CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED BALANCE SHEETS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Partnership of:
Vancouver: Robert J. Burkart, Inc. Alvin F. Dale Ltd. Robert J. Matheson, Inc. James F. Carr-Hilton Ltd. Barry S. Hartley, Inc. Rakesh I. Patel Inc. Kenneth P. Chong Inc. Reginald J. LaBonte Ltd. F.M. Yada FCA Inc.
South Surrey: Michael K. Braun Inc. Peter J. Donaldson, Inc.
Port Coquitlam: Wilfred A. Jacobson Inc. Brian A. Shaw Inc. G.D. Lee Inc. Fraser G. Ross, Ltd.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Dejour Enterprises Ltd.

We have completed integrated audits of the 2009 and 2008 consolidated financial statements of Dejour Enterprises Ltd. and of its internal control over financial reporting as at December 31, 2009 and 2008. Our opinions, based on our audits, are presented below.

Consolidated financial statements

We have audited the accompanying consolidated balance sheets of Dejour Enterprises Ltd. as at December 31, 2009 and 2008, and the related consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income (loss) and cash flows for the years 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 audits.

We conducted our audits of the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Internal control over financial reporting

We have also audited Dejour Enterprises Ltd.'s internal control over financial reporting as at December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, which is set out in Management's Report on Internal Control Over Financial Reporting included in Management's Discussion and Analysis. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

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Partnership of:

Vancouver: Robert J. Burkart, Inc. · Alvin F. Dale Ltd. · Robert J. Matheson, Inc. · James F. Carr-Hilton Ltd. · Barry S. Hartley, Inc. · Rakesh I. Patel Inc. · Kenneth P. Chong Inc. · Reginald J. LaBonte Ltd. · F.M. Yada FCA Inc.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2009 based on criteria established in Internal Control — Integrated Framework issued by the COSO.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
March 26, 2010

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DEJOUR ENTERPRISES LTD.
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

		December 31, 2009		December 31, 2008
ASSETS				
Current				
Cash and cash equivalents	**$**	**2,732,696**	$	744,225
Accounts receivable		**724,773**		840,695
Prepaids and deposits		**555,672**		428,321
Unrealized financial instrument gain		**-**		107,768
		4,013,141		2,121,009
Property and equipment (Note 4)		**114,747**		116,584
Investment in Titan (Note 5)		**-**		2,721,875
Uranium properties (Note 6 (a))		**533,085**		696,991
Oil and gas properties (Note 6 (b))		**41,224,903**		56,986,727
	$	**45,885,876**	$	62,643,186
LIABILITIES				
Current				
Bank indebtedness and line of credit (Note 7)	**$**	**850,000**	$	5,887,450
Accounts payable and accrued liabilities		**2,653,483**		3,741,770
Unrealized financial instrument loss		**99,894**		-
Loans from related parties (Note 8)		**-**		5,204,040
		3,603,377		14,833,260
Loans from related parties (Note 8)		**2,345,401**		1,950,000
Deferred leasehold inducement		**39,913**		-
Asset retirement obligations (Note 9)		**208,516**		363,109
Future income tax liabilities (Note 15)		**-**		1,133,140
		6,197,207		18,279,509
SHAREHOLDERS' EQUITY				
Share capital (Note 10)		**72,559,504**		64,939,177
Contributed surplus (Note 12)		**6,614,805**		5,895,560
Deficit		**(39,385,746)**		(26,578,828)
Accumulated other comprehensive income (loss)		**(99,894)**		107,768
		39,688,669		44,363,677
	$	**45,885,876**	$	62,643,186

Commitments (Notes 7, 8, 9 and 16)
Contingency (Note 18)
Subsequent Events (Note 20)

Approved on behalf of the Board:

"Robert Hodgkinson"
Robert Hodgkinson – Director

"Craig Sturrock"
Craig Sturrock – Director

DEJOUR ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in Canadian Dollars)

		Year Ended December 31 2009		Year Ended December 31 2008
REVENUES				
Oil and natural gas revenue	**$**	**6,470,725**	$	5,765,555
Realized financial instrument gain		**315,270**		-
		6,785,995		5,765,555
EXPENSES				
Amortization, depletion and accretion		**6,436,553**		3,690,939
Operating and transportation		**2,915,002**		1,973,300
Royalties		**569,476**		1,148,655
General and administrative (Note 14)		**4,038,332**		4,214,783
Interest expense and finance fee		**818,494**		481,252
Stock based compensation (Note 11)		**697,467**		2,719,957
		15,475,324		14,228,886
LOSS BEFORE THE FOLLOWING AND INCOME TAXES		**(8,689,329)**		(8,463,331)
Interest and other income		**417,024**		236,838
Loss on disposition of investment (Note 5)		**(274,187)**		(8,846)
Equity income (loss) from Titan (Note 5)		**(142,196)**		3,636,710
Foreign exchange gain (loss)		**257,319**		(675,599)
Impairment of investment in Titan (Note 5)		**-**		(12,990,343)
Impairment of uranium properties (Note 6(a))		**(148,906)**		-
Impairment of oil and gas properties (Note 6(b))		**(5,359,783)**		(2,029,942)
LOSS BEFORE INCOME TAXES		**(13,940,058)**		(20,294,513)
FUTURE INCOME TAXES (EXPENSE) RECOVERY (Note 15)		**1,133,140**		(596,240)
NET LOSS FOR THE YEAR		**(12,806,918)**		(20,890,753)
DEFICIT, BEGINNING OF THE YEAR		**(26,578,828)**		(5,688,075)
DEFICIT, END OF THE YEAR	**$**	**(39,385,746)**	$	(26,578,828)
NET LOSS PER SHARE - BASIC AND DILUTED	**$**	**(0.16)**	$	(0.29)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED		**78,926,223**		72,210,852

DEJOUR ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)

		Year Ended December 31, 2009		Year Ended December 31, 2008
NET LOSS FOR THE YEAR	**$**	**(12,806,918)**	$	(20,890,753)
Unrealized financial instrument gain (loss)		**(99,894)**		107,768
COMPREHENSIVE LOSS FOR THE YEAR	**$**	**(12,906,812)**	$	(20,782,985)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), BEGINNING OF THE YEAR	**$**	**107,768**	$	(5,400)
Unrealized gain (loss) arising during the year		**(99,894)**		107,768
Realized loss (gain) during the year		**(107,768)**		5,400
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF THE YEAR	**$**	**(99,894)**	$	107,768

DEJOUR ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	December 31, 2009	December 31, 2008
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the year	**$ (12,806,918)**	$ (20,890,753)
Adjustment for items not affecting cash:		
Amortization, depletion and accretion	**6,436,553**	3,690,939
Equity (income) loss from Titan	**142,196**	(3,636,710)
Non-cash stock based compensation	**697,467**	2,719,957
Non-cash finance fees	**56,334**	-
Capitalized interests on convertible debentures	**-**	143,758
Unrealized foreign exchange loss	**-**	749,575
Realized foreign exchange gain	**(333,900)**	-
Impairment of investment in Titan	**-**	12,990,343
Impairment of uranium properties	**148,906**	-
Impairment of oil and gas properties	**5,359,783**	2,029,942
Future income taxes expense (recovery)	**(1,133,140)**	596,240
Loss on disposal of investment	**274,187**	8,846
Deferred leasehold inducement	**43,332**	-
Amortization of deferred leasehold inducement	**(3,419)**	-
Changes in non-cash working capital balances (Note 13)	**(1,099,716)**	1,304,436
	(2,218,334)	(293,427)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of equipment	**(39,279)**	(67,049)
Proceeds from sales of marketable securities	**-**	27,403
Proceeds on disposal of investment (Note 5)	**2,305,491**	529,894
Proceeds from sales of oil and gas properties	**5,542,497**	-
Resource properties expenditures	**(2,587,209)**	(27,591,251)
	5,221,500	(27,101,003)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Bank indebtedness and line of credit	**(5,037,450)**	5,887,450
Loans from related parties	**(800,350)**	6,404,465
Shares issued for cash	**4,823,105**	2,335,085
	(1,014,695)	14,627,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,988,471**	(12,767,430)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**744,225**	13,511,655
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**$ 2,732,696**	$ 744,225

Supplemental Cash Flow Information – Note 13

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Dejour Enterprises Ltd. (the "Company") is a public company trading on the New York Stock Exchange AMEX ("NYSE-AMEX") and the Toronto Stock Exchange ("TSX"), under the symbol "DEJ." The Company is in the business of exploring and developing energy projects with a focus on oil and gas in North America.

These consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. All dollar amounts are stated in Canadian dollars, the Company's reporting currency, unless otherwise indicated. Certain of the comparative figures have been reclassified to conform to the current year's presentation, if necessary.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dejour Energy (USA) Corp. ("Dejour USA"), incorporated in Nevada, Dejour Energy (Alberta) Ltd. ("DEAL"), Wild Horse Energy Ltd. ("Wild Horse"), incorporated in Alberta, and 0855524 B.C. Ltd., incorporated in B.C. All intercompany transactions are eliminated upon consolidation.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada for financial statements. Except as indicated in Note 21, they also comply, in all material respects, with accounting principles generally accepted in the United States.

NOTE 2 – RECENTLY ADOPTED ACCOUNTING POLICIES AND FUTURE ACCOUNTING PRONOUNCEMENTS

(a) Recently Adopted Accounting Policies

(i) Effective January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 3064 Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new 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 remain unchanged from the standards included in the previous Section 3062. The adoption of this new standard had no effect on the amounts disclosed in the financial statements.

(ii) Effective January 1, 2009, the Company adopted the newly issued guidance of the Emerging Issues Committee ("EIC") 173, Credit Risk and the Fair value of Financial Assets and Liabilities, which requires that an entity should take into account the credit risk of the entity and the counterparty in determining the fair value of financial assets and financial liabilities. This guidance is adopted retrospectively, with restatement. No retroactive revision was disclosed related to the prior period as there were no effects on the fair values of financial assets and financial liabilities.

(iii) Effective January 1, 2009, the Company adopted the newly issued guidance of the EIC-174, Mining Exploration Costs, which provides guidance on the accounting and the impairment review of exploration costs. The adoption of this EIC did not have an effect on the Company's financial statements.

(iv) Effective January 1, 2009, the Company adopted the amended CICA Handbook Section 1000, Financial Statement Concepts, which clarifies the criteria for recognition of an asset, reinforcing the distinction between costs that should be expensed and those that should be capitalized. The adoption of this Section did not have an effect on the Company's financial statements.

NOTE 2 – RECENTLY ADOPTED ACCOUNTING POLICIES AND FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

(b) Future Accounting Pronouncements

The following accounting pronouncements are applicable to future reporting periods. The Company is currently evaluating the effects of adopting these standards:

(i) The CICA issued the following new Sections: 1582 Business Combinations, 1601 Consolidations, and 1602 Non-Controlling Interest. These standards are effective January 1, 2011.

(ii) In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements. The Company is in the first phase of its transition program, which includes scoping to identify the significant accounting policy differences and their related areas of impact in terms of systems, procedures and financial statement presentation. The Company also is in the assessment phase of the design and work plan to calculate the differences between IFRS and Canadian GAAP, and the impact on its financial statements, disclosures and operations. The Company will address the design, planning, solution development and implementation of the conversion in 2010.

NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments having maturity dates of three months or less from the date of acquisition that are readily convertible to cash.

(b) Marketable Securities

Marketable securities are designated as available-for-sale and are measured and carried at fair market value. Market value is based on the closing price at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date. Changes in fair market value are recognized in comprehensive income.

(c) Resource Properties

Mineral properties

The Company records its interests in mineral properties at the lower of cost or estimated recoverable value. Where specific exploration programs are planned and budgeted by management, the cost of mineral properties and related exploration expenditures are capitalized until the properties are placed into commercial production, sold, abandoned or determined by management to be impaired in value. These costs will be amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are sold or abandoned.

NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

The costs include the cash or other consideration and the assigned value of shares issued, if any, on the acquisition of mineral properties. Costs related to properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. For properties held jointly with other parties the Company only records its proportionate share of acquisition and exploration costs. The proceeds from options granted are deducted from the cost of the related property and any excess is deducted from other remaining capitalized property costs. The Company does not accrue estimated future costs of maintaining its mineral properties in good standing. To date the Company has not recorded any asset retirement obligations for its mineral properties as no amounts are presently determinable.

Capitalized costs as reported on the balance sheet represent costs incurred to date and may not reflect recoverable value. Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the mineral interests.

Management evaluates each mineral interest on a reporting period basis or as events and changes in circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

General exploration costs not related to specific properties and general administrative expenses are charged to operations in the year in which they are incurred.

The Company does not have any producing mineral properties and all of its efforts to date have been exploratory in nature.

<u>Oil and gas properties</u>

The Company follows the full cost method of accounting for its oil and gas operations whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, interest costs, costs of drilling and equipping productive and non-productive wells, and direct exploration consulting fees. Proceeds from the disposal of oil and gas interests are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20 percent or more in the depletion rate.

Depletion and depreciation of the capitalized costs are computed using the unit-of-production method based on the estimated proven reserves of oil and gas determined by independent consultants. Costs of significant unproved properties, net of impairment, and estimated salvage values are excluded from the depletion and depreciation calculation.

Estimated future removal and site restoration costs are provided over the life of proven reserves on a unit-of-production basis. Costs, which include the cost of production, equipment removal and environmental clean-up, are estimated each period by management based on current regulations, costs, technologies and industry standards. The charge is included in the provision for depletion and depreciation and the actual restoration expenditures are charged to the accumulated provision accounts as incurred.

The Company evaluates its oil and gas assets on an annual basis using a ceiling test to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves less unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected form the production of proved and probable reserves less unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using a risk-free rate.

NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Equipment

Equipment is recorded at cost with amortization being provided using the declining balance basis at the following rates:

Office furniture and equipment	20%
Computer equipment	45%
Software	100%
Leasehold improvements	term of lease

The carrying values of all categories of equipment are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value is based on estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups through use or future disposition. One-half of the annual rates are used in the year of the acquisition.

(e) Investments

The Company accounts for its investments in other companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee company and reduced by dividends received. Carrying values of equity investments are reduced to estimated market values if there is other than a temporary decline in the value of the investment.

(f) Earnings (Loss) per Share

The Company uses the treasury stock method for the computation and disclosure of earnings (loss) per share. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments which assume that proceeds received from in-the-money warrants and stock options are used to repurchase common shares at the prevailing market rate.

Basic earnings (loss) per share figures have been calculated using the weighted monthly average number of shares outstanding during the respective periods. Diluted loss per share figure is equal to that of basic loss per share since the effects of options and warrants have been excluded as they are anti-dilutive.

(g) Joint Operations

Exploration, development, and production activities may be conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

(h) Foreign Currency Translation

The financial statements are presented in Canadian dollars. Foreign denominated monetary assets and liabilities are translated into their Canadian dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

The Company's US subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in income (loss) for the year.

NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The significant areas requiring management's estimates relate to the recoverability of the carrying value of the Company's resource properties, the amounts recorded for depletion and depreciation of oil and natural gas property, properties and equipment, the provision for asset retirement obligations, future income tax effects and the determination of fair value of stock-based compensation. The cost recovery ceiling test is based on estimates of proved reserves, production rates, oil and natural gas prices, futures cost, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(j) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities.

The Company's financial instruments consist of cash and cash equivalents, derivatives, accounts receivable, bank line of credit, accounts payable, loan from joint-venture partner, and loan from related party. Management has determined that the fair value of these financial instruments approximates their carrying values.

On adopting these standards, the Company designated its cash and cash equivalents and bank line of credit as held-for-trading, which are measured at fair value. Marketable securities are designated as available for sale which are measured at fair value. Receivables are classified under loans and receivables, which are measured at amortized cost. Accounts payable, loan from joint-venture partner, and loan from related party are classified as other financial liabilities, which are measured at amortized cost.

The Company enters into derivative financial instruments to manage its exposure to volatility in commodity prices. These instruments are not used for trading or other speculative purposes. For derivative instruments that do qualify as effective accounting hedges, policies and procedures are in place to ensure that documentary and approvals requirements are met. The documentation specifically ties the derivative financial instruments to their use, and in the case of commodities, to the mitigation of market price risk associated with cash flows expected to be generated. The Company also identifies all relationships between hedging instruments and hedged items, as well as its risk management objective and the strategy for undertaking hedge transactions. This would include linking the particular derivative to specific assets and liabilities or to specific firm commitments or forecasted transactions. Where specific hedges are executed, the Company assesses, both at the inception of the hedge and on an ongoing basis, whether the derivative used in the particular hedging transaction is effective in offsetting changes in fair value or cash flows of the hedged item.

