United Hunter Oil & Gas Corp.

(formerly Vesta Capital Corp.)
(an exploration stage company)

Consolidated Financial Statements

(expressed in US dollars)

December 31, 2010 and 2009

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of United Hunter Oil & Gas Corp. ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes that the Company incurred a net loss of $2.8 million and used cash flow in operating activities of $1.8 million. These conditions, along with other matters as set forth in Note 2 indicate the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
April 29, 2011
Calgary, Canada

United Hunter Oil & Gas Corp.

(formerly Vesta Capital Corp.)
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Consolidated Balance Sheets

(expressed in US dollars)

	As at December 31, 2010 $	2009 $
Assets		
Current		
Cash and cash equivalents	3,641,755	2,252
Accounts receivable	84,952	-
Due from joint venture partner	128,901	-
Prepaid expenses	68,617	-
	3,924,225	2,252
Oil and gas properties (note 5)	5,377,783	1,854,203
	9,302,008	1,856,455
Liabilities		
Current		
Accounts payable and accrued liabilities	875,656	75,000
Future income tax liability	530,131	628,348
	1,405,787	703,348
Shareholders' equity		
Share capital (note 6)	7,519,574	2,252
Warrants (note 6)	2,042,256	-
Contributed surplus (note 6)	1,453,370	1,200,000
Deficit	(3,118,979)	(49,145)
	7,896,221	1,153,107
	9,302,008	1,856,455

Going-concern (note 2)
Commitments (note 9)
Subsequent events (note 11)

See accompanying notes to consolidated financial statements

Approved by the Board:

Bradley Griffiths — **Director**

Arthur Halleran — **Director**

United Hunter Oil & Gas Corp.

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Consolidated Statements of Operations, Comprehensive Loss and Deficit

(expressed in US dollars)

	Years ended December 31, 2010 $	2009 $
Expenses		
Professional fees	101,739	
Management fees	70,000	-
Salaries and wages	276,600	-
Consulting fees	565,879	-
Stock-based compensation	253,370	-
Premises	51,000	-
General and administrative	31,617	75,000
Public company costs	24,879	-
Investor relations	141,006	-
Travel	77,386	-
Permitting	25,630	-
Transaction costs (note 1)	1,226,384	-
Interest income	(19,366)	-
Foreign exchange gain	68,752	-
	2,894,876	75,000
Loss and comprehensive loss before income taxes	(2,894,876)	(75,000)
Future income tax reduction	98,217	25,855
Loss and comprehensive loss	(2,796,659)	(49,145)
Net liabilities assumed (note 1)	(273,175)	-
Deficit, beginning of year	(49,145)	-
Deficit, end of year	(3,118,979)	(49,145)
Basic and diluted loss per share	(0.03)	(0.00)
Weighted average number of shares outstanding - basic and diluted	95,425,316	39,947,000

See accompanying notes to consolidated financial statements

United Hunter Oil & Gas Corp.

(formerly Vesta Capital Corp.)
(an exploration stage company)

Consolidated Statements of Cash Flows

(expressed in US dollars)

	Years ended December 31, 2010 $	2009 $
Cash flow from operating activities		
Loss for the year	(2,796,659)	(49,145)
Items not affecting cash		
Stock-based compensation	253,370	-
Transaction costs settled in common shares (note 6)	937,606	-
Future income tax reduction	(98,217)	(25,855)
Unrealized foreign exchange gain	(16,263)	-
Changes in non-cash working capital	(90,229)	75,000
	(1,810,392)	-
Cash flow from financing activities		
Issue of common share units	9,008,100	-
Share issue costs	(775,137)	-
	8,232,963	-
Cash flow from investing activities		
Cash acquired on amalgamation with Vesta	10,810	-
Aquisition of Membership Interest in Excelaron	(1,789,542)	-
Oil and gas properties	(1,020,599)	-
	(2,799,331)	-
Unrealized foreign exchange gain on cash held in foreign currencies	16,263	
Net change in cash and cash equivalents for the year	3,639,503	-
Cash and cash equivalents, beginning of year	2,252	2,252
Cash and cash equivalents, end of year	3,641,755	2,252
Cash and cash equivalents consist of the following		
Cash	193,440	2,252
Short term investments	3,448,315	-
Cash and cash equivalents, end of year	3,641,755	2,252
Supplementary information		
Interest paid	-	-
Income taxes paid	-	-

