

# **GEOROX RESOURCES INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 AND 2008**

<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6 - 22

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## Auditors' Report

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To the Shareholders  
Georox Resources Inc.

We have audited the consolidated balance sheet of Georox Resources Inc. as at December 31, 2009 and the consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The consolidated financial statements as at and for the year ended December 31, 2008 were audited by another firm of chartered accountants who, prior to the reclassification of amounts as discontinued operations, rendered an unqualified opinion thereon. We have audited the reclassification adjustments to the December 31, 2008 financial statements as described in note 14 and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

*Collins Barrow Calgary LLP*

CHARTERED ACCOUNTANTS

Calgary, Alberta  
February 25, 2010

**GEOROX RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31, 2009 AND 2008**

	2009 \$	2008 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 12)	773,522	1,428,739
Cash held in trust (Note 13[b])	625,000	-
Accounts receivable	84,170	2,925
Investments (Note 5)	174,248	-
Discontinued operations (Note 14)	-	23,833
	1,656,940	1,455,497
<b>PROPERTY AND EQUIPMENT</b> (Note 4)	480,250	5,462
<b>INVESTMENTS</b> (Note 5)	-	598,750
<b>DISCONTINUED OPERATIONS</b> (Note 14)	-	156,799
	2,137,190	2,216,508
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	200,480	78,058
Discontinued operations (Note 14)	-	1,812
	200,480	79,870
<b>ASSET RETIREMENT OBLIGATIONS</b> (Note 6)	89,100	-
	289,580	79,870
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 7[b])	6,877,576	6,844,820
<b>WARRANTS</b> (Note 7[d])	49,144	31,900
<b>CONTRIBUTED SURPLUS</b> (Note 7[e])	1,853,537	1,783,620
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	86,091	-
<b>DEFICIT</b>	(7,018,738)	(6,523,702)
	1,847,610	2,136,638
	2,137,190	2,216,508

**COMMITMENTS** (Note 13)

APPROVED ON BEHALF OF THE BOARD:

Signed "Burkhard Franz" \_\_\_\_\_, Director

Signed "Daryl S. Fridhandler" \_\_\_\_\_, Director

**GEOROX RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008**

	2009 \$	2008 \$
<b>REVENUE</b>		
Petroleum and natural gas revenue	631,189	-
Royalties	(192,590)	-
	438,599	-
Interest income	3,205	44,881
Gain on sale of investments (Note 5)	112,784	-
	554,588	44,881
<b>EXPENSES</b>		
Operating	131,761	-
Transportation	44,413	-
Depletion, depreciation and accretion	195,964	1,212
Stock-based compensation	69,917	62,786
General and administrative (Note 11)	356,363	421,762
	798,418	485,760
<b>LOSS BEFORE OTHER ITEMS</b>	(243,830)	(440,879)
Write-off of investments (Note 5)	(48,750)	-
Net loss from continuing operations	(292,580)	(440,879)
Net loss from discontinued operations (Note 14)	(202,456)	(720,586)
<b>NET LOSS FOR THE YEAR</b>	(495,036)	(1,161,465)
<b>DEFICIT, BEGINNING OF YEAR</b>	(6,523,702)	(5,362,237)
<b>DEFICIT, END OF YEAR</b>	(7,018,738)	(6,523,702)
<b>NET LOSS PER SHARE</b>		
Basic and diluted from continuing operations	0.02	0.04
Basic and diluted from discontinued operations	0.02	0.07
Basic and diluted	0.04	0.11
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>		
Basic and diluted	13,076,390	10,353,862

**GEOROX RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND**  
**ACCUMULATED OTHER COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009 \$	2008 \$
<b>NET LOSS FOR THE YEAR</b>	(495,036)	(1,161,465)
Unrealized gain on available for sale investments	198,875	-
Transfer to realized gain	(112,784)	-
<b>OTHER COMPREHENSIVE INCOME</b>	86,091	-
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>	(408,945)	(1,161,465)

	2009 \$	2008 \$
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b> , beginning of year	-	-
Other comprehensive income	86,091	-
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b> , end of year	86,091	-

**GEOROX RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
	\$	\$
<b>CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year from continuing operations	(292,580)	(440,879)
Items not affecting cash:		
Stock-based compensation	69,917	62,786
Depletion, depreciation and accretion	195,964	1,212
Write-off of investments	48,750	-
Gain on sale of investments	(112,784)	-
	(90,733)	(376,881)
Changes in non-cash operating working capital (Note 12)	(45,183)	(4,183)
	(135,916)	(381,064)
<b>FINANCING ACTIVITY</b>		
Proceeds from private placement	50,000	136,500
<b>INVESTING ACTIVITIES</b>		
Purchase of petroleum property interests	(581,652)	-
Purchase of investments	(17,130)	-
Proceeds on sale of investments	591,758	-
Cash placed in trust	(625,000)	-
	(632,024)	-
Changes in non-cash investing working capital (Note 12)	86,360	-
	(545,664)	-
Cash flow from continuing operations	(631,580)	(244,564)
Cash flow from discontinued operations	(23,637)	(194,467)
<b>(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(655,217)</b>	<b>(439,031)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,428,739</b>	<b>1,867,770</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>773,522</b>	<b>1,428,739</b>

**SUPPLEMENTAL INFORMATION** (Note 12)

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**1. NATURE OF OPERATIONS**

Georox Resources Inc. (the "Corporation" or "Georox") was incorporated under the Canada Business Corporations Act on April 14, 2003. The business of the Corporation is the acquisition of, exploration for and the development of petroleum and natural gas properties in Canada.