Cash flow hedges: The effective portion of changes in the fair value of financial instruments designated as a cash flow hedge is recognized in other comprehensive income, net of tax, with any ineffective portion being recognized in net income. Gains and losses are recovered from other comprehensive income and recognized in net income in the same period as the hedged item.

Fair value hedges: Both the financial instrument designated as the hedging item, and the underlying hedged asset or liability are measured at fair value. Changes in the fair value of both the hedging and hedged item are reflected in net income.

NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. Derivative instruments that qualify as hedges, or have been designated as hedges, are recorded at fair value on inception. At the end of each reporting period, the change in the fair value of the hedging derivative is recognized in other comprehensive income. When hedge accounting is discontinued or when the hedged item is sold or early terminated, the amounts previously recognized in accumulated other comprehensive income are reclassified to net income.

Net smelter royalties and related rights to earn or relinquish interests in mineral properties constitute derivative instruments. No value or discounts have been assigned to such instruments as there is no reliable basis to determine fair value until properties are in development or production and reserves have been determined.

(i) Future Income Taxes

Future income taxes are recognized for the future income tax consequences attributable to differences between financial statement carrying values and their corresponding tax values (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in years in which temporary differences are expected to be recovered or settled. The effect on futures income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that, in the opinion of management, is more likely than not to be realized.

(j) Revenue Recognition

Revenues from the sale of oil and natural gas are recorded when title passes to an external party and collectability is reasonably assured.

(k) Stock-Based Compensation

The Company follows the recommendations of the CICA Handbook in accounting for stock-based compensation. The Company adopted the fair value method for all stock-based compensation. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period for officers, directors and employees and over the service life for consultants. The fair value of options and other stock based awards issued or altered in the period, are determined using the Black-Scholes option pricing model.

(l) Asset Retirement Obligations

The Company reviews and recognizes legal obligations associated with the retirement of tangible long-lived assets, including rights to explore or exploit natural resources. When such obligations are identified and measurable, the estimated fair values of the obligations are recognized on a systematic basis over the remaining period until the obligations are expected to be settled. On recognition of the liability, there is a corresponding increase in the carrying amount of the related assets known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the assets. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Flow-Through Shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures and accordingly is not entitled to the related taxable income deductions from such expenditures.

The Company has adopted the recommendation by the EIC of the CICA relating to the recording of flow-through shares. EIC 146 stipulates that future income tax liabilities resulting from the renunciation of qualified resource expenditures by the Company from the issuance of flow-through shares are recorded as a reduction of share capital. Any corresponding realization of future income tax benefits resulting in the utilization of prior year losses available to the Company not previously recorded, whereby the Company did not previously meet the criteria for recognition, are reflected as part of the Company's operating results in the period the expenses are renounced to the share subscribers and applicable tax filing have been made with the Canada Revenue Agency.

(n) Impairment of Long-lived Assets

CICA Handbook, Section 3063, Impairment of Long-lived Assets provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets. The determination of when to recognize an impairment loss for a long-lived asset to be held and used is made when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. When impairment is indicated other than a temporary decline, the amount of the impairment loss is determined as the excess of the carrying value of the amount over its fair value based on estimated discounted cash flows from use or disposition.

(o) Comprehensive Income

The Company follows CICA Handbook, Section 1530, Comprehensive Income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Section 1530 establishes standards for reporting and presenting certain gains and losses not normally included in net income or loss, such as unrealized gains and losses related to available for sale securities, and gains and losses resulting from the translation of self-sustaining foreign operations, in a statement of comprehensive income.

NOTE 4 – PROPERTY AND EQUIPMENT

	December 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Furniture, fixtures and equipment	$ 135,804	$ 71,350	$ 64,454	$ 134,373	$ 55,711	$ 78,662
Computer equipment	85,020	66,033	18,987	83,837	51,642	32,195
Software	19,802	17,686	2,116	15,570	9,843	5,727
Leasehold improvements	32,433	3,243	29,190	-	-	-
	$ 273,059	$ 158,312	$ 114,747	$ 233,780	$ 117,196	$ 116,584

NOTE 5 – INVESTMENT IN TITAN URANIUM INC.

In December 2006, the Company sold a 90% interest in its uranium properties, consisting of 68 claims and 4 permits totaling 966,969 acres located in the Athabasca Basin, Saskatchewan, Canada, and all related exploration data to Titan Uranium Inc. ("Titan"), a public company traded on the TSX-V, under the following terms:

(a) Titan issued the Company 17,500,000 fully paid and assessable common shares in the capital of Titan (representing a 36.47% of Titan's issued and outstanding shares at closing). Titan issued the Company 3,000,000 transferable common share purchase warrants, entitling the holder to acquire up to 3,000,000 common shares in the capital of Titan at an exercise price of $2.00 per common share for a period of 24 months. These warrants expired unexercised on December 15, 2008;

(b) The Company retained a 1% Net Smelter Return on all properties and a 10% working interest in each claim, carried by Titan to completed bankable feasibility study after which the Company may elect to participate as to its 10% interest or convert to an additional 1% Net Smelter Return.

The Company accounted for its investment in Titan using the equity method until February 28, 2009, at which point the Company disposed of the majority of its shares in Titan and therefore is no longer qualified for the use of the equity method of accounting. The Company's share of losses in Titan under the equity method for the year ended December 31, 2009 was $142,196 (2008 share of income: $3,636,710). During the year ended December 31, 2009, the Company sold all of its investment in Titan, resulting in a loss of $274,187 (2008: $8,846).

During the year ended December 31, 2008, the Company recognized an impairment loss of $12,990,343 and wrote down its investment in Titan to $2,721,875, the fair value as at December 31, 2008.

NOTE 6 – RESOURCE PROPERTIES

(a) Uranium Properties

In 2005 and 2006, the Company acquired interests in and staked uranium exploration properties in the Athabasca Basin region of Saskatchewan, Canada and commenced exploration on certain properties. In December 2006, the Company sold a 90% interest in these properties to Titan as disclosed in Note 5 and realized a gain on disposition of $30,177,082. During the year ended December 31, 2009, a number of leases expired. As a result, the Company recorded an impairment of uranium properties of $148,906 (2008: $Nil). The carrying value of the remaining 10% carried interest and 1% net smelter return was $533,085 as at December 31, 2009 and $696,991 as at December 31, 2008.

(b) Oil and Gas Properties

United States (US) Oil and Gas Projects

Colorado / Utah Oil & Gas Projects

In July 2006, the Company concluded the purchase of interests in 267 oil and gas leases covering 254,068 net acres in the Piceance and Uinta Basins in the States of Colorado and Utah from Retamco Operating Co. ("Retamco"), a private Texas corporation. The cost to the Company was $25,182,532.

NOTE 6 – RESOURCE PROPERTIES (continued)

In June 2008, the Company entered into a Purchase and Sale Agreement with Retamco, resulting in the acquisition of an additional 64,000 net acres. The additional acreage was acquired in exchange for the Company's 25% working interest in approximately 3,500 acres and two wells at North Barcus Creek, and a cash payment of $4,078,800 (US$4,000,000). As part of the transaction, Brownstone Ventures Inc. (“Brownstone”), a working interest partner in the Colorado/Utah Projects, provided the Company with a $4,078,800 (US $4,000,000) secured loan, which was used to purchase the additional acreage interests (refer to Note 8(b)).

During the year ended December 31, 2009, a number of leases expired. As a result, the Company recorded an impairment of oil and gas properties of $1,403,929 (2008: $2,029,942).

Canadian Oil and Gas Projects

During the year ended December 31, 2009, the Company sold 100% of the Company’s working interest in the Carson Creek area to an unrelated third party for gross proceeds of $2,100,000. In addition, the Company sold in total a 25% working interest in the Drake/Woodrush properties for gross proceeds of $4,500,000, 5% of which was purchased by a private company controlled by the Chief Executive Officer (“CEO”) of the Company in settlement of debt.

