:

| (\$)                                     | < 1 Year         | 1 – 2 Years | 2 – 5 Years | Thereafter |
|--|------------------|-------------|-------------|------------|
| Accounts payable and accrued liabilities | 779,114          | -           | -           | -          |
| Revolving credit facility <sup>(1)</sup> | 1,040,105        | -           | -           | -          |
| <b>Total Financial Liabilities</b>       | <b>1,819,219</b> | -           | -           | -          |

(1) The revolving credit facility bears interest at a floating rate.

**Market Risk**

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the debt level of the Corporation, as well as its net earnings and cash flow from operations. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years.

All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

*Commodity Price Risk*

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in market commodity prices. A significant change in commodity prices can materially impact the Corporation's borrowing base under its revolving credit facility and may reduce the Corporation's ability to raise capital. Commodity prices for crude oil and natural gas are not only impacted by the Canadian and U.S. dollar, but also by world economic events that dictate the levels of supply and demand.

From time to time, The Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. Manitok did not have any price risk management contracts in place as at or during the years ended June 30, 2010 and 2009.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Crude oil and to a certain extent natural gas prices are based upon reference prices denominated in U.S. dollars, while the majority of the Corporation's expenses are denominated in Canadian dollars. The exchange rate effect cannot be quantified but generally an increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the prices received by Manitok for its petroleum and natural gas sales.

The average exchange rate during the June 30, 2010 fiscal period was one \$U.S. equals \$1.0555 Canadian dollars (June 30, 2009 – one \$U.S. equals \$1.1662 Canadian dollars) and the exchange rate at June 30, 2010 was one \$U.S. equals \$1.0606 Canadian dollars (June 30, 2009 – one \$U.S. equals \$1.1625 Canadian dollars).

When appropriate, Manitok may enter into agreements to fix the exchange rate of Canadian dollars to U.S. dollars to manage the risk. The Corporation did not have any forward exchange rate contracts in place as at or during the period ended June 30, 2010 and 2009.

*Interest Rate Risk*

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on its revolving credit facility

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which bears a floating rate of interest based on prime lending rates. The remainder of Manitok's financial assets and liabilities are not exposed to interest rate risk.

A 1% change in the Canadian prime interest rate in the June 30, 2010 fiscal period would have increased (decreased) net earnings (loss) and comprehensive earnings (loss) by approximately \$4,700 (June 30, 2009 – \$200), assuming that all other variables remain constant. A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not hedge its interest rate risk.

Manitok did not have any interest rate swaps or financial contracts in place as at or during the year ended June 30, 2010 and 2009.

**Fair Value of Financial Instruments**

Manitok's financial instruments are classified as cash, accounts receivable, accounts payable and accrued liabilities and the revolving credit facility on the balance sheet. All of Manitok's financial instruments are transacted in active markets. Manitok classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. Manitok's financial instruments have been assessed on the fair value hierarchy described above.

The carrying value and fair value of these financial instruments at June 30, 2010 is disclosed below by financial instrument category, as well as any related loss or interest expense for the period:

| (\$)                                     | Carrying Value <sup>(1)</sup> | Fair Value <sup>(1)</sup> | Loss | Interest Expense |
|--|-------------------------------|---------------------------|------|------------------|
| <b>Assets Held for Trading</b>           |                               |                           |      |                  |
| Cash                                     | 70,648                        | 70,648                    | -    | -                |
| <b>Loans and Receivables</b>             |                               |                           |      |                  |
| Accounts receivable                      | 575,820                       | 575,820                   | -    | -                |
| <b>Other Liabilities</b>                 |                               |                           |      |                  |
| Accounts payable and accrued liabilities | 779,114                       | 779,114                   | -    | -                |
| Revolving credit facility                | 1,040,105                     | 1,040,105                 | -    | 17,246           |

(1) Due to the short term nature of accounts receivable, accounts payable and accrued liabilities, their carrying values approximate their fair values. The revolving credit facility bears interest at a floating rate and accordingly the fair market value approximates the carrying value.