Prior to March 31, 2009, Georox was a development stage Corporation engaged in the exploration of its mineral property interests located in Ecuador through its wholly-owned subsidiary companies. As a result of the enactment of a new mining law in Ecuador on January 29, 2009, requiring mineral title holders to observe special requirements for each mining phase, management of the Corporation determined that further development of the properties was not economical. As a result the Corporation did not make any further annual payments on any of the mining concessions and the Corporation ceased all of its operations in Ecuador (see note 14).

**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). All amounts are expressed in Canadian dollars unless otherwise noted.

**(a) Basis of Consolidation**

The consolidated financial statements include the financial statements of the Corporation and its wholly owned subsidiaries, Ecuaooro Resources S.A., Oromonte Resources S.A., Marissaoro Minerals S.A, Monteminerals S.A. and Orosources Minerals S.A., all of which are incorporated in Ecuador and are inactive subsequent to the date of the Corporation ceasing operations in Ecuador. All inter-company balances and transactions have been eliminated on consolidation.

**(b) Measurement Uncertainty**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

The amounts recorded for depletion and depreciation of property and equipment, the provision for asset retirement obligations and the impairment calculations are based on estimates of proved reserves, production rates, future oil and natural gas prices, future costs, the remaining useful life of related assets, and other relevant assumptions.

The amounts disclosed related to fair values of stock options issued and the resultant effects on net income (loss) are based on estimates of future volatility of the Corporation's share price, expected lives of the options, expected dividends to be paid by the Corporation and other relevant assumptions.

Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is recorded.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

The amounts recorded for future income taxes are based on estimates of the probability of the Corporation utilizing certain tax pools and assets, which in turn is dependent upon estimates of proved and probable reserves, production rates, future oil and natural gas prices, and changes in legislation, tax rates and interpretations by taxation authorities.

The fair value of available-for-sale investments is based on quoted market prices.

By their nature, these estimates are subject to measurement uncertainty.

**(c) Cash and Cash Equivalents**

Cash and cash equivalents are comprised of cash on deposit with banks and short-term investments with original maturities of less than ninety days, including GIC investments that are cashable at any time without penalty.

**(d) Property and Equipment**

**Petroleum and Natural Gas Properties and Equipment**

The Corporation follows the full cost method of accounting for its petroleum and natural gas properties, whereby all costs of acquiring, exploring for and developing petroleum and natural gas reserves are capitalized and accumulated in cost centres by country. Such costs include lease acquisition, geological and geophysical expenditures, rent on non-producing mineral leases, drilling of productive and non-productive wells, tangible production equipment, asset retirement obligations, and that portion of overhead costs directly attributable to exploration and development activities. Proceeds from the disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized, unless such disposition would alter the depletion and depreciation rate by 20 percent or more.

**Depletion and Depreciation**

Depletion and depreciation of petroleum and natural gas properties is calculated using the unit-of-production method based on production volumes, after royalties, in relation to total proved reserves as estimated by independent engineers. Natural gas volumes are converted to equivalent oil volumes based upon a relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining costs subject to depletion, the Corporation includes estimated future costs to be incurred in developing proved reserves and excludes estimated salvage values. The cost of unproved properties is excluded from costs subject to depletion until it is determined that proved reserves are attributable to the property or impairment has occurred.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Ceiling Test**

The Corporation evaluates its petroleum and natural gas properties to determine whether the carrying amount in each cost centre is recoverable and that it does not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves plus the lower of cost and market of unproved properties exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties that contain no probable reserves. The cash flows are estimated using expected future product prices and costs, and are discounted using a risk-free interest rate. Unproved properties are evaluated separately for impairment.

**Fixed Assets**

Administrative assets are recorded at cost. Depreciation is provided over the related assets' estimated useful lives using the declining balance method at rates ranging from 10% to 45% per annum.

**(e) Asset Retirement Obligations**

The fair values of asset retirement obligations are recorded as liabilities when they are identified and a reasonable estimate of the fair value can be made. Fair value is determined based on the future expected outflows, discounted using a credit-adjusted risk-free interest rate. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities are accreted for the change in their present value and the initial capitalized costs are depleted over the useful lives of the related assets. Revisions to the original estimated costs or the timing of the cash outflows may result in a change to the asset retirement obligation. Actual costs incurred to settle an obligation reduce the liability.

**(f) Joint Ventures**

All of the Corporation's exploration and production activities are conducted jointly with other companies. These financial statements reflect only the Corporation's proportionate interest in such activities.

**(g) Interest in Mineral Properties and Deferred Exploration Expenditures**

Interest in mineral properties and deferred exploration expenditures, net of pre-production revenues are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on proved and probable reserves. If a property is subsequently determined to be significantly impaired in value, the property and related deferred costs are written down to net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations.

Costs include the cash consideration paid and the fair market value of the shares issued for the acquisition of the mineral properties. The carrying value is reduced by option proceeds received until such time as the property cost is reduced to nominal amounts. Properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Corporation, are recorded in the accounts at the time of payment.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for certain problems arising from the frequently ambiguous conveyance history characteristic of many mining properties. Although the Corporation has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Corporation's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defect. Titles may also be affected by changes to government legislation.

The Corporation reviews capitalized costs for impairment on its property interests on a periodic basis. Impairment in value may be recognized if the Corporation has no significant exploration plans in the immediate future and after assessing the future probability of profitable revenues from the property or from the sale of the property. The recoverability of costs incurred on the mineral properties is dependent on numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Corporation's ability to attain profitable production. Management's assessment of the property's estimated current fair value may also be based upon a review of other property transactions in the same geographic area as that of the property under review.

As at December 31, 2009, the carrying value of all of the Corporation's mineral properties and deferred exploration expenditures was \$NIL (see Note 14).