See accompanying notes to consolidated financial statements

United Hunter Oil & Gas Corp.
(formerly Vesta Capital Corp.)
(an exploration stage company)
Notes to Consolidated Financial Statements
(expressed in US dollars)
December 31, 2010

1. Nature of operations

United Hunter Oil & Gas Corp. (the "Company") was incorporated under the Business Corporations Act of Ontario on February 22, 2008. The Company is engaged in the business of oil and gas exploration and development. The Company owns a 65% indirect Membership Interest in Excelaron, LLC ("Excelaron"), an exploration stage company based in San Luis Obispo, California. In addition, the Company owns an interest in oil and gas properties in Alberta.

On April 23, 2010, Vesta Capital Corp. ("Vesta"), a capital pool company, completed its qualifying transaction by way of an amalgamation among United Hydrocarbon Corporation ("UHC"), a wholly owned subsidiary of Vesta and Vesta ("Amalgamation"). Vesta issued 1.7754 common shares for each UHC common share outstanding and issued 1.33 common shares for each UHC Class A common share outstanding.

Since the former UHC shareholders owned greater than 50% of the combined entity after the completion of the Amalgamation, the Amalgamation was accounted for as a reverse-takeover transaction that does not constitute a business combination, and therefore, has been accounted for as though UHC acquired Vesta using the purchase method of accounting. Although Vesta is the legal parent company and UHC is the legal subsidiary for accounting purposes, UHC is considered to be the acquirer. The combined entity subsequently changed its name to United Hunter Oil & Gas Corp.

Details of the acquisition were as follows:

Assets	**$**
Cash	10,810
Receivables	124,516
Prepaid expenses	25,023
	160,349
Liabilities	
Accounts payable and accrued liabilities	412,085
Warrants	21,439
	433,524
Net liabilities assumed	(273,175)

Net liabilities assumed has been recorded as a deficit adjustment. Transaction costs of $1,226,384 were expensed, of which, $937,606 relates to the fair value of 5,746,999 UHC common shares issued for a corporate finance fee (note 6). In addition, $411,316 of transaction costs were incurred in Vesta prior to the Amalgamation and therefore have been included in accounts payable in the above purchase equation.

The above amounts are estimates based on information available at the time of the preparation of these consolidated financial statements. Accordingly, these amounts are subject to change as cost estimates and values are finalized,

2. Going concern

As at December 31, 2010, the Company had working capital of $3,048,569, cash flow used in operating activities of $1,810,392, net loss of $2,796,658, and accumulated deficit of $3,118,979. While the Company has sufficient funds to meet its current commitments, the Company will require additional funding to fund its operations and for the exploration of its oil and gas properties. Without additional funding, there is substantial doubt as to the Company's ability to continue as a going concern. Within the next 12 months, the Company will be seeking to raise the necessary capital to meet its funding requirements. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available. These funds will be required to finance capital and operating expenditures in Huasna if the permits are approved (see note 3).

(expressed in US dollars)

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

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Joint venture in Excelaron

On January 1, 2009, the Company acquired a 21% Membership Interest in Excelaron from a shareholder of the Company, for a 5% assignable gross overriding royalty. The royalty is payable on all amounts received directly or indirectly by the Company that can be attributed to the Company's Membership Interest in Excelaron. The Membership Interest, net of the gross overriding royalty has been recorded at fair value as a capital contribution increasing contributed surplus. A future income tax liability has been recorded to reflect the difference between the oil and gas property carrying value and the tax basis.