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**9. ASSET RETIREMENT OBLIGATIONS**

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems, processing facilities and pipelines. Manitok estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations as at June 30, 2010 to be approximately \$1,476,080 (June 30, 2009 – \$1,862,820) which will be incurred at the end of the operating lives of the underlying petroleum and natural gas assets, estimated to be over the next 20 years, with the majority of costs estimated to be incurred between 2018 and 2030. A credit-adjusted risk-free interest rate of 8% (June 30, 2009 – 8%) and an inflation rate of 2% (June 30, 2009 – 2%) were used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

| (\$)                                 | June 30, 2010    | June 30, 2009    |
|--------------------------------------|------------------|------------------|
| <b>Opening Balance</b>               | <b>1,010,190</b> | 889,890          |
| Obligations incurred                 | -                | 47,070           |
| Obligations acquired (disposed), net | <b>(32,490)</b>  | -                |
| Changes in estimates                 | <b>(261,920)</b> | -                |
| Accretion expense                    | <b>75,000</b>    | 73,230           |
| <b>Ending Balance</b>                | <b>790,780</b>   | <b>1,010,190</b> |

**10. FUTURE INCOME TAX**

The provision for income taxes differs from the result that would be obtained by applying the combined current year Canadian federal and provincial income tax rates in 2010 of 28.5% (2009 – 30.0%). The difference results from the following items:

| (\$)   | June 30, 2010    | June 30, 2009    |
|--|------------------|------------------|
| Net earnings (loss) before income taxes                                | (2,365,337)      | (1,659,949)      |
| Computed expected income tax expense (recovery)                        | (674,121)        | (497,985)        |
| Increase (decrease) in income taxes resulting from:                    |                  |                  |
| Non-deductible stock-based compensation                                | 15,828           | 35,517           |
| Non-deductible expenses  | 2,881            | 2,092            |
| Lower effective rate attributable to decreasing future rates and other | 71,076           | 55,376           |
| <b>Future income tax expense (recovery)</b>                            | <b>(584,336)</b> | <b>(405,000)</b> |

The components of the future income tax assets and liabilities are as follows:

| (\$)   | June 30, 2010    | June 30, 2009      |
|--|------------------|--------------------|
| Future income tax liabilities:                     |                  |                    |
| Petroleum and natural gas properties and equipment | (2,646,582)      | (2,695,400)        |
| Future income tax assets:                          |                  |                    |
| Asset retirement obligations                       | 197,695          | 265,900            |
| Share issue costs                                  | 44,909           | 13,020             |
| Non capital losses                                 | 1,512,459        | 1,259,600          |
| <b>Net future income tax liability</b>             | <b>(891,519)</b> | <b>(1,156,880)</b> |

At June 30, 2010, the Corporation's estimated non-capital losses for income tax purposes is approximately \$6.0 million (June 30, 2009 – \$4.8 million) available to shelter future taxable income. Management expects that future taxable income will be available to utilize non-capital losses.

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The following table shows a breakdown of the Corporation's non-capital losses by year of expiry:

| Year of Expiry                  | (\$)             |
|---------------------------------|------------------|
| 2015                            | 4,376            |
| 2026                            | 119,892          |
| 2027                            | 1,647,522        |
| 2028                            | 630,435          |
| 2029                            | 2,383,350        |
| 2030                            | 1,264,260        |
| <b>Total non-capital losses</b> | <b>6,049,835</b> |

**11. SHARE CAPITAL**

- (a) Authorized:  
 Unlimited number of voting Class "A" common shares  
 Unlimited number of non-voting preferred shares
- (b) Issued and outstanding:

|  | Number of Class "A"<br>common shares | \$                |
|--|--------------------------------------|-------------------|
| <b>Balance, June 30, 2008</b>                              | <b>5,824,942</b>                     | <b>9,117,360</b>  |
| Issued, net of costs (note 11c)                            | 667,959                              | 1,920,687         |
| Issued, net of costs (note 11d)                            | 1,284,749                            | 3,147,635         |
| Issued, net of costs (note 11e)                            | 37,028                               | 90,719            |
| Issued, net of costs (note 11f)                            | 85,000                               | 250,750           |
| Issued, net of costs (note 11g)                            | 48,375                               | 118,519           |
| Issued, net of costs (note 11h)                            | 228,773                              | 491,860           |
| Tax effect of share issue costs (note 11i)                 | -                                    | 13,105            |
| Tax effect of share issue costs (note 11j)                 | -                                    | 3,011             |
| Tax effect of flow through shares (Note (11c,11f and 11h)) | -                                    | (717,096)         |
| <b>Balance, June 30, 2009</b>                              | <b>8,176,826</b>                     | <b>14,436,550</b> |
| Issued, net of costs (note 11k)                            | 176,956                              | 191,289           |
| Issued, net of costs (note 11l)                            | 1,058,785                            | 1,303,336         |
| Issued, net of costs (note 11m)                            | 1,237,000                            | 1,342,640         |
| Tax effect of share issue costs (note 11n)                 | -                                    | 22,450            |
| Tax effect of share issue costs (note 11o)                 | -                                    | 20,849            |
| Tax effect of flow through shares (Note (11l))             | -                                    | (362,274)         |
| <b>Balance, June 30, 2010</b>                              | <b>10,649,567</b>                    | <b>16,954,840</b> |