The Corporation reviews its obligations for remediation and records amounts for environmental and other liabilities related to its mining properties as required based on interpretation of the applicable laws and regulations. As at December 31, 2009 and 2008, based on management's assessment, no amounts were required to be recorded relating to environmental obligations.

**(h) Income Taxes**

Income taxes are calculated using the liability method of income tax allocation. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that are anticipated to be in effect when the differences are expected to reverse or losses are expected to be utilized. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential benefit is taken and no asset is recognized.

**(i) Revenue Recognition**

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

Interest income is recognized as earned on a time proportion basis.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**(j) Stock-Based Compensation**

Stock-based compensation for stock options granted to employees, officers, directors and consultants is recorded using the fair value method. The fair value for each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model and is recognized as an expense with a corresponding increase to contributed surplus over the vesting period of the grant. As the options are exercised, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Stock option forfeitures will be accounted for as they occur.

**(k) Income (Loss) per Share**

Basic income (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted income (loss) per share is calculated using the treasury stock method. In order to determine diluted income (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options or warrants that would increase earnings per share or decrease loss per share. As the Corporation had losses for the years ended December 31, 2009 and 2008, basic and diluted loss per share are the same, as the exercise of all options and warrants would be anti-dilutive.

**(l) Foreign Currency Translation**

The Canadian dollar is the functional currency of all of the Corporation's subsidiary operations, which are classified as integrated for foreign currency translation purposes. Under this method, translation gains or losses are included in the determination of net income or loss.

Monetary assets and liabilities of the Corporation's integrated foreign operations are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses, except amortization which is translated at historical rates, are translated at the average exchange rates for the period.

**(m) Other Comprehensive Income**

The statement of comprehensive income is comprised of net earnings and other comprehensive income which, for the Corporation, includes unrealized gains on available-for-sale investments.

**(n) Financial Instruments**

Each financial instrument is classified into one of five categories: financial assets and liabilities held-for-trading, financial assets held-to-maturity, loans and receivables, financial assets available-for-sale and other financial liabilities. All financial instruments are initially recorded at their fair value on initial recognition of the instrument, except for loans and receivables, held-to-maturity investments and other financial liabilities measured at amortized cost. Subsequent measurement of each of these items is dependent upon the initial classification. Unrealized gains and losses on financial instruments classified as held-for-trading are recognized in the statement of operations in the period incurred. Gains and losses on assets available-for-sale are recognized in other comprehensive income, and are included in the statement of operations when the change in asset value is recognized.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

Cash and cash equivalents and cash held in trust are classified as held-for-trading instruments and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are classified as loans and receivables. Investments in publicly-traded common shares and share purchase warrants are classified as available-for-sale and recorded at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities. The Corporation has no derivative financial instruments at December 31, 2009 as the share purchase warrants have expired.

**3. ADOPTION OF NEW ACCOUNTING POLICIES**

On January 1, 2009, the Corporation adopted CICA Handbook Section 3064 - Goodwill and Intangible Assets which replaced the existing goodwill and intangible asset standard. The new standard revises the requirements for the recognition, measurement, presentation and disclosure of intangible assets. The adoption of this new standard did not have any impact on the Corporation's financial statements.

Future accounting pronouncements

(i) The Canadian Accounting Standards Board ("AcSB") published a new strategic plan in 2006 that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over a five-year transitional period. In February 2008 the AcSB announced that January 1, 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing current Canadian GAAP. The transition date of January 1, 2011 will also require the restatement for comparative purposes of the Corporation's 2010 interim and annual financial statements. The Corporation has begun assessing the impact of adoption of IFRS for 2011 and intends to develop and implement a plan for the changeover in late 2010. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business combinations

As of January 1, 2011, the Corporation will be required to adopt changes to CICA Handbook Section 1582 – "Business Combinations", which will replace Section 1581 – "Business Combinations", and harmonizes the Canadian standards related to business combinations with IFRS. This new standard establishes revised standards on the recognition and measurement of identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, as well as recognition and measurement guidance for goodwill acquired in the business combination or the gain from a bargain purchase option. The new standard also provides guidance on identifying the acquirer and identifying the acquisition date (being the date at which control is acquired), and on presentation and disclosure to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This new section is not expected to have an impact on the Corporation's current financial statements.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

(iii) Consolidated financial statements

As of January 1, 2011, the Corporation will be required to adopt changes to CICA Handbook Section 1601 – "Consolidated Financial Statements" and Section 1602 – "Non-Controlling Interest", which together, replace Section 1600 – "Consolidated Financial Statements". These sections establish revised standards for the preparation of consolidated financial statements and specifically discuss the consolidation accounting following a business combination involving the purchase of an equity interest of one company by another. These sections also provide guidance in situations involving a combination or consolidation other than through purchase of an equity interest or involving unincorporated businesses. The adoption of this standard is not expected to have an impact on the Corporation's current financial statements.

(iv) Credit risk and the fair value of financial assets and financial liabilities

On January 1, 2009, the Corporation adopted Emerging Issues Committee ("EIC") abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, entitled "Financial Instruments – Recognition and Measurement".

This EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of this Abstract. The Corporation has incorporated the provisions of EIC 173 in its fair value determinations of financial instruments as at December 31, 2009. The implementation of this section had no material impact on the Corporation's financial statements.