A continuity summary of capitalized acquisition costs and exploration expenditures in the Company’s oil and gas properties for the years ended December 31, 2009 and 2008 are as follows:

Oil and Gas Properties

	Balance Dec. 31, 2007	Acquisition Costs (Dispositions), Net	Exploration & Development (Dispositions), Net	Impairment and write-down	Capitalized Interests, Depletion & Other	Balance Dec. 31, 2008
US Oil and Gas Properties:						
Colorado / Utah Projects	$ 27,408,361	$ 3,947,305	$ -	$ (2,029,942)	$ -	$ 29,325,724
Others	37,406	130,268	-	-	-	167,674
	27,445,767	4,077,573	-	(2,029,942)	-	29,493,398
Canadian Oil and Gas Properties:						
Carson Creek	535,504	265	1,252,109	-	-	1,787,878
Drake/Woodrush	2,461,447	10,369	16,543,565	-	-	19,015,381
Montney (Buick Creek)	-	907,733	-	-	69,317	977,050
Saddle Hills	534,970	269	451,898	-	-	987,137
Others	3,736,811	14,269	4,206,269	-	-	7,957,349
Asset retirement obligations	-	-	-	-	404,311	404,311
Property depletion	-	-	-	-	(3,635,777)	(3,635,777)
	7,268,732	932,905	22,453,841	-	(3,162,149)	27,493,329
	$ 34,714,499	$ 5,010,478	$ 22,453,841	$ (2,029,942)	$ (3,162,149)	$ 56,986,727

NOTE 6 – RESOURCE PROPERTIES (continued)

Oil and Gas Properties

	Balance Dec. 31, 2008	Acquisition Costs (Dispositions), Net	Exploration & Development (Dispositions), Net	Impairment and write-down	Depletion and Other	Balance Dec. 31, 2009
US Oil and Gas Properties:						
Colorado / Utah Projects	29,325,724	$ 193,892	$ 332,763	$ (1,403,929)	$ -	$ 28,448,450
Others	167,674	-	-	-	-	167,674
	29,493,398	193,892	332,763	(1,403,929)	-	28,616,124
Canadian Oil and Gas Properties:						
Carson Creek	1,787,878	(265)	(1,787,613)		-	-
Drake/Woodrush	19,015,381	(269,491)	(2,239,573)		-	16,506,317
Montney (Buick Creek)	977,050	(80,660)	19,392		-	915,782
Saddle Hills	987,137	1,077	39,778		-	1,027,992
Others	7,957,349	762,790	(837,397)	-	-	7,882,742
Asset retirement obligations	404,311	-	-	-	(154,160)	250,151
Property depletion	(3,635,777)	-	-	-	(6,382,574)	(10,018,351)
Impairment	-	-	-	(3,955,854)	-	(3,955,854)
	27,493,329	413,451	(4,805,413)	(3,955,854)	(6,536,734)	12,608,779
	$ 56,986,727	$ 607,343	$ (4,472,650)	$ (5,359,783)	$ (6,536,734)	$ 41,224,903

In determining the Company's depletion of $6,382,574, unproven properties totaling $915,782 (2008: $979,048) were excluded from the depletion calculation. The Company performed a ceiling test calculation at December 31, 2009 to assess the recoverable value of the properties. The oil and gas future prices are based on the January 1, 2010 commodity price forecast of independent reserve evaluators. Based on these assumptions, the undiscounted value of future net revenues from the Company's proved and probable reserves were less than the carrying value of oil and gas properties at December 31, 2009. As a result, the Company recorded an impairment of oil and gas properties of $3,955,854 (2008: $Nil).

Depletion and depreciation is computed using the unit-of-production method based on the estimated net proven and probable reserves of oil and gas determined by independent consultants. Costs of significant unproved properties, net of impairment, and estimated salvage values are excluded from the depletion and depreciation calculation. The benchmark reference pricing as at December 31, 2009 used for the ceiling test calculation respecting Canadian properties was provided by a qualified reserves evaluator independent of the Company.

NOTE 7 – BANK LINE OF CREDIT

In August 2008, DEAL secured a revolving operating loan facility with a Canadian Bank for up to $7,000,000, subject to certain production targets. This facility, secured by DEAL's oil and gas assets in Canada, was at an interest rate of Canadian prime plus 1%. In accordance with the terms of the facility, DEAL is required to maintain an adjusted working capital ratio of not less than 1.10:1. The adjusted working capital ratio is defined as the ratio of (i) current assets plus any undrawn availability under the facility, to (ii) current liabilities less any amount drawn under the facility.

NOTE 7 – BANK LINE OF CREDIT (continued)

During the year ended December 31, 2009, the terms of the bank line of credit were amended. The facility was reduced from $7,000,000 to $1,780,000 and the interest rate was adjusted to Canadian prime plus 2%. As at December 31, 2009, DEAL was in compliance with the working capital ratio requirement. Subsequent to December 31, 2009, the terms of the bank line of credit were further amended. The facility was reduced from $1,780,000 to $1,000,000 effective January 7, 2010. On March 22, 2010, the bank line of credit was paid off in full. At December 31, 2009 $850,000 (2008 - $5,550,0000) of this facility was utilized.

Subsequent to December 31, 2009, the Company negotiated a credit facility for up to $5,000,000. This facility is secured by DEAL's oil and gas assets in Canada. The first $2,000,000 of the facility was used to refinance the Company's existing bank facility and fund working capital. The remainder of the facility is accessible subject to additional lender review. The facility carries interest rate at 12% per annum, subject to a 1% fee on any amount drawn and a 2% fee on repayment. The Company paid a $50,000 commitment fee.

NOTE 8 – LOANS FROM RELATED PARTIES

(a) Loan from Hodgkinson Equity Corporation ("HEC")

HEC loan to DEAL

On May 15, 2008, DEAL issued a promissory note for up to $2,000,000 to HEC, a private company controlled by the CEO of the Company. The promissory note is secured by the assets, equipment, fixtures, inventory and accounts receivable of DEAL, bears interest at the Royal Bank of Canada Prime Rate per annum, and has a loan fee of 1% of the outstanding amount per month. The principal, interest and loan fee were payable on demand after August 15, 2008. Upon securing the bank line of credit in August 2008 (refer to note 7), HEC signed a subordination and postponement agreement which restricted the principal repayment of the promissory note subject to the bank's prior approval and DEAL meeting certain loan covenants. As at December 31, 2008, $1,950,000 had been advanced on the promissory note. Repayments of $90,642 and $59,358 were made on March 5, 2009 and on April 3, 2009 respectively. As at June 22, 2009, the Company assumed from DEAL the remaining outstanding balance of $1,800,000.

HEC loan to the Company

On August 11, 2008, the Company borrowed $600,000 from HEC. The loan was secured by all assets of the Company, repayable on demand, bore interest at the Canadian prime rate per annum, and had a loan fee of 1% of the outstanding amount per month. At December 31, 2008 $600,000 had been advanced to the Company. On March 19, 2009, a repayment of $600,000 was made and as at December 31, 2009, no balance remained outstanding.

On September 12, 2008, as consideration for HEC agreeing to postpone the $2,000,000 promissory note and providing the additional loan of $600,000, HEC was granted an option to become a working interest partner with DEAL. Upon electing to become a working interest partner, HEC must pay DEAL an amount equal to 10% of the actual price paid for the acquisition of the Montney (Buick Creek) property in northeastern British Columbia. HEC is also required to pay its pro-rata share of the operating costs. On February 26, 2009, HEC exercised its option and elected to become a 10% working interest partner in DEAL's Montney (Buick Creek) property. The option price was $90,642.

On June 22, 2009, as amended on September 30, 2009 and December 31, 2009, the Company entered into an agreement with HEC in regard to the outstanding debt of $1,800,000 assumed from DEAL by the Company. Pursuant to the agreements, $450,000 of the debt was converted into 1,363,636 units consisting of 1,363,636 common shares and 681,818 common share purchase warrants exercisable at a price of $0.55 for a period of 5 years. The fair value of the units was estimated to be $450,000. The remaining $1,350,000 was converted into a 12% note due on January 1, 2011 and the Company was required to pay 3% fee on the outstanding balance of the loan as at December 31, 2009. As a result of the sale of 5% working interest in the Drake/Woodrush area to HEC in December 2009 (effective June 1, 2009), both parties agreed to reduce the loan balance by the purchase price of $911,722 including taxes and adjustments. In addition, the loan balance was further reduced by a payment of $50,351. As at December 31, 2009, a balance of $387,927 remained outstanding.

NOTE 8 – LOANS FROM RELATED PARTIES (continued)

(b) Loan from Brownstone Ventures Inc. ("Brownstone")

On June 18, 2008, a promissory note with a face value of $4,078,800 (US $4,000,000) was issued to Brownstone. Brownstone owns more than 10% of outstanding common shares of the Company and one of Brownstone's directors also serves on the board of directors of the Company (refer to Note 6(b)). The promissory note was secured by a general security agreement issued by the Company in favour of Brownstone, and bore interest at 5% per annum. The principal and interest were repayable by the earlier of the completion of an equity and/or debt financing, and July 1, 2009. During the year ended December 31, 2008, a repayment of $222,948 (US$220,000) was made and at December 31, 2008 a balance of $4,604,040 (US$3,780,000) owed.