On April 23, 2010, the Company increased its Membership Interest in Excelaron from 21% to 65%. The Company acquired an additional 4% Membership Interest in Excelaron in exchange for 2,253,001 common shares valued at C$0.163 per common share for total consideration of $367,570 (C$367,239). The Company acquired an additional 40% Membership Interest in Excelaron for cash of $1,000,900 (C$1,000,000), a capital contribution to Excelaron of US$1,075,000 and a commitment to pay US$800,000 at such time as Excelaron secures its permits for its planned operations on its oil and gas properties. In the event that Excelaron does not secure such permits or the Company does not pay the US$800,000, the 40% Membership Interest will be reduced to a 15% Membership Interest in Excelaron.

	$
Investment in Excelaron	
Acquisition of 4% Membership Interest	
2,253,001 UHC common shares	367,570
Acquisition of 40% Membership Interest	
Cash of C$1,000,000	1,000,900
Members' capital contribution in cash	1,075,000
	2,443,470
Net assets acquired	
Cash	286,358
Accounts receivable	12,100
Oil and gas property	2,500,499
Fixed assets	2,482
	2,801,439
Accounts payable	357,969
	2,443,470

The above amounts are estimates based on information available at the time of the preparation of these consolidated financial statements. Accordingly, these amounts are subject to change as cost estimates and values are finalized.

Although the Company holds a 65% Membership Interest in Excelaron, the joint operating agreement has established joint control over Excelaron by all parties with a Membership Interest.

(expressed in US dollars)

As at and for the years ended December 31, 2010 and 2009, these consolidated financial statements included the following amounts related to the Company's Membership Interest in Excelaron (2010 – 65%; 2009 – 21%):

	2010 $	2009 $
Current assets	11,772	–
Current liabilities	55,323	–
Expenses	246,527	75,000
Net loss	246,527	75,000
Cash flow from operating activities	(402,917)	–
Cash flow from financing activities	868,689	–
Cash flow from investing activities	(474,859)	–

4. Accounting policies and future accounting changes

Principles of consolidation

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, United Hydrocarbon Corporation, after the elimination of intercompany balances and transactions. The Company proportionately consolidates its 65% interest in Excelaron, as it meets the definition of a joint venture.

The consolidated financial statements of the Company are a continuation of the financial statements of UHC. The consolidated statement of operations, comprehensive loss and deficit includes the results for UHC for the year ended December 31, 2010 and the results of operations of Vesta and Excelaron from the closing date the Amalgamation of April 23, 2010 to December 31, 2010. The comparative figures presented in the consolidated financial statements are those of UHC. The outstanding share numbers are those of Vesta.

Functional and reporting currency

The functional currency of the Company and its subsidiary is the US dollar. Revenues and expenses and other transactions in foreign currencies are translated into US dollars at the exchange rate in effect on the date of the transaction. At each balance sheet date, balances in foreign currencies are translated into US dollars at the rate of exchange in effect on the balance sheet date for monetary assets and liabilities and at historical rates for non-monetary assets and liabilities. Translation gains or losses are included in the consolidated statement of operations. The Company's reporting currency is US dollars.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian 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 income and expenses for the reporting period. Significant areas requiring the use of management estimates include the impairment assessment of the carrying value of oil and gas properties, stock based compensation and future income taxes. 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.

Financial instruments

Financial instruments are measured at fair value on initial recognition and valued in subsequent periods based upon their classification as held-for-trading, available for sale, held-to-maturity, loans and receivables or other financial loans and liabilities. Financial assets and liabilities classified as held-for-trading are valued at fair value with gains and losses recognized in the consolidated statement of operations. Financial assets classified as available-for-sale are valued at fair value with unrealized gains and losses recognized in other comprehensive income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities classified as other liabilities are measured at amortized cost using the effective interest rate method. The Company has classified its cash and cash equivalents as held-for-trading; accounts receivable and due from joint venture partner as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities. Transactions are accounted for on the trade date.

The Company will be exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. Derivative instruments may be used by the Company to reduce exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. The Company will not use these derivative instruments for trading or speculative purposes. As most of these contracts will not qualify as a hedge for accounting or will not be designated as a hedge for accounting purposes, the contracts will be classified as held for trading and are recorded on the balance sheet at fair value, with changes in the fair value recognized in the consolidated statement of operations, unless specific hedge criteria are met. The fair value of derivative instruments will be based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors.