- (c) On July 10, 2008, Manitok issued a private placement of 667,959 flow-through common shares at a price of \$2.95 per share for total net proceeds of \$1,920,687. As at December 31, 2008, the commitment to spend and renounce \$1,970,479 of qualified 100% deductible tax pools with respect to the flow-through common shares was fulfilled.
- (d) On July 14, 2008, the Corporation issued a private placement of 1,284,749 common shares at a price of \$2.45 per share for total net proceeds of \$3,147,635.
- (e) On August 29, 2008, Manitok issued a private placement of 37,028 common shares at a price of \$2.45 per share for total net proceeds of \$90,719.
- (f) On September 29, 2008, the Corporation issued a private placement of 85,000 flow-through common shares at a price of \$2.95 per share for total net proceeds of \$250,750. As at December 31, 2008, the commitment to spend and renounce \$250,750 of qualified 100% deductible tax pools with respect to the flow-through common shares was fulfilled.

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- (g) On December 20, 2008, Manitok issued a private placement of 48,375 common shares at a price of \$2.45 per share for total net proceeds of \$118,519.
- (h) On December 31, 2008, the Corporation issued a private placement of 228,773 flow-through common shares at a price of \$2.20 per share for total net proceeds of \$491,860. As at December 31, 2009, the commitment to spend and renounce \$503,300 of qualified 100% deductible tax pools with respect to the flow-through Common Shares was fulfilled.
- (i) The Corporation recognized a future income tax benefit of \$13,105 in respect of share issue costs of \$49,792 incurred with respect to the issuance of 667,959 flow-through common shares on July 10, 2008.
- (j) Manitok recognized a future income tax benefit of \$3,011 in respect of share issue costs of \$11,440 incurred with respect to the issuance of 228,773 flow-through common shares on December 31, 2008.
- (k) On December 31, 2009, Manitok issued a private placement of 176,956 common shares at a price of \$1.15 per share for total net proceeds of \$191,289.
- (l) On December 31, 2009, the Corporation issued a private placement of 1,058,785 flow-through common shares at a price of \$1.30 per share for total net proceeds of \$1,303,336. The Corporation has until December 31, 2010 to incur the \$1,376,421 in renounced exploration expenditures.
- (m) On February 12, 2010, Manitok issued a private placement of 1,237,000 common shares at a price of \$1.15 per share for total net proceeds of \$1,342,640.
- (n) Manitok recognized a future income tax benefit of \$22,450 in respect of share issue costs of \$85,295 incurred with respect to the issuance of 176,956 common shares and 1,058,785 flow-through common shares on December 31, 2009.
- (o) Manitok recognized a future income tax benefit of \$20,849 in respect of share issue costs of \$79,212 incurred with respect to the issuance of 1,237,000 common shares on February 12, 2010.

**12. STOCK-BASED COMPENSATION**

**Stock Options**

The Corporation has established an incentive stock option plan whereby officers, employees, directors and key consultants may be granted options to purchase common shares at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions being met. Stock options granted under this plan vest over a three year period at the rate of one-third on each anniversary date of the stock option grant. All stock options granted are for a five year term.

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A summary of the Corporation's outstanding stock options as at June 30, 2010 is presented below:

|                                   | Number         | Weighted Average<br>Exercise Price (\$) |
|-----------------------------------|----------------|---|
| <b>Outstanding, June 30, 2008</b> | <b>664,500</b> | <b>1.88</b>                             |
| Granted                           | 185,500        | 2.45                                    |
| Forfeited                         | (147,500)      | (1.63)                                  |
| <b>Outstanding, June 30, 2009</b> | <b>702,500</b> | <b>2.09</b>                             |
| Granted                           | -              | -                                       |
| Forfeited                         | -              | -                                       |
| <b>Outstanding, June 30, 2010</b> | <b>702,500</b> | <b>2.09</b>                             |