On June 22, 2009, as amended on September 30, 2009 and December 31, 2009, the Company entered into an agreement with Brownstone in regard to the outstanding debt of $4,604,040 (US$3,780,000). Pursuant to the agreement, $2,200,000 (US$2,000,000) of the debt was converted into 6,666,667 units consisting of 6,666,667 common shares and 3,333,333 common share purchase warrants exercisable at a price of $0.55 for a period of 5 years. The fair value of the units was estimated to be US$2,000,000. The remaining $2,070,140 (US$1,780,000) of the debt was converted into a Canadian dollar denominated 12% note due on January 1, 2011.

On June 22, 2009, the Company also issued Brownstone 2,000,000 common share purchase warrants exercisable at $0.50 for a period of 2 years, with an option to force the exercise of the warrants if the Company's common shares trade at a price of $0.80 or greater for 30 consecutive calendar days. The grant date fair value of the warrants of $169,000 has been recorded in contributed surplus and will be amortized as a finance fee over the life of the note.

12% note	$ 2,070,140
Finance fee	(169,000)
Accumulated amortization of finance fees	56,334
Balance as at December 31, 2009	$ 1,957,474

NOTE 9 – ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the cost to be incurred in future periods. The Company estimated the total undiscounted amount of the cash flows required to settle the retirement obligations related to its oil and gas properties in Canada as at December 31, 2009 to be $482,884. These obligations are expected to be settled by year 2029. A credit adjusted risk-free rate of 5% and an inflation rate of 0.3% was used to calculate the present value of the asset retirement obligations.

Balance at December 31, 2007	$ -
Liabilities incurred during the year	404,311
Accretion expense	16,412
Actual costs incurred	(57,614)
Balance at December 31, 2008	363,109
Liabilities incurred during the year	-
Change in estimate	(154,160)
Accretion expense	12,863
Actual costs incurred	(13,296)
Balance at December 31, 2009	$ 208,516

NOTE 10 – SHARE CAPITAL

Authorized: Unlimited common shares, no par value
Unlimited first preferred shares, issuable in series
Unlimited second preferred shares, issuable in series

	Common Shares	Value
Balance at December 31, 2007	70,128,329	$ 61,393,964
- For conversion of convertible debenture	884,242	1,214,497
- For cash on exercise of stock options	1,681,048	887,621
- For cash on exercise of warrants	958,263	1,447,464
- Contributed surplus reallocated on exercise of stock options	-	532,531
- Renounced flow through share expenditures	-	(536,900)
Balance at December 31, 2008	73,651,882	64,939,177
- For cash on exercise of stock options	631,856	273,223
- For settlement of debt (Note 8)	8,030,303	2,650,000
- For cash by private placements, net of share issuance costs	13,476,997	4,549,882
- Contributed surplus reallocated on exercise of stock options	-	147,222
Balance at December 31, 2009	95,791,038	$ 72,559,504

During the year ended December 31, 2009, the Company completed the following:

In October 2009, the Company completed a private placement and issued 2,710,332 flow-through shares ("FTS") at $0.60 per share. Gross proceeds raised were $1,626,199. In connection with this private placement, the Company paid finders' fees of $83,980 and other related costs of $73,427.

In December 2009, the Company completed a private placement and issued 10,766,665 units at US$0.30 per unit. Each unit consists of 10,766,665 common shares and 8,075,000 share purchase warrants, exercisable at US$0.40 per share on or before December 23, 2014. Gross proceeds raised were $3,425,060 (US$3,230,000). In connection with this private placement, the Company paid finders' fees of $203,180 and other related costs of $140,788. The Company also issued 645,999 agent's warrants, exercisable at US$0.46 per share on or before November 3, 2014. The grant date fair values of the warrants and agent's warrants, estimated to be $888,250 and $71,060 respectively, have been included in share capital on a net basis and accordingly have not been recorded as a separate component of shareholders' equity.

During the year ended December 31, 2008:

In January 2008, the Company renounced $1,820,000 flow-through funds to investors, using the look-back rule. Of this $1,820,000, $263,222 of renounced Canadian Exploration Expenditures ("CEEs") had been spent by December 31, 2007 and the remaining flow-through funds had been fully spent by February 29, 2008. As a result of the renunciation, future income tax recovery of $536,900 was recognized against share capital.

In February 2008, the Company filed a Part XII.6 tax return with the Canada Revenue Agency related to CEEs with an effective date of renunciation of December 31, 2006 and paid $236,348 of Part XII.6 tax.

NOTE 11 – STOCK OPTIONS AND SHARE PURCHASE WARRANTS

During the year ended December 31, 2009, the Company granted 3,312,000 (2008 – 4,945,000) options to its officers, directors, consultants, employees and advisors. In addition, 5,461,842 (2008 – 1,693,053) options were cancelled or expired with a weighted average exercise price at $1.46 (2008 - $1.83).

As at December 31, 2009, there were 4,416,682 options outstanding with a weighted average exercise price at $0.45, of which 1,233,807 were vested. The vested options can be exercised for periods ending up to November 12, 2014 to purchase common shares of the Company at prices ranging from $0.45 to $0.55 per share.

The Company expenses the fair value of all stock options granted over their respective vesting periods for directors and employees and over the service life for consultants. The fair value of the options granted during the year ended December 31, 2009 was determined to be $930,250 (2008 - $2,406,250). The Company determined the fair value of stock options granted using the Black-Scholes option pricing model using the following weighted average assumptions: Expected option life of 3.94 years (2008 – 4.05 years), risk-free interest rate of 1.66% (2008 – 2.95%) and expected volatility of 100.52% (2008 – 81.10%).

During the year ended December 31, 2009, the Company recognized a total of $697,467 (2008 - $2,719,957) of stock based compensation relating to the vesting of options.

As at December 31, 2009, there were 3,182,875 unvested options included in the balance of the outstanding options. As of December 31, 2009, there was $862,706 of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted average period of 3.83 years. The following table summarizes information about stock option transactions:

	Outstanding Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2007	5,627,481	$	1.49	1.96 years
Options granted	4,945,000		0.88	
Options exercised	(1,681,048)		0.53	
Options cancelled and expired	(1,693,053)		1.83	
Balance, December 31, 2008	7,198,380		1.22	2.94 years
Options granted	3,312,000		0.46	
Options exercised	(631,856)		0.43	
Options cancelled and expired	(5,461,842)		1.46	
Balance, December 31, 2009	4,416,682	$	0.45	3.54 years

NOTE 11 – STOCK OPTIONS AND SHARE PURCHASE WARRANTS (continued)

Details of stock options vested and exercisable as at December 31, 2009 are as follows:

Number of Options Outstanding and vested	Exercise Price	Weighted Average Remaining Contractual Life (Years)
1,095,625	$ 0.45	3.00
60,000	$ 0.50	1.00
78,182	$ 0.55	1.00
1,233,807	$ 0.46	2.78

The following table summarizes information about warrant transactions:

	Outstanding Warrants	Weighted Average Excercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2007	2,372,531	$ 3.15	1.31 years
Warrants issued	884,242	1.53	
Warrants exercised	(958,263)	1.53	
Warrants expired	(194,381)	1.53	
Balance, December 31, 2008	2,104,129	3.35	0.40 years
Warrants issued	14,736,150	0.47	
Warrants exercised	-	-	
Warrants expired	(2,104,129)	3.35	
Balance, December 31, 2009	14,736,150	$ 0.47	4.36 years

Details of warrants outstanding as at December 31, 2009 are as follows:

Number of Warrants Outstanding	Exercise Price	Weighted Average Remaining Contractual Life (Years)
2,000,000	$ 0.50	1.47
4,015,151	$ 0.55	4.48
8,075,000	US$0.40	4.98
645,999	US$0.46	4.84
14,736,150		

NOTE 12 – CONTRIBUTED SURPLUS

Details of changes in the Company's contributed surplus balance are as follows:

Details of changes in the Company's contributed surplus balance are as follows:

Balance at December 31, 2007	$ 3,735,270
Stock compensation on vesting of options	2,719,957
Value of conversion feature on convertible debenture	(27,136)
Allocated to share capital on exercise of options	(532,531)
Balance at December 31, 2008	5,895,560
Stock compensation on vesting of options	697,467
Allocated to share capital on exercise of options	(147,222)
Value of warrants issued for settlement of debt	169,000
Balance at December 31, 2009	$ 6,614,805

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2009	December 31, 2008
Changes in non-cash working capital balances:		
Accounts receivable	**$ 115,922**	$ (782,856)
Prepaids and other receivables	**(127,351)**	219,170
Advances for oil and gas projects	**-**	790,487
Accounts payable and accrued liabilities	**(1,088,287)**	1,077,635
	$ (1,099,716)	$ 1,304,436
Changes in non-cash financing and investing activities:		
Common shares issued for convertible debentures	**$ -**	$ 1,214,497
Conversion feature on convertible debenture	**-**	(27,136)
Other cash flow information:		
Interest paid	**$ 569,192**	$ 374,679
Income taxes paid	**-**	-
	$ 569,192	$ 374,679
Components of cash and cash equivalents		
Cash	**$ 2,582,696**	$ 774,225
Guaranteed investment certificates	**150,000**	-
	$ 2,732,696	$ 774,225

NOTE 14 – RELATED PARTY TRANSACTIONS

During the years ended December 31, 2009 and 2008, the Company entered into the following transactions with related parties:

(a) The Company incurred a total of $682,618 (2008 - $737,112) in consulting and professional fees and a total of $90,714 (2008 - $111,291) in rent expenses to the companies controlled by officers of the Company. Included in the total consulting and professional fees incurred during fiscal 2009 was a payment of $107,000 made to a former officer of the Company to terminate the consulting agreement with this officer.