**4. PROPERTY AND EQUIPMENT**

December 31, 2009

	<b>Cost</b>	<b>Accumulated Depreciation and Depletion</b>	<b>Net Book Value</b>
Petroleum and natural gas properties and equipment	\$ 669,754	\$ 194,158	\$ 475,596
Administrative assets	8,758	4,104	4,654
	<b>\$ 678,512</b>	<b>\$ 198,262</b>	<b>\$ 480,250</b>

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

December 31, 2008

	Cost	Accumulated Depreciation and Depletion	Net Book Value
Petroleum and natural gas properties and equipment	\$ -	\$ -	\$ -
Administrative assets	8,758	3,296	5,462
	\$ 8,758	\$ 3,296	\$ 5,462

On June 26, 2009, the Corporation purchased a 12.5% to 45.0% working interest in five producing oils wells in Alberta and a 7.5% gross overriding royalty in a sixth well, for cash of \$534,327.

As at December 31, 2009, the cost of unproved properties of approximately \$25,000 (2008 – \$NIL) has been excluded from petroleum and natural gas properties and equipment for the purposes of calculating depletion.

As at December 31, 2009, the Corporation performed a ceiling test using the following benchmark reference and Corporation average prices for the years 2010 to 2015.

	Edmonton Benchmark Oil \$CDN/Bbl	Corporation Average Oil \$CDN/Bbl
2010	83.73	80.36
2011	86.75	83.26
2012	89.85	86.24
2013	93.05	89.31
2014	96.33	92.46
2015	98.26	94.31

Prices are assumed to increase at a rate of 2.00% per annum beyond 2015. Adjustments were made to the benchmark prices to arrive at the Corporation's average prices for purposes of the ceiling test to reflect varied delivery points and quality differentials in the products delivered.

**5. INVESTMENTS**

	2009	2008
Shares in Canuc Resources Corporation (post-consolidation) 2009 – 581,666 common shares (2008 – 3,666,666)	\$ 174,248	\$ 550,000
Warrants in Canuc Resources Corporation (post-consolidation) 2009 – NIL (2008 – 3,750,000)	-	48,750
	\$ 174,248	\$ 598,750

The Corporation's investment in common shares and warrants of Canuc Resources Corporation ("Canuc") was acquired in 2007. Canuc is a publicly-traded company with significant mineral property interests in Ecuador.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

On August 27, 2009, Canuc commenced trading on a recognized stock exchange and all outstanding shares at this date were consolidated on a one-for-five basis. Accordingly, the Corporation's remaining investment has been classified as available-for-sale at December 31, 2009.

In 2009, the warrants expired unexercised and \$48,750 (2008 - \$NIL) was charged to operations. During the year ended December 31, 2009, the Corporation acquired 82,000 common shares of Canuc at a cost of \$17,130, and sold 3,167,000 common shares and realized a gain of \$112,784 (2008 - \$NIL). As at December 31, 2009, the cost basis of the remaining shares in Canuc is \$88,157 (2008 - \$550,000).

**6. ASSET RETIREMENT OBLIGATIONS**

The Corporation's asset retirement obligations result from the ownership interests it has in petroleum and natural gas assets and well sites. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2009 to be \$105,500 which will be incurred between 2010 and 2023. The fair value of the asset retirement obligations was calculated using a credit-adjusted risk free rate of 7% per annum. Settlement of the obligations will be funded from general corporate funds at the time of retirement.

A reconciliation of the asset retirement obligations is provided below:

Asset retirement obligations, December 31, 2008	\$	-
Liabilities incurred		88,102
Accretion expense		998
Asset retirement obligations, December 31, 2009	\$	89,100

**7. SHARE CAPITAL, WARRANTS AND OPTIONS**

**a) Authorized**

Unlimited number of common shares

**b) Issued**

- (i) As of August 26, 2008, the Corporation consolidated its shares on a one-for-three basis. All references to common shares, per share amounts, warrants and options for all periods presented have been retroactively restated to reflect this consolidation.

	Common Shares	Amount
Balance, December 31, 2007	10,234,518	\$ 6,740,220
Non-brokered private placement	2,730,000	104,600
Balance, December 31, 2008	12,964,518	\$ 6,844,820
Non-brokered private placement	416,667	32,756
Balance, December 31, 2009	13,381,185	\$ 6,877,576

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

- (ii) On December 15, 2008, the Corporation completed a non-brokered private placement of 2,730,000 units at \$0.05 per unit for aggregate gross proceeds of \$136,500. Each unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share of the Corporation at a price of \$0.10 per common share at any time prior to December 15, 2010.

Of the total gross proceeds, a portion was allocated to the warrants. The warrants were valued at \$0.023 per warrant for a total of \$31,900 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; risk free interest rate of 1.48%; expected life of 2 years; and expected volatility of 120%.

- (iii) On September 24, 2009, the Corporation completed a non-brokered private placement of 416,667 Units at \$0.12 per Unit for aggregate gross proceeds of \$50,000. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share of the Corporation at a price of \$0.17 per common share at any time prior to September 24, 2011.

Of the total gross proceeds above a portion was allocated to the warrants. The warrants were valued at \$0.083 per warrant for a total of \$17,244 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; risk free interest rate of 1.27%; expected life of 2 years; and expected volatility of 157%.