The Company measures and recognizes embedded derivatives separately from host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

Transaction costs for financial instruments are expensed as incurred.

Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank and short-term deposits with a maturity of less than three months.

Joint operations

Exploration, development and production activities may be conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Oil and gas properties

The Company follows the full cost method of accounting for oil and natural gas operations, under which, all costs related to acquiring oil and natural gas properties as well as the exploration for and development of oil and natural gas reserves are capitalized and accumulated in a cost centre. There are separate cost centres by country. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and nonproductive wells. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being recognized, unless such a sale would significantly alter the rate of depletion and amortization by more than 20%.

Impairment of long-lived assets

The impairment calculation, or "ceiling test", is performed by comparing the carrying value of oil and gas properties to the sum of undiscounted cash flows expected to result from the future production of proved reserves and the carrying value of unproved properties, net of any impairments for each cost centre. Estimates of future net revenues are based on expected future commodity prices and costs rather than those existing at the measurement date.

Should the carrying value be in excess of the recoverable amount, the Company would then measure the amount of impairment by comparing the carrying value of oil and gas properties to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the carrying value of unproved properties, net of any impairments. A risk-free interest rate is applied to arrive at the net present value of the future cash flows. Any excess is recorded as a permanent impairment and charged as additional depletion and depreciation expense.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to determine whether impairment has occurred. When proved reserves are assigned or the property is assessed to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion or written off if the costs are in a pre-production cost centre.

Depletion
Depletion of petroleum and natural gas properties and depreciation of production equipment will be calculated using the unit-of-production method based upon proved petroleum and natural gas reserves, before royalties as determined by independent petroleum engineers. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the costs of the unproved properties, net of impairment.

Relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Asset retirement obligations
The Company recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. Fair value is estimated using the present value of the estimated future cash outflows to reclaim and abandon wells and facilities, using the estimated credit-adjusted risk free interest rate. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The liability is also adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual asset retirement obligations paid are deducted from the liability in the period incurred to the extent of the liability previously recognized. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Revenue recognition
Revenue from oil and gas properties will be recognized based on volumes delivered to customers at contractual delivery points and rates when collection is reasonably assured.

Stock-based compensation and warrant valuation
The Company follows the fair value method of valuing stock option grants and warrants. Under this method, compensation cost attributable to share options granted to employees, officers and directors is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Stock-based compensation expense for consultants is based on the estimated fair value of the related stock option at the end of each reporting period and the appropriate amount is expensed in the period. In determining the fair value of the options granted and warrants issued, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility and expected life of the options are made. The Company has not incorporated an estimated forfeiture rate, rather the Company will account for forfeitures as they occur.

(expressed in US dollars)

Income taxes
Income taxes are recorded using the asset and liability method of income tax allocation. Future income tax relates to the expected consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment at the time that the differences are expected to reverse.

Loss per share
The basic loss per share is calculated by dividing the loss applicable to the common shares by the weighted average number of common shares outstanding for the year. Diluted loss per share is calculated using the treasury stock method, which assumes that any proceeds obtained on exercise of options and warrants would be used to purchase common shares at the estimated market price. The weighted average number of common shares is then adjusted by the net change.

Future accounting changes

International Financial Reporting Standards ("IFRS"):
In February 2008, the Canadian Accounting Standards Board confirmed that the changeover to IFRS from Canadian generally accepted accounting principles will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements in accordance with IFRS commencing with the interim financial statements for the 3 months ended March 31, 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. Although IFRS is principles based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies as well as increased disclosure requirements under IFRS.