(b) The Company incurred a total of $382,748 (2008 - $300,434) in interest expense and finance fee to the related parties.

(c) The Company received total rental income of $30,000 (2008 - $28,700) from the companies controlled by officers of the Company.

(d) The Company received total consulting fee income of $114,200 (2008:Nil) from a related party.

(e) In May 2008, DEAL issued a promissory note for up to $2,000,000 to HEC. As at December 31, 2008, $1,950,000 had been advanced on the promissory note. During the year ended December 31, 2009, $150,000 was repaid and the remaining $1,800,000 was assumed by the Company. Pursuant to an agreement with HEC, $450,000 of the debt was converted into common shares and common share purchase warrants of the Company, and $900,000 was settled by the sale of 5% working interest in Drake/Woodrush to HEC. Refer to Note 8(a).

(f) In August 2008, the Company borrowed $600,000 from HEC. This was fully paid off during the year ended December 31, 2009. Refer to Note 8(a).

(g) In February 2009, HEC exercised its option and elected to become a 10% working interest partner in DEAL's Montney (Buick Creek) property. The option price was $90,642. Refer to Note 8(a).

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

NOTE 15 – FUTURE INCOME TAXES

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

		2009		2008
Loss before income taxes	**$**	**(13,940,058)**	$	(20,294,513)
Corporate tax rate		**30.00%**		31.00%
Expected tax recovery		**(4,182,017)**		(6,291,299)
Increase (decrease) resulting from:				
Differences in foreign tax rates and change in effective tax rates		**695,723**		(84,595)
Impact of foreign exchange rate changes		**(101,005)**		(350,194)
Titan shares and warrants investment		**-**		886,123
Change in future tax asset valuation allowance		**3,028,499**		5,407,647
Stock based compensation, share issue costs and other permanent differences		**(231,005)**		1,122,460
Other adjustments		**(343,335)**		(93,902)
Future income taxes expense (recovery)	**$**	**(1,133,140)**	$	596,240

The Company's tax-effected future income tax assets and liabilities are made up as follows:

		2009		2008
Future income tax assets				
Non-capital losses available	**$**	**6,829,131**	$	5,253,487
Capital losses available		**1,365,955**		1,594,217
Resource tax pools in excess of net book value		**1,204,440**		-
Share issue costs and other		**227,102**		322,842
		9,626,628		7,170,546
Future income tax liabilities				
Long term investments		**-**		(392,403)
Net book value in excess of resource tax pools		**-**		(1,312,812)
		-		(1,705,215)
Net future income tax assets		**9,626,628**		5,465,331
Valuation allowance		**(9,626,628)**		(6,598,471)
Net future income tax liabilities	**$**	**-**	$	(1,133,140)

NOTE 15 – FUTURE INCOME TAXES (continued)

The Company has approximately $22,165,000 (2008 – $16,446,000) of non-capital losses which can be applied to reduce future taxable income, expiring as follows:

Year of Expiry	Amount
2015	$ 1,729,000
2026	2,121,000
2027	6,978,000
2028	4,886,000
2029	6,451,000
	$ 22,165,000

In addition, the Company has Canadian exploration and development expenditures totaling approximately $18,477,000, unamortized share issue costs of approximately $772,000 and capital loss carry forwards of approximately $5,274,000 which may be available to reduce future taxable income. Both the exploration and development expenditures and the capital losses can be carried forward indefinitely.

NOTE 16 – COMMITMENT

The Company has entered into lease agreements on office premises for its various locations. Under the terms of the leases, the Company is required to make minimum annual payments. Future minimum annual lease payments under the leases are as follows:

2010	$187,328
2011	73,051
2012	73,051
2013	73,051
2014	48,700
	$455,181

NOTE 17 – SEGMENTED DISCLOSURE

As at December 31, 2009 and 2008, the Company's significant assets, losses and revenue by geographic location were as follows:

	December 31 2009	December 31, 2008
Canada		
Revenue	**$ 6,785,995**	$ 5,751,672
Interest and other income	**302,824**	124,208
Future income tax recovery (expense)	**1,133,140**	(596,240)
Segmented loss	**(10,969,741)**	(17,301,636)
Assets:		
Current Assets	**3,646,770**	1,765,599
Equipment, net	**85,664**	80,701
Investment in Titan	**-**	2,721,875
Uranium properties	**533,085**	696,991
Oil and gas properties, net	**12,608,779**	27,493,329
	16,874,298	32,758,495
U.S.A.		
Revenue	**-**	13,883
Interest and other income	**114,200**	112,630
Segmented loss	**(1,837,177)**	(3,589,117)
Assets:		
Current Assets	**366,372**	355,410
Equipment, net	**29,083**	35,883
Oil and gas properties, net	**28,616,124**	29,493,398
	29,011,578	29,884,691
Total assets	**$ 45,885,876**	$ 62,643,186

NOTE 18 – CONTINGENCY

The Company was involved in a termination claim and litigation from a former officer and director arising in the normal course of business. Subsequent to December 31, 2009, both parties agreed to settle the claim and the Company made a settlement payment of $100,000 to the former director and officer. This amount was included in accounts payable and accrued liabilities as at December 31, 2009.

NOTE 19 – FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY

The Company is engaged primarily in mineral and oil and gas exploration and production and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

The Company's functional currency is the Canadian dollar. The Company operates in foreign jurisdictions, giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company also has exposure to a number of risks from its use of financial instruments including: credit risk, liquidity risk, and market risk. This note presents information about the Company's exposure to each of these risks and the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility (refer to Note 7). The Company also attempts to match its payment cycle with collection of oil and natural gas revenues on the 25th of each month.

Accounts payable are considered due to suppliers in one year or less while the bank line of credit, which is subject to renewal after a 364-day revolving period, could be potentially due within the next year if the facility is not renewed for a further 364-day period.

(b) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company utilizes financial derivatives to manage certain market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

NOTE 19 – FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY (continued)

(c) Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollars. Given that changes in exchange rate have an indirect influence, the impact of changing exchange rates cannot be accurately quantified. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2009.

The Company was exposed to the following foreign currency risk at December 31, 2009:

Expressed in foreign currencies - 2009	USD
Cash and cash equivalents	$ 1,526,455
Accounts receivable	69,221
Accounts payable and accrued liabilities	(263,048)
Balance sheet exposure	$ 1,332,628

The following foreign exchange rates applied for the year ended and as at December 31, 2009:

YTD average USD to CAD	1.142
December 31, reporting date rate	1.051

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. Based on the Company's foreign currency exposure noted above and assuming that all other variables remain constant, a 10% appreciation of the following currencies against the Canadian dollar would result in the decrease of net loss of $140,059 at December 31, 2009. For a 10% depreciation of the above foreign currencies against the Canadian dollar, assuming all other variables remain constant, there would be an equal and opposite impact on net loss.

(d) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its credit facility which bears a floating rate of interest. The Company had no interest rate swaps or financial contracts in place at or during the year ended December 31, 2009.

(e) Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of financial derivative sales contracts. As at December 31, 2009, the Company had outstanding a natural gas derivatives contract for 600 gigajoules ("GJ") per day for the period from November 1, 2009 to April 30, 2010. This contract consisted of a CAD$4.47 per GJ forward sale agreement. As at December 31, 2009, the Company also had outstanding a crude oil derivatives contract for 100 barrels ("bbl") per day for the period from September 1, 2009 to April 30, 2010. This contract consisted of a CAD$81.60 per bbl forward sale agreement. As at December 31, 2009, unrealized losses of $99,894 relating to these two contracts was recorded in accumulated other comprehensive income.