**c) Options**

The Corporation has a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. The aggregate number of common shares reserved for issuance under the plan will not exceed 10% of its issued and outstanding common shares. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Corporation. The maximum number of shares which may be reserved for issuance to any consultant in any 12-month period shall be 2% of the shares issued and outstanding at the time of the grant. The maximum number of shares which may be reserved for issuance to investor relations employees in any 12-month period shall be 2% of the shares issued and outstanding at the time of the grant. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Corporation and shall be determined on the basis of the market price of the shares at the time of grant, subject to all applicable regulatory requirements. Stock options granted under the Corporation's stock option plan are not transferable, cannot be traded and vest over a period not less than 18 months.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Number	Weighted Average Exercise Price
Stock options outstanding, December 31, 2007	656,667	\$1.47
Forfeited	(27,778)	1.25
Expired	(122,222)	1.33
Stock options outstanding, December 31, 2008	506,667	1.50
Forfeited	(306,667)	1.05
Granted	1,175,000	0.14
Stock options outstanding, December 31, 2009	1,375,000	\$0.36
Exercisable at December 31, 2009	591,667	\$3.55

As at December 31, 2009, the following options are outstanding:

Date of Grant	Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
December 19, 2005	66,667	66,667	\$0.57	0.97
July 11, 2006	66,666	66,666	2.13	1.47
November 23, 2006	66,667	66,667	2.13	1.89
August 17, 2009	1,100,000	366,667	0.15	4.62
August 31, 2009	75,000	25,000	0.14	4.67
Balance, December 31, 2009	1,375,000	591,667	\$0.14 – 2.13	4.16

During the year ended December 31, 2009, 850,000 options were granted to directors of the Corporation and 325,000 options were granted to management of the Corporation. The options vest as to 1/3 immediately and 1/3 on each of the first and second anniversaries of the date of grant. The fair value of the options granted in 2009 was determined to be \$0.13 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%, risk free interest rate of 2.5% to 2.6%; expected life of 5 years and expected volatility of 140%. No options were granted in 2008.

**d) Share Purchase Warrants**

As at December 31, 2009, the following share purchase warrants were outstanding:

Date of Issue	Number	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (Years)
December 15, 2008 (Note 7(b)(ii))	1,365,000	0.10	December 15, 2010	0.96
September 24, 2009 (Note 7(b)(iii))	208,334	0.17	September 23, 2011	1.73
Balance, December 31, 2009	1,573,334	0.11		1.06

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

During 2008, 1,000,000 previously issued warrants expired unexercised. At December 31, 2008, 1,365,000 warrants were outstanding (Note 7[b](ii)).

**e) Contributed Surplus**

Balance, December 31, 2007	\$1,229,535
Expiration of warrants	491,299
Stock-based compensation	62,786
Balance, December 31, 2008	1,783,620
Stock-based compensation	69,917
Balance, December 31, 2009	\$1,853,537

**8. INCOME TAXES**

The provision for income tax differs from the amount that would have been expected if the reported earnings had been subject only to the Canadian statutory income tax rate of 29% (2008 – 32%).

	2009	2008
Loss before taxes	\$ (495,036)	\$ (1,161,465)
Expected income tax recovery based on statutory rates	(143,560)	(365,900)
Adjustments to recovery based on:		
Stock-based compensation	20,276	19,800
Expiry of warrants	-	57,400
Non-taxable portion of capital gains	(12,211)	-
Non-deductible portion of capital losses	319,709	
Change in tax rates and other	105,159	106,900
Change in valuation allowance	(289,373)	181,800
Income tax (recovery) expense	\$ -	\$ -

The components of the future income tax asset (liability) at December 31, 2009 and 2008 are as follows:

	2009	2008
Property and equipment and asset retirement obligations	\$ 67,060	\$ 17,300
Non-capital losses	612,519	628,500
Capital losses	319,709	-
Interest in mineral properties and deferred exploration expenditures	81,550	88,100
Investments	(21,523)	
Share issue costs	18,087	39,600
Transaction costs	26,225	30,500
Assets in Ecuador	-	589,000
Valuation allowance	(1,103,627)	(1,393,000)
Future income tax asset (liability)	\$ -	\$ -

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

At December 31, 2009, the Corporation has approximately \$2,450,000 of Canadian non-capital losses available, which can be applied against taxable income in future years in Canada. The potential income tax benefits, of these losses, have been offset by a full valuation allowance. The losses, if unutilized, will expire as follows:

Year	Amount
2010	\$ 239,600
2014	193,400
2015	32,800
2026	632,400
2027	732,700
2028	451,800
2029	167,300
	<u>\$ 2,450,000</u>

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Fair Values**

The Corporation's financial instruments included on the balance sheet at December 31, 2009 consist of cash and cash equivalents, cash held in trust, accounts receivable, investments, and accounts payable and accrued liabilities. The fair value of cash and cash equivalents, cash held in trust, accounts receivable and accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of those instruments. The investment in publicly listed common shares is recorded at fair value estimated using quoted closing market prices at the balance date.

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Corporation are:

**Credit Risk**

Credit risk is primarily related to accounts receivable from petroleum and natural gas property operators and joint venture partners and to the risk of financial loss if a partner or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation makes allowance for doubtful debts based on management's assessment of collectibility. The Corporation believes that its counterparties currently have the financial capacity to settle obligations in the normal course of business. There were no receivables allowed for or written off during the years ended December 31, 2009 and 2008.

The Corporation is also exposed to credit risk associated with cash and cash equivalents and cash held in trust. The risk is mitigated as the cash and cash equivalents are maintained with major Canadian financial institutions and cash held in trust is held by a major Canadian law firm.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Liquidity Risk**

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due. As at December 31, 2009, the Corporation had a cash and cash equivalents balance of \$773,522 to settle current liabilities of \$200,480. All of the Corporation's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Management believes that the Corporation has sufficient funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing year as they fall due. However, the Corporation has no history of profitability. The Corporation may require additional equity or debt financing to enable it to acquire sufficient producing petroleum and natural gas properties to attain a profitable level of operations.

**Market Risk**

Market risk consists of interest, foreign currency and commodity price risks.

(a) Interest Rate Risk

The Corporation has cash balances and no interest-bearing debt. The Corporation's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Corporation periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign Currency Risk

The Corporation's functional currency is the Canadian dollar. Management believes the foreign exchange risk derived from currency fluctuations is negligible. At December 31, 2009, the Corporation held cash of US \$1,006 (Cdn \$1,057).