The range of exercise prices for stock options outstanding and exercisable under the plan at June 30, 2010 is as follows:

| Exercise Prices |        | Awards Outstanding |  |  | Awards Exercisable |  |  |
|-----------------|--------|--------------------|--|--|--------------------|--|--|
| Low             | High   | Quantity           | Weighted Average<br>Remaining<br>Contractual Life<br>(years) | Weighted<br>Average<br>Exercise<br>Price | Quantity           | Weighted Average<br>Remaining<br>Contractual Life<br>(years) | Weighted<br>Average<br>Exercise<br>Price |
| \$1.45          | \$1.99 | 207,500            | 0.2  | \$1.45                                   | 207,500            | 0.2  | \$1.45                                   |
| \$2.00          | \$2.45 | 495,000            | 2.7  | \$2.35                                   | 303,167            | 2.5  | \$2.29                                   |
|                 |        | <b>702,500</b>     | <b>2.0</b>   | <b>\$2.09</b>                            | <b>510,667</b>     | <b>1.5</b>   | <b>\$1.95</b>                            |

**Performance Warrants**

On July 1, 2006, the Corporation issued performance warrants with an exercise price of \$2.00 that vest upon certain performance criteria and have an expiration date of July 1, 2011. The performance criteria would be met when the market price of the common shares equals or exceeds \$4.00 per common share and it is combined with a liquidity event. The liquidity event can be either an outright sale or merger of the Corporation or any event which causes the Corporation to become a public entity.

At June 30, 2010 there were 267,500 performance warrants outstanding (June 30, 2009 – 300,000).

**Stock-Based Compensation Expense**

In order to calculate the compensation expense, the fair value of the stock options or performance warrants is estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates.

For the year ended June 30, 2010, the Corporation recorded \$55,529 (June 30, 2009 – \$118,390) of non-cash stock-based compensation expense and a corresponding increase to contributed surplus.

The fair value of each option granted in the period is estimated using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

|  | June 30, 2010 | June 30, 2009 |
|--|---------------|---------------|
| Weighted average fair value of options granted | -             | \$0.74        |
| Risk-free interest rate                        | -             | 1.69%         |
| Expected life (years)                          | -             | 3.0           |
| Expected volatility                            | -             | 42%           |

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**Contributed Surplus Continuity**

The following table presents the reconciliation of contributed surplus with respect to stock-based compensation:

| (\$)                             | June 30, 2010  | June 30, 2009  |
|----------------------------------|----------------|----------------|
| Opening Balance                  | 458,861        | 340,471        |
| Stock-based compensation expense | 55,529         | 118,390        |
| <b>Ending Balance</b>            | <b>514,390</b> | <b>458,861</b> |

**13. PER SHARE INFORMATION**

|                |                                      | June 30, 2010 | June 30, 2009 |
|----------------|--------------------------------------|---------------|---------------|
| <b>Basic</b>   | Net earnings (loss) per common share | \$(0.19)      | \$(0.16)      |
|                | Weighted average shares outstanding  | 9,264,080     | 7,950,158     |
| <b>Diluted</b> | Net earnings (loss) per common share | \$(0.19)      | \$(0.16)      |
|                | Weighted average shares outstanding  | 9,264,080     | 7,950,158     |

Because the Corporation reported a loss for the years ended June 30, 2010 and 2009, the basic and diluted weighted average shares outstanding are the same for that period.

**14. COMMITMENTS AND CONTINGENT LIABILITIES**

The Corporation is committed to incur exploration expenditures of \$1,376,421 related to the flow-through common share issuance completed on December 31, 2009, as indicated in note 11(l). Manitok will be subject to Part XII.6 tax based on the prescribed rate on the balance of exploration expenditures not yet incurred at the end of each month subsequent to January 31, 2010. As at June 30, 2010, the costs incurred were approximately \$25,000.

On February 17, 2010, Manitok committed to an operating lease relating to its office premises beginning May 1, 2010 which expires on June 30, 2015. Under this commitment the Corporation will pay a monthly rate of approximately \$25,220, excluding occupancy costs, until the lease expires. The Corporation is committed to the following aggregate minimum lease payments:

| Year       | \$      |
|------------|---------|
| 2010       | 151,320 |
| 2011       | 302,640 |
| 2012       | 302,640 |
| 2013       | 302,640 |
| 2014       | 302,640 |
| Thereafter | 126,100 |

The Company was issued a statement of claim from a previous employee claiming wrongful dismissal. The Company has filed a statement of defense and a counterclaim and management intends to vigorously defend the claim. The Company believes the employee's claim is without merit.