NOTE 19 – FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY (continued)

(f) Capital Management Strategy

The Company's policy on capital management is to maintain a prudent capital structure so as to maintain financial flexibility, preserve access to capital markets, maintain investor, creditor and market confidence, and to allow the Company to fund future development. The Company considers its capital structure to include share capital, cash and cash equivalents and line of credit, loan from joint-venture partner, loan from related party, and working capital. In order to maintain or adjust capital structure, the Company may from time to time issue shares or enter into debt agreements and adjust its capital spending to manage current and projected operating cash flows and debt levels.

The Company's share capital is not subject to any external restrictions. The Company has not paid or declared any dividends, nor are any contemplated in the foreseeable future. There have been no changes to the Company's capital management strategy during the year ended December 31, 2009.

NOTE 20 – SUBSEQUENT EVENTS

(a) Stock Options

Subsequent to December 31, 2009, the Company granted a total of 3,053,000 incentive stock options with a weighted average exercise price at $0.35 per share to independent directors, management, officers, employees and consultants of the Company. The options can be exercised for periods ending up to February 15, 2015.

(b) Bank Line of Credit and Bridge Loan Financing

Subsequent to December 31, 2009, the bank line of credit was paid off in full.

In February 2010, the Company negotiated a credit facility for up to $5,000,000. This facility is secured by DEAL's oil and gas assets in Canada. The first $2,000,000 of the facility was used to refinance the Company's existing bank facility and fund its working capital. The remainder of the line is accessible subject to additional lender review. The facility bears interest at a rate of 12% per annum, subject to a 1% fee on any amount drawn and a 2% fee on repayment. The Company paid a $50,000 commitment fee. Refer to Note 7.

(c) Private Placement

In March 2010, the Company sold 2,907,334 flow-through units at $0.35 per share. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company. The Company issued 1,453,667 share purchase warrants, exercisable at $0.45 per warrant on or before March 3, 2011. Gross proceeds raised were $1,018,000. In connection with this private placement, the Company paid finders' fees of up to 6.25% of the proceeds in cash. The Company also issued 37,423 agents' warrants, exercisable at $0.45 per warrant on or before March 3, 2011.

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP")

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") which differ in certain respects with accounting principles generally accepted in the United States and from practices prescribed by the Securities and Exchange Commission (collectively "US GAAP"). Material differences to these financial statements are as follows:

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(a) Interest in unproven mineral properties

Under US GAAP, the Company classified its mineral rights as tangible assets and accordingly acquisition costs are capitalized as mineral property costs. US GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Mineral exploration costs are expensed as incurred until commercially mineable deposits are determined to exist within a particular property. Accordingly, for all periods presented, the Company has capitalized all mineral exploration costs for US GAAP purposes unless the costs relate to unproven mineral properties. In addition, under Canadian GAAP, cash flows relating to unproven mineral property costs are reported as investing activities. For US GAAP, these costs are classified as operating activities.

(b) Stock-based compensation

The Company has granted stock options to certain directors, employees and consultants. Under Canadian GAAP, prior to 2003, no compensation expense was recorded in connection with the granting of stock options. Under previous US GAAP, the Company accounted for stock-based compensation in respect of stock options granted to directors and employees using the intrinsic value based method. Stock options granted to non-employees were accounted for by applying the fair value method using the Black-Scholes option pricing model. Commencing January 1, 2003, under Canadian GAAP the Company expenses the fair value of all stock options granted and under US GAAP prospectively changed its accounting policy to account for all stock options granted in accordance with Accounting Standards Codification ("ASC") 718. As a result, effective January 1, 2003, there is no material difference between the Company's accounting for stock options under US GAAP versus Canadian GAAP.

(c) Income taxes

Under US GAAP, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Under Canadian GAAP, the effect of a change in tax rates is recognized in the period of substantive enactment. The application of this difference under US GAAP does not result in a material difference between future income taxes as recorded under Canadian GAAP.

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(d) Flow-through share premiums

Under US GAAP, the proceeds from the issuance of flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is based on the difference between the issue price of flow-through shares and the fair value of the shares at the date of issuance. A liability is recorded for this difference and is reversed when tax benefits are renounced. To the extent that the Company has available tax pools for which a full valuation allowance has been provided, the premium is recognized in earnings as a reduction in the valuation allowance at the time of renunciation of the tax pools.

Under Canadian GAAP, share capital is reduced and future income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the subscribers, except to the extent that the Company has unrecorded loss carryforwards and tax pools in excess of book value available for deduction against which a valuation allowance has been provided.

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(e) Reporting comprehensive income

ASC 220 "Comprehensive Income" establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income equals net income for the year as adjusted for all other non-owner changes in shareholders' equity. ASC 220 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. Effective January 1, 2007, the Company adopted new Canadian GAAP accounting standards issued by the CICA relating to comprehensive income. The new standard has been adopted on a prospective basis with no restatement to prior period financial statements. The new standard substantially harmonizes Canadian GAAP with US GAAP with respect to reporting comprehensive income and loss. During the year, other comprehensive loss recognized is $99,894 (2008 income – $107,768).

(f) Statements of cash flows

For Canadian GAAP, all cash flows relating to mineral property costs are reported as investing activities. For US GAAP, mineral property acquisition costs would be characterized as investing activities and mineral property exploration costs as operating activities.

(g) Recent accounting pronouncements

During 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update, "Amendments Based on Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (the "Codification"). The Codification became the single source of authoritative GAAP in the United States, other than rules and interpretive releases issued by the United States Securities and Exchange Commission ("SEC"). The Codification reorganized GAAP into a topical format that eliminates the previous GAAP hierarchy and instead established two levels of guidance – authoritative and nonauthoritative. All non-grandfathered, non-SEC accounting literature that was not included in the Codification became nonauthoritative. The adoption of the Codification did not change previous GAAP, but rather simplified user access to all authoritative literature related to a particular accounting topic in one place. Accordingly, the adoption had no impact on the Company's consolidated financial position or results of operations. All prior references to previous GAAP in the Company's consolidated financial statements were updated for the new references under the Codification.

In June 2009, the FASB issued general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before the financial statements are issued or are available to be issued (codified within ASC 855). The update sets forth: (a) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (b) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (c) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of this standard had no impact on the Company's financial position, results of operations or cash flows.

On July 1, 2009, the Company adopted authoritative guidance issued by the FASB on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. Adoption of the new guidance had no impact on the Company's financial statements.

On July 1, 2009, the Company adopted the authoritative guidance issued by the FASB that changes the accounting and reporting for non-controlling interests. Non-controlling interests are to be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control are to be accounted for as equity transactions. In addition, net income attributable to a non-controlling interest is to be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, is to be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance had no impact on the Company's financial statements.

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

On July 1, 2009, the Company adopted the authoritative guidance on fair value measurement for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance had no impact on the Company's financial statements.

Recent Accounting Guidance Not Yet Adopted
In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities, which is effective for the Company beginning July 1, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. The Company believes adoption of this new guidance will have no impact on the Company's financial statements.