(c) Commodity Price Risk

The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken by the Corporation. The Corporation does not hedge commodity price risk and has no financial derivative sales contracts in place as at or during the year ended December 31, 2009.

**10. CAPITAL MANAGEMENT**

The Corporation's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, to sustain the development of the Corporation's current capital projects and for future development of the Corporation. The Corporation monitors its working capital and expected capital spending and raises additional equity by the issue of share capital to manage its development plans. The Corporation has no externally imposed capital requirements.

The Corporation will continue to assess additional petroleum and natural gas well interests and plans to raise additional debt or equity amounts as needed to fund acquisitions and to maintain sufficient working capital to meet administrative expenditures.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

The Corporation considers its capital structure to include shareholders' equity and working capital. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2009.

**11. RELATED PARTY TRANSACTIONS**

- (i) During the year ended December 31, 2009, \$17,117 (2008 - \$28,943) was expensed for legal services provided by a law firm of which a director of the Corporation is a partner. Included in accounts payable and accrued liabilities at December 31, 2009 was \$19,174 (2008 - \$30,390) owing to this law firm.
- (ii) During the year ended December 31, 2009, management and consulting fees of \$33,940 (2008 - \$NIL) included in general and administrative expense were charged by an officer of the Corporation and a corporation controlled by the officer. As at December 31, 2009, \$NIL (2008 - \$NIL) was included in accounts payable and accrued liabilities in relation to these fees.
- (iii) During the year ended December 31, 2009, management and consulting fees of \$NIL (2008 - \$41,175) included in general and administrative expense were charged by a former officer of the Corporation and a corporation controlled by the officer. As at December 31, 2009, \$NIL (2008 - \$12,668) was included in accounts payable and accrued liabilities in relation to these fees.
- (iv) In 2008, a director of the Corporation, an officer who is also a director of the Corporation and a corporation controlled by an officer who is also a director of the Corporation subscribed for an aggregate of 1,650,000 units for gross proceeds of \$82,500 pursuant to the financing described in Note 7(b)(ii).
- (v) In 2009, an officer of the Corporation subscribed for an aggregate of 416,667 units for gross proceeds of \$50,000 pursuant to the financing described in Note 7(b)(iii).
- (vi) During the year ended December 31, 2009, \$NIL (2008 - \$4,375) recorded general and administrative expenses relating to amounts paid to a director for 43-101 Qualified Person (QP) Services in Ecuador.

These transactions were in the normal course of operations and were recorded at the exchange amount. Amounts due to related parties are included in accounts payable and accrued liabilities and are due under normal credit terms.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**12. SUPPLEMENTAL CASH FLOW INFORMATION**

	Year Ended December 31, 2009	Year Ended December 31, 2008
Changes in non-cash working capital:		
Accounts receivable	\$ (81,245)	\$ 53,969
Prepaid expenses	-	928
Accounts payable and accrued liabilities	122,422	(59,080)
	<b>\$ 41,177</b>	<b>\$ (4,183)</b>
Changes in non-cash working capital related to:		
Operating	\$ (45,183)	\$ (4,183)
Investing	86,360	-
	<b>\$ 41,177</b>	<b>\$ (4,183)</b>
	2009	2008
Income taxes paid	\$ -	\$ -
Change in accrued mineral property and deferred exploration expenditures	\$ -	\$ (49,405)
	2009	2008
Cash on deposit	\$ 623,522	\$ 161,004
GICs at an average interest rate of 1.6% (2008 – 1.9%)	150,000	1,267,735
Cash and cash equivalents, continuing operations	773,522	1,428,739
Cash and cash equivalents, discontinued operations	-	4,548
Cash and cash equivalents	<b>\$ 773,522</b>	<b>\$ 1,433,287</b>

**13. COMMITMENTS**

a) Office Lease

The Corporation has a lease commitment for its office premises extending through March 1, 2011. The remaining amounts due under this commitment, exclusive of estimated operating expenses, are as follows:

2010	\$ 12,582
2011	2,796
	<b>\$ 15,378</b>

b) Farmout Agreement

To obtain a working interest in an oil and gas property, the Corporation has placed \$625,000 in trust to be used to fulfill the Corporation's drilling commitments under the farm-in agreement.

**GEOROX RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**14. DISCONTINUED OPERATIONS**

In April 2009, the Corporation made a decision to abandon its mineral exploration activities in Ecuador. The Corporation was adversely affected as a result of the enactment of a new mining law in Ecuador on January 29, 2009, requiring mineral title holders to observe special requirements for each mining phase. The Corporation determined it was uneconomical to continue operations in Ecuador and ceased making further annual payments on any of its mining concessions in Ecuador.

In April 2009, the Corporation transferred cash to pay its outstanding liabilities in Ecuador and wrote-off the carrying value of all remaining assets, resulting in a loss of \$178,821. Management of the Corporation believes there are no significant ongoing current or contingent obligations related to the Ecuador operations.

Comparative figures have been reclassified to present amounts related to the Ecuador operations as discontinued operations.