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**15. SUPPLEMENTARY CASH FLOW INFORMATION**

The following table details the components of non-cash working capital:

| (\$)                                     | June 30, 2010   | June 30, 2009      |
|--|-----------------|--------------------|
| Provided by (used in)                    |                 |                    |
| Accounts receivable                      | (288,225)       | 971,471            |
| Prepaid and deposits                     | (44,069)        | (27,384)           |
| Accounts payable and accrued liabilities | 300,048         | (3,257,797)        |
|  | <b>(32,246)</b> | <b>(2,313,710)</b> |
| Provided by (used in)                    |                 |                    |
| Operating                                | 269,163         | 33,816             |
| Investing                                | (301,409)       | (2,347,526)        |
|  | <b>(32,246)</b> | <b>(2,313,710)</b> |

**16. SUBSEQUENT EVENTS**

**Equity Financing**

On July 8, 2010, immediately prior to the amalgamation, the Corporation completed a private placement whereby it issued 4,311,700 common shares at a price of \$1.15 per share and 3,846,000 flow-through common shares at a price of \$1.30 per share for total gross proceeds of \$9,958,255 and net proceeds of \$9,294,090. Proceeds of the equity issue were used to repay the outstanding bank debt and will be used to fund the Corporation's drilling program in late 2010 and early 2011.

**Amalgamation with Reporting Issuer**

On July 8, 2010, the Corporation amalgamated with a reporting issuer by the name of Desco Resources Inc. ("**Desco**") pursuant to the Alberta Business Corporations Act to form a new company under the name "**Manitok Energy Inc.**" Pursuant to the amalgamation, each Desco shareholder received 0.375 of a Manitok Energy Inc. share for every one Desco share and each Manitok shareholder received 0.75 of a Manitok Energy Inc. share for every one Manitok share. Manitok Energy Inc. is listed on the TSX Venture Exchange (the "**Exchange**") under the trading symbol MEI and began trading on July 29, 2010.

**Stock Options and Performance Warrants**

On July 8, 2010, pursuant to the amalgamation, 702,500 of the Corporation's unexercised stock options and 267,500 of the Corporation's unexercised performance warrants have been terminated and cancelled for nominal consideration. On August 16, 2010 Manitok Energy Inc. granted 1,588,500 stock options at a price of \$1.10 per share which vest over a three year period and expire on August 16, 2015.

**Asset Disposition**

On August 4, 2010, the Corporation disposed of an oil & gas asset for approximately \$1.8 million, with an effective date of June 1, 2010. The proceeds will be used to fund the Corporation's capital program.

**17. RECLASSIFICATION**

Certain amounts disclosed for prior periods have been reclassified to conform to the current period's presentation.

**OFFICERS**

Massimo M. Geremia  
President and Chief Executive Officer

Tim de Freitas, M.Sc., Ph.D.  
Vice President, Exploration and Chief  
Operating Officer

Robert G. Dion, C.A.  
Vice President, Finance and Chief  
Financial Officer

Dorothy Else  
Vice President, Land

Gregory E. Peterson  
Corporate Secretary

**DIRECTORS**

Bruno P. Geremia, C.A. <sup>(1) (2) (3)</sup>  
Chairman of the Board  
Calgary, Alberta

Robert J. Dales <sup>(1) (2) (4)</sup>  
Calgary, Alberta

Wilfred A. Gobert <sup>(2) (3)</sup>  
Calgary, Alberta

Gregory E. Peterson <sup>(3)</sup>  
Calgary, Alberta

Tom Spoletini <sup>(2) (3)</sup>  
Calgary, Alberta

Cameron G. Vouri, P. Eng. <sup>(1)</sup>  
Calgary, Alberta

Massimo M. Geremia <sup>(1) (2)</sup>  
Calgary, Alberta

**SOLICITORS:**

Gowling Lafleur Henderson LLP  
Calgary, Alberta

**AUDITORS:**

Kenway Mack Slusarchuk Stewart LLP  
Chartered Accountants  
Calgary, Alberta

**INDEPENDENT RESERVE EVALUATORS:**

Sproule Associates Limited  
Petroleum Consultants  
Calgary, Alberta

**BANKERS:**

Alberta Treasury Branch  
Calgary, Alberta

**HEAD OFFICE:**

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Calgary, Alberta T2P 0M9  
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<sup>(1)</sup> Reserve Committee Member

<sup>(2)</sup> Audit Committee Member

<sup>(3)</sup> Compensation Committee Member

<sup>(4)</sup> added as director on July 8, 2010