5. Oil and gas properties

	December 31, 2009 $	Acquisition cost $	Development cost $	December 31, 2010 $
Huasna	1,854,203	2,500,499	164,639	4,519,341
Atlee Buffalo	–	105,140	371,160	476,300
Leduc Woodbend	–	–	332,142	332,142
Porter Ranch	–	50,000	–	50,000
	1,854,203	2,655,639	867,941	5,377,783

As at December 31, 2010, the Company's oil and gas properties are in the pre-production stage and are therefore not subject to a ceiling test.

Huasna
The Company holds an indirect 65% Membership Interest in Excelaron, which holds a 100% interest in an oil and natural gas property consisting of 260 acres on the western edge of the Huasna Basin, an existing California Department of Oil, Gas and Geothermal Resources designated oilfield within the Meridian Anticline located in Arroyo Grande, California. The amounts reported for Huasna reflect the Company's proportionate interest.

Atlee Buffalo

The Company acquired a working interest in Atlee Buffalo for $105,140 from a company controlled by a director and officer of the Company. The working interest in Atlee Buffalo is subject to gross overriding royalties of 2% payable to a company controlled by a director and officer of the Company and to a director and officer of the Company.

Leduc Woodbend

Pursuant to a farm-in and operating agreement dated December 9, 2010, the Company acquired the right to earn a 100% interest in each 40 acre spacing in which it completes a well, subject to a 10% convertible overriding royalty, which can be converted into a 30% working interest after 60 days of production. Pursuant to a joint interest agreement, the Company granted a joint interest partner the right to acquire a 20% interest in the property by paying 28.5% of the costs of the re-completion program. In the event that the overriding royalty is converted to a 30% working interest, the interest of the joint interest partner will be reduced to 20%. The interest in Leduc Woodbend is subject to a gross overriding royalty of 2% payable to two directors and officers of the Company.

Porter Ranch

The Company acquired a 45% interest in a joint venture named Alamo Creek LLC (“Alamo”). Alamo has an interest in oil exploration leases known as the Porter Ranch comprising 4,068 acres adjacent to the Santa Maria Basin and south east of the Company's Huasna property.

6. Share capital

Authorized

An unlimited number of common shares

Unlimited number of preference shares, issuable in series.

(expressed in US dollars)

Outstanding

	Shares Number of shares	Amount $	Warrants $	Contributed surplus $
Vesta common shares				
Balance, December 31, 2008 and 2009	6,303,000	832,296	21,439	53,143
UHC common shares (note 1)				
Balance, December 31, 2008	22,500,000	2,252	–	–
Capital contribution (note 3)	–	–	–	1,200,000
Balance, December 31, 2009	22,500,000	2,252	–	1,200,000
Acquisition of 4% membership interest in Excelaron	2,253,001	367,570	–	–
Corporate finance fee	5,746,999	937,606	–	–
	30,500,000	1,307,428	–	1,200,000
UHC Class A shares (note 1)				
Private placement of common share units (1)	45,000,000	9,008,100	–	–
Fair value of UHC Warrants	–	(1,638,473)	1,638,473	–
Fair value of UHC Compensation Warrants	–	(382,344)	382,344	–
Share issue costs	–	(775,137)	–	–
	45,000,000	6,212,146	2,020,817	1,200,000
Adjustment to reflect the issue of 1.7754 common shares of Vesta for each UHC common share outstanding (note 1)	23,649,722	–	–	–
Adjustment to reflect the issue of 1.33 common shares of Vesta for each UHC Class A share outstanding (note 1)	14,850,000	–	–	–
Adjustment to reflect the elimination of share capital and contributed surplus of Vesta (note 1)	–	(832,296)	–	(53,143)
Stock-based compensation	–	–	–	253,370
Balance, December 31, 2010	120,302,722	7,519,574	2,042,256	1,453,370

(1) Concurrent with the closing of the Amalgamation, UHC completed a private placement of 45,000,000 common share units at a price of C$0.20 per unit for gross proceeds of $9,008,100 (C$9,000,000) ("Private Placement"). Each unit consisted of one Class A common share and one-half of one warrant, with each whole warrant entitling the holder to purchase one Class A common share at a price of C$0.40 per Class A share until April 23, 2012 ("UHC Warrant"). In the event that the UHC Class A common shares trade at or above C$0.80 for more than 20 consecutive days, the warrants must be exercised after written notice is provided by UHC or they will expire. In respect of the Private Placement, UHC issued 3,600,000 broker compensation warrants entitling the holder to purchase one Class A common share at a price of C$0.20 per Class A common share until April 23, 2012 ("UHC Compensation Warrants"); issued 5,746,999 common shares with a value of $937,606 in respect of a corporate finance fee recorded in transaction costs, of which, 4,310,249 common shares were issued to a company controlled by a director of the Company; and paid $683,307 for the agent's commissions, legal fees and out-of-pocket expenses.

In connection with the Amalgamation, Vesta issued 22,662,892 common shares to directors and parties related to them in exchange for 12,764,950 UHC Class A shares.

(expressed in US dollars)

Warrants
A summary of the Company's warrants is presented below:

	Number of warrants	$	Weighted-average exercise price C$	Expiry date
Balance, December 31, 2008, December 31, 2009	200,000	21,439	0.20	July 29, 2010
UHC Warrants issued	22,500,000	1,638,473	0.40	April 23, 2012
UHC Compensation Warrants issued	3,600,000	382,344	0.20	April 23, 2012
Balance, December 31, 2010	26,300,000	2,042,256	0.37	
Warrants exercisable	26,300,000		0.37	

The fair value of the UHC Warrants of $1,638,473 and the UHC Compensation Warrants of $382,344 was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.98%
Expected volatility	100%
Expected life of warrants	2 years
Expected dividend yield	Nil

In the event that the Company’s common shares trade at or above C$0.80 for more than 20 consecutive days, the 22,500,000 warrants must be exercised after written notice is provided by the Company or they will expire.

Stock options
Under its stock option plan, the Company may grant options to its directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding common shares at the time of the grant. As at December 31, 2010, there were 11,994,353 common shares available for issuance under the stock option plan.

A summary of the Company's stock options is presented below:

	Number of options	Weighted-average exercise price C$
Balance, December 31, 2008 and 2009	380,000	0.20
Cancelled	(380,000)	0.20
Granted	9,775,000	0.15
Balance, December 31, 2010	9,775,000	0.15
Options exercisable	1,000,000	0.15

Pursuant to the terms of the Amalgamation, the 380,000 stock options of Vesta outstanding at the closing date of the Amalgamation were cancelled.

A summary of the Company’s outstanding stock options at December 31, 2010 is presented below:

(expressed in US dollars)

Exercise price	Expiry date	Options outstanding	Options exercisable
C$0.15	May 12, 2015	8,350,000	–
C$0.15	July 20, 2015	1,000,000	1,000,000
C$0.15	August 31, 2015	425,000	–
		9,775,000	1,000,000

A summary of the stock options granted and the assumptions for the calculation of the fair value of those stock options using the Black-Scholes option pricing model is presented below:

	May 12, 2010	July 20, 2010	August 31, 2010
Options granted	8,350,000	1,000,000	425,000
Exercise price	C$0.15	C$0.15	C$0.15
Expiry date	May 12, 2015	July 20, 2015	August 31, 2015
Fair value	$856,000	$85,000	$35,000
Risk-free interest rate	2.96%	2.61%	2.05%
Expected volatility	100%	100%	100%
Expected life of options	5 years	5 years	5 years
Expected dividend yield	Nil	Nil	Nil
Vesting	3 annual instalments	On date of grant	3 annual instalments

The weighted-average fair value of stock options granted during year was $0.10 per stock option.

Capital disclosures

Capital of the Company consists of the equity attributable to the common shareholders, comprised of share capital, warrants, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to explore and develop its mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an exploration stage company, it has no revenues and its principal source of capital is from the issue of common shares. In order to achieve its objectives, the Company will spend its existing working capital and raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

7. Income taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the federal and provincial statutory rate of 31% (2009 – 33%) to the loss for the year. The reasons for the difference are as follows:

(expressed in US dollars)

	2010 $	2009 $
Income tax reduction based on statutory rate	(897,411)	(24,750)
Other	78,545	(1,105)
Change in future tax rates	111,372	–
Increase in valuation allowance	609,277	–
	(98,217)	(25,855)

Future income tax liability
The Company's future income tax liability was as follows:

	2010 $	2009 $
Oil and gas properties	628,806	628,806
Non-capital loss carryforward	(645,983)	(458)
Share issue costs	(446,903)	–
	(464,080)	628,348
Valuation allowance	994,211	–
	530,131	628,348

Due to losses incurred in the current year with respect to the Company's Canadian operations, and expected future operating results, Management determined that it is more likely than not that the future income tax assets will not be realized, and accordingly, a valuation allowance has been recorded for the future income tax assets.

Losses carried forward
At December 31, 2010, the Company had non-capital loss carryforwards of approximately $2,400,000 which expire between 2028 and 2030.

8. Financial instruments

Fair value
Fair value represents the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on quoted market values and other valuation methods.

The carrying value of cash and cash equivalents, accounts receivable, due from joint venture partner and accounts payable and accrued liabilities approximates fair value due to the short-term nature of these financial instruments.

Risk management
The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk
The Company's expenditures are denominated in both US and Canadian dollars. As at December 31, 2010, the Company had the following monetary assets and liabilities denominated in Canadian dollars:

	C$
Assets	
Cash and cash equivalents	3,614,073
Accounts receivable	81,725
Due from joint venture partner	128,209
	3,824,007
Liabilities	
Accounts payable and accrued liabilities	745,332
	3,078,675

As at December 31, 2010, a 5% change in the exchange rate between the US dollar and Canadian dollar would have resulted in an impact on operations of $153,933.

Credit risk
Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is attributable to cash and cash equivalents, accounts receivable and due from joint venture partner.

Cash and cash equivalents of $3,641,755 are held in deposits with high credit quality Canadian financial institutions. Accounts receivable of $84,952 represents refunds claimed for Harmonized Sales Tax and due from joint venture partner is current and in good standing.

The maximum exposure to credit risk is equal to the balances of cash and cash equivalents, accounts receivable and due from joint venture partner.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet is financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure as outlined in note 6. Accounts payable are all due within the next year.

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk due to the short-term nature of its financial instruments.

9. Commitments

The Company is committed to pay $800,000 at such time as Excelaron secures its conditional use permits for its planned operations on its oil and gas properties. In the event that Excelaron does not secure such permits or the Company does not pay the $800,000, the 40% Membership Interest that the Company acquired will be reduced to a 15% Membership Interest in Excelaron.

In 2011, the Company is committed to pay $80,000 to a company that is performing media and related services.

(expressed in US dollars)

10. Related party transactions

	Years ended December 31, 2010 $	2009 $
Atlee Buffalo acquisition costs		
Acquired a 95% working interest from a company controlled by an officer (note 5)	105,140	–
Consulting fees		
Paid to a director and officer in his capacity as an President	67,778	–
Paid to a company controlled by an officer in his capacity as Vice President	12,865	–
Paid to a company controlled by an officer for geological consulting services	13,600	–
Rent		
Paid to a company controlled by a director for office premises	36,457	–
Paid to a company controlled by an officer for office premises	15,009	–
Office		
Paid to a person related to a director for administration services	7,075	–
Paid to a company controlled by an officer for office services	2,269	–
Transaction costs		
Issued 4,310,249 common shares in respect of corporate finance fees to a company controlled by a director (note 1 and 6)	703,203	–
Acquisition of 21% interest in Excelaron		
Acquisition of 21% interest in Excelaron in exchange for a 5% gross overriding royalty (note 3)	–	1,854,203

These transactions were in the normal course of business which approximate fair value and are recorded at exchange values established and agreed upon by the related parties.

11. Subsequent event

On February 17, 2011, the Company acquired a 45% interest in oil exploration leases known as the Porter Ranch comprising 4,068 acres adjacent to the Santa Maria Basin and south east of the Company's Huasna property.