The following amounts have been presented as discontinued operations in the December 31, 2009 and 2008 consolidated financial statements:

	As at December 31, 2009	As at December 31, 2008
<b>Assets – Discontinued operations</b>		
<b>Current</b>		
Cash	\$ -	\$ 4,548
Accounts receivable	-	17,644
Prepaid expenses	-	1,641
	\$ -	\$ 23,833
<b>Non-Current</b>		
Fixed assets	\$ -	\$ 33,419
Interest in mineral properties	-	123,380
	\$ -	\$ 156,799
<b>Liabilities – Discontinued operations</b>		
Accounts payable	\$ -	\$ 1,812
	\$ -	\$ 1,812
	Year ended December 31, 2009	Year ended December 31, 2008
<b>Expenses</b>		
Depletion, depreciation and accretion	\$ -	\$ 13,562
General and administrative	23,635	243,940
Foreign exchange (gain) loss	-	(86,393)
Write-down of mineral properties	123,380	543,521
Loss on disposal/write-down of fixed assets	33,528	5,956
Write-down of working capital balances	21,913	-
	\$ 202,456	\$ 720,586

# MANAGEMENT'S DISCUSSION AND ANALYSIS FOR GEOROX RESOURCES INC. FOR THE YEAR ENDED DECEMBER 31, 2009

## GENERAL

The following Management's Discussion and Analysis ("MD&A") prepared as of March 11, 2010, is provided for the purpose of reviewing the results of Georox Resources Inc. ("Georox" or the "Corporation") for the year ended December 31, 2009 and 2008 and is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations as at December 31, 2009. This discussion and analysis of the performance, financial condition and future prospects of the Corporation should be read in conjunction with the Corporation's consolidated financial statements and notes for the years ended December 31, 2009 and 2008. The Financial Statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (bbl) of oil. BOEs may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

Amounts are shown in Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes.

### **Forward Looking Statements**

*This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts that address activities, events or developments that Georox expects are forward looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, readers and investors are cautioned that such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploration successes, continued availability of capital and financing and general economic, market or business conditions.*

*Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realised. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "may", "will", and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:*

*Fluctuations in oil production levels;  
Volatility in market prices for liquids and oil  
Uncertainties associated with estimating reserves;  
Well production and decline rates;  
Changes in the general economic conditions in Canada and Worldwide;  
The effects of weather conditions;  
The ability of Georox to obtain financing;*

*Actions taken and policies by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations.*

*Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Corporation's forward-looking statements are expressly qualified in their entirety by this cautionary statement.*

### **Non-GAAP Terms**

*This Management's Discussion and Analysis uses the terms "funds flow from operations", and "netbacks" which are terms not recognized under Generally Accepted Accounting Principles("GAAP"). The Corporation uses these measures to help evaluate its performance, leverage, and liquidity as well as to assess potential acquisitions.*

*The Corporation considers netbacks as a key measure as it demonstrates its profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds flow from operations and net earnings netbacks. Operating netback is calculated as the average sales price of its commodities (including financial instrument gains and losses) and then subtracts royalties, transportation costs and operating expenses. Funds flow netback starts with the operating netback and further deducts general and administrative costs, interest expense and adds interest income.*

*Net debt and working capital deficiency, which terms represent current assets less current liabilities and bank debt is used to assess efficiency, liquidity and the general financial strength of the Corporation. There is no GAAP measure that is reasonably comparable to net debt and working capital.*

Additional information related to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). and on the Corporation's website at [www.georoxresources.com](http://www.georoxresources.com).

### **DESCRIPTION OF BUSINESS**

Georox Resources Inc. is a Canadian natural resources exploration company presently engaged in the acquisition of, exploration for and the development of petroleum and natural gas properties in Western Canada.

The Corporation was incorporated on April 14, 2003, under the Canada Business Corporations Act (CBCA). The Corporation's shares initially began trading on the TSX Venture Exchange under the trading symbol "ORR" on March 29, 2005 and on the Frankfurt Exchange under the trading symbol "OF6" on June 21, 2006. Effective at market opening August 26, 2008, the Corporation's common shares began trading on the TSX Venture Exchange under the trading symbol "GXR" and GXR.WT respectively and on the Frankfurt Exchange under the trading symbol "OF6A".

### **MINERAL EXPLORATION**

Georox Resources Inc. announced on April 2, 2009 that it has decided not to make any annual concession payments on any of its mining concessions in Ecuador. Consequently all of the mining claims have lapsed. The Corporation's concessions have been significantly adversely affected by the Government of Ecuador's implementation of changes to the country's constitution and mining law on January 29, 2009. The Corporation has determined that it is uneconomic for it to continue operations in Ecuador and consequently all operations have been discontinued. Management of the Corporation believes there are no significant ongoing current or contingent obligations related to the Ecuador operations.

## OVERALL PERFORMANCE

The Corporation recorded a loss of \$495,036 for the year ended December 31, 2009. The loss arose as a result of the write down of all the Ecuadorian assets, the mineral properties and severance payment made to a former employee and general administrative expenditures incurred for managing the operations of the Corporation. The Corporation made a gain on the sale of investments held since 2007 in Canuc Resources Corporation ("Canuc"). As compared to the year ended December 31, 2008 the Corporation has a significantly reduced net loss which is due to the income producing property that the Corporation has purchased, the reduction in general and administrative expenditures and the sale of shares in Canuc.

On June 26, 2009, the Corporation closed the purchase of the Gift Lake property with an effective date of May 1, 2009 from a Corporation in Alberta. The property consists of five producing oil wells and a gross overriding royalty on a sixth well. For the six months, revenue generated from production was \$631,189. The operating netback for the six months amounted to \$262,465. Working capital for the year ended December 31, 2009 was \$1,282,212 compared to 2008 of \$1,375,627 with no significant difference.

## SELECTED FINANCIAL INFORMATION

Year Ended	December 31, 2009	December 31, 2008	December 31, 2007
Petroleum and natural gas revenue	\$ 631,189	\$ -	\$ -
Net loss	\$ (495,036)	\$ (1,161,465)	\$ (3,184,201)
Net loss per share, basic and diluted	\$ (0.04)	\$ (0.11)	\$ (0.31)
Total assets	\$ 2,137,190	\$ 2,216,508	\$ 3,325,250
Total current liabilities	\$ (200,480)	\$ (79,870)	\$ (226,433)
Deferred exploration fees	\$ -	\$ 123,380	\$ 666,901

Three Months Ended	4 <sup>th</sup> Quarter December 31, 2009	3 <sup>rd</sup> Quarter September 30, 2009	2 <sup>nd</sup> Quarter June 30, 2009	1 <sup>st</sup> Quarter March 31, 2009
Petroleum and natural gas revenue	\$ 242,837	\$ 388,352	\$ -	\$ -
Net income (loss)	\$ 3,785	\$ (137,682)	\$ (82,040)	\$ (279,099)
Net loss per share, basic and diluted	\$ -	\$ (0.01)	\$ (0.01)	\$ (0.01)
Deferred exploration fees	\$ -	\$ -	\$ -	\$ -
Three Months Ended	4 <sup>th</sup> Quarter December 31, 2008	3 <sup>rd</sup> Quarter September 30, 2008	2 <sup>nd</sup> Quarter June 30, 2008	1 <sup>st</sup> Quarter March 31, 2008
Petroleum and natural gas revenue	\$ -	\$ -	\$ -	\$ -
Net loss	\$ (754,517)	\$ (191,429)	\$ (128,949)	\$ (86,570)
Net loss per share, basic and diluted	\$ (0.07)	\$ (0.19)	\$ (0.04)	\$ (0.03)
Deferred exploration fees	\$ 123,380	\$ 778,392	\$ 778,392	\$ 778,302

## RESULTS OF OPERATIONS AND HIGHLIGHTS IN THE FOURTH QUARTER

### Netback

	<b>\$/BOE</b>
Petroleum and natural gas revenue	\$70.90
Royalties	21.63
Operating costs	14.80
Transportation costs	<u>4.99</u>
<b>Netback</b>	<b><u>\$29.48</u></b>

### Revenue

Total production from June 26 to December 31, 2009 was 8,902 bbls of oil.

Daily volume was 56 boe per day for the six months. Due to the volatility in commodity prices, the Corporation's realized price was \$70.90 per boe compared to the average MSW Edmonton price of \$74.03 per boe.

### Royalties

Total royalty expense was \$192,590, with a royalty rate of 30.51% or \$21.63 per boe. Georox anticipates the aggregate royalty rate to average between 10% – 14% for the rest of 2010 but this will be dependent on realized commodity prices and volumes produced.

### Operating Expense

Total operating costs were \$131,761 or \$14.80 per boe. This is attributable to a combination of fixed costs being spread over volumes of production, workover requirements on one well and a high percentage of processing fees by the operator on three wells.

### Transportation Expense

Total transportation costs were \$44,413 or \$4.99 per boe and includes clean oil trucking and hauling. The costs are dependent on a variety of factors such as the method of transportation, the distances covered, the rates charged by the carriers, quantities shipped, cost of the fuel, the type of service offered, as well as ownership of the transportation facilities.

### General and Administrative

The general and administrative costs of \$356,363 (2008 - \$421,762) reflect the costs of managing the Corporation's properties and associated activities. General and administrative costs for the year ended December 31, 2009 also include severance paid to a former employee and the Corporation moving out of its office from the interior of British Columbia to a more central area.

Georox continually directs significant efforts to maintaining or reducing its controllable costs.

### Stock-Based Compensation

Stock-based compensation expense for the year was \$69,917 (2008 - \$62,786) due to the granting of 1,175,000 options to its directors and officers of the Corporation in August 2009 and the reversal of stock-based compensation previously recognized on unvested cancelled options in the second quarter. The fair value of all stock options is amortized over the options' vesting period which is three years for all options granted.

## Depletion, Depreciation and Accretion

Total depletion, depreciation and accretion ("DD&A") was \$195,964 or \$22.01 per boe. For 2010, Georox anticipates DD&A per boe to be similar to 2009.

## Gain on Sale of Investment

The Corporation had a gain on the sale of investments of \$112,784 of common shares of Canuc. Canuc has been listed on the TSX Venture Exchange since August 27, 2009. As at December 31, 2009, the fair market value of the remaining investment in Canuc is \$174,248 with an unrealized gain in Other Comprehensive Income of \$86,091.

## CAPITAL EXPENDITURES

Capital expenditures for the year ended December 31, 2009 were \$581,652. A breakdown of total capital incurred is presented in the table that follows:

	Year Ended December 31, 2009
Drilling and completions	\$ 61,878
Facilities and equipment	4,599
Property acquisitions	490,175
Other	25,000
<hr/>	
Total capital expenditures	<hr/> \$ 581,652 <hr/>

## LIQUIDITY AND CAPITAL RESOURCES

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

The Corporation's working capital was \$1,282,212 as at December 31, 2009 (2008 - \$1,375,627).

The Corporation has sufficient working capital to meet all of its foreseeable obligations based on its business plan for the next twelve months. The Corporation may be required to raise additional debt or equity financing in the future in order to fund planned capital expenditures.

The global credit market crisis, including disruptions in the international credit markets and other financial systems and the deterioration of the global economic conditions have caused significant volatility to commodity prices. Petroleum and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over supply and demand of these commodities due to the current state of the world economies and the ongoing global credit and liquidity concerns. This has resulted in an extremely limited ability to execute capital market transactions.

## FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash and cash equivalents, cash in trust, receivables, investments and accounts payables and accrued liabilities. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of financial instruments approximates their carrying values, unless otherwise noted. The fair value of investments is subject to an annual impairment test.

## **CORPORATE STRUCTURE**

Georox Resources Inc. has five inactive subsidiary companies