(h) Reconciliation

The effect of the differences between Canadian GAAP and US GAAP (including practices prescribed by the SEC) on the balance sheets, statements of operations and cash flows are summarized as follows:

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(i) Assets

		December 31, 2009		December 31, 2008
Total assets, under Canadian GAAP	$	**45,885,876**	$	62,643,186
Exploration costs - unproven resource properties		**(481,714)**		(628,018)
Add: Resource properties accumulated depletion under Canadian GAAP		**10,018,351**		**3,635,777**
Add: Resource properties impairment under Canadian GAAP		**3,955,854**		**-**
Less: Resource properties accumulated depletion under US GAAP		**(8,782,402)**		**(4,063,107)**
Less: Resource properties impairment under US GAAP		**(15,807,960)**		**(12,395,905)**
Total assets, under US GAAP	**$**	**34,788,005**	$	49,191,933

(ii) Liabilities

		December 31, 2009		December 31, 2008
Total liabilities, under Canadian GAAP	$	**6,197,207**	$	18,279,509
Add: flow through issue cost liability under US GAAP		**271,033**		-
Total liabilities, under US GAAP	**$**	**6,468,240**	$	18,279,509

(iii) Share Capital

		December 31, 2009		December 31, 2008
Total share capital, under Canadian GAAP	$	**72,559,504**	$	64,939,177
Add: flow through issue cost under Canadian GAAP		**4,669,883**		4,669,883
Less: flow through issue cost under US GAAP		**(456,033)**		(185,000)
Total share capital, under US GAAP	**$**	**76,773,354**	$	69,424,060

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(h) Reconciliation (continued)

(iv) Deficit

	December 31, 2009	December 31, 2008
Deficit, under Canadian GAAP	**$ (39,385,746)**	$ (26,578,828)
Add: gain on disposal of uranium properties	**5,652,166**	5,652,166
Less: exploration costs - unproven resource property expenditures	**(6,265,184)**	(6,280,184)
Add: Uranium properties impairment under Canadian GAAP	**148,906**	-
Less: Uranium properties impairment under US GAAP	**(17,602)**	-
Less: flow through share future tax recovery under Canadian GAAP	**(4,669,883)**	(4,669,883)
Add: flow through share future tax recovery under US GAAP	**185,000**	185,000
Add: Resource properties depletion under Canadian GAAP	**10,018,351**	3,635,777
Add: Resource properties impairment under Canadian GAAP	**3,955,854**	-
Less: Resource properties depletion under US GAAP	**(8,782,402)**	(4,063,107)
Less: Resource properties impairment under US GAAP	**(15,807,960)**	(12,395,905)
Deficit, under US GAAP	**$ (54,968,500)**	$ (44,514,964)

(v) Net loss for the year

	For the year ended December 31,		
	2009	2008	2007
Net loss for the year, under Canadian GAAP	**$ (12,806,918)**	$ (20,890,753)	$ (26,810,673)
Add: exploration costs - unproven resource property expenditures	**15,000**	-	-
Add: Uranium properties impairment under Canadian GAAP	**148,906**	-	-
Less: Uranium properties impairment under US GAAP	**(17,602)**	-	-
Less: flow through share future tax recovery under Canadian GAAP	**-**	(536,900)	(2,712,540)
Add: flow through share future tax recovery under US GAAP	**-**	70,000	-
Add: Resource properties depletion under Canadian GAAP	**6,382,574**	3,635,777	-
Add: Resource properties impairment under Canadian GAAP	**3,955,854**	-	-
Less: Resource properties depletion under US GAAP	**(4,719,295)**	(4,063,107)	-
Less: Resource properties impairment under US GAAP	**(3,412,055)**	(12,395,905)	-
Net loss for the year, under US GAAP	**$ (10,453,536)**	$ (34,180,888)	$ (29,523,213)

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(h) Reconciliation (continued)

The application of US GAAP would have the following effects on reported net income:

(vi) Reported Net Loss

	For the years ended December 31,		
	2009	2008	2007
Net loss for the year, under Canadian GAAP	**$ (12,806,918)**	$ (20,890,753)	$ (26,810,673)
Adjustments:			
Add: exploration costs - unproven resource property expenditures	**15,000**	-	-
Add: Uranium properties impairment under Canadian GAAP	**148,906**	-	-
Less: Uranium properties impairment under US GAAP	**(17,602)**	-	-
Less: flow through share future tax recovery under Canadian GAAP (note 21(d))	**-**	(536,900)	(2,712,540)
Add: flow through share future tax recovery under US GAAP (note 21(d))	**-**	70,000	-
Add: Resource properties depletion under Canadian GAAP	**6,382,574**	3,635,777	-
Add: Resource properties impairment under Canadian GAAP	**3,955,854**		
Less: Resource properties depletion under US GAAP (note 21(a))	**(4,719,295)**	(4,063,107)	-
Less: Resource properties impairment under US GAAP (note 21(a))	**(3,412,055)**	(12,395,905)	-
Net loss for the year, under US GAAP	**$ (10,453,536)**	$ (34,180,888)	$ (29,523,213)
Net loss per share - Basic	**$ (0.13)**	$ (0.47)	$ (0.44)
Net loss per share - Diluted	**$ (0.13)**	$ (0.47)	$ (0.44)
Weighted Average Number of Common Shares Outstanding - Basic	**78,926,223**	**72,210,852**	66,588,825
Weighted Average Number of Common Shares Outstanding - Diluted	**78,926,223**	**72,210,852**	66,588,825
Deficit, beginning of the year, under US GAAP	**$ (44,514,964)**	$ (10,334,076)	$ 19,189,137
Net loss, under US GAAP	**(10,453,536)**	(34,180,888)	(29,523,213)
Deficit, end of the year, under US GAAP	**$ (54,968,500)**	$ (44,514,964)	$ (10,334,076)

NOTE 21 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(h) Reconciliation (continued)

(vii) Balance Sheets

December 31, 2009	Canadian GAAP	Unproved Properties	Depletion and Depreciation and Impairment	Flow-through Shares	US GAAP
ASSETS					
Current					
Cash and cash equivalents	$ 2,732,696	$ -	$ -	$ -	$ 2,732,696
Accounts receivable	724,773	-	-	-	724,773
Prepaids and deposits	555,672	-	-	-	555,672
	4,013,141	-	-	-	4,013,141
Property and equipment	114,747	-	-	-	114,747
Uranium properties	533,085	(481,714)	-	-	51,371
Oil and gas properties	41,224,903	-	(10,616,157)	-	30,608,746
	$ 45,885,876	**$ (481,714)**	**$ (10,616,157)**	**$ -**	**$ 34,788,005**
LIABILITIES					
Current					
Bank indebtedness and line of credit	$ 850,000	$ -	$ -	$ -	$ 850,000
Accounts payable and accrued liabilities	2,653,483	-	-	271,033	2,924,516
Unrealized financial instrument loss	99,894	-	-	-	99,894
	3,603,377	-	-	271,033	3,874,410
Loans from related parties	2,345,401	-	-	-	2,345,401
Deferred leasehold inducement	39,913	-	-	-	39,913
Asset retirement obligations	208,516	-	-	-	208,516
	6,197,207	-	-	271,033	6,468,240
SHAREHOLDERS' EQUITY					
Share capital	72,559,504	-	-	4,213,850	76,773,354
Contributed surplus	6,614,805	-	-	-	6,614,805
Deficit	(39,385,746)	(481,714)	(10,616,157)	(4,484,883)	(54,968,500)
Accumulated other comprehensive income	(99,894)	-	-	-	(99,894)
	39,688,669	(481,714)	(10,616,157)	(271,033)	28,319,765
	$ 45,885,876	**$ (481,714)**	**$ (10,616,157)**	**$ (0)**	**$ 34,788,005**

DEJOUR ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2009

December 31, 2008	Canadian GAAP	Unproved Properties	Depletion and Depreciation and Impairment	Flow-through Shares	US GAAP
ASSETS					
Current					
Cash and cash equivalents	$ 744,225	$ -	$ -	$ -	$ 744,225
Accounts receivable	840,695	-	-	-	840,695
Prepaids and other receivables	428,321	-	-	-	428,321
Unrealized financial instrument gain	107,768	-	-	-	107,768
	2,121,009	-	-	-	2,121,009
Property and equipment	116,584	-	-	-	116,584
Investment in Titan	2,721,875	-	-	-	2,721,875
Uranium properties	696,991	(628,018)	-	-	68,973
Oil and gas properties	56,986,727	-	(12,823,235)	-	44,163,492
	$ 62,643,186	**$ (628,018)**	**$ (12,823,235)**	**$ -**	**$ 49,191,933**
LIABILITIES					
Current					
Bank line of credit	$ 5,887,450	$ -	$ -	$ -	$ 5,887,450
Accounts payable and accrued liabilities	3,741,770	-	-	-	3,741,770
Loans from related parties	5,204,040	-	-	-	5,204,040
	14,833,260	-	-	-	14,833,260
Loans from related parties	1,950,000	-	-	-	1,950,000
Asset retirement obligations	363,109	-	-	-	363,109
Future income tax liabilities	1,133,140	-	-	-	1,133,140
	18,279,509	-	-	-	18,279,509
SHAREHOLDERS' EQUITY					
Share capital	64,939,177	-	-	4,484,883	69,424,060
Contributed surplus	5,895,560	-	-	-	5,895,560
Deficit	(26,578,828)	(628,018)	(12,823,235)	(4,484,883)	(44,514,964)
Accumulated other comprehensive income	107,768	-	-	-	107,768
	44,363,677	(628,018)	(12,823,235)	-	30,912,424
	$ 62,643,186	**$ (628,018)**	**$ (12,823,235)**	**$ -**	**$ 49,191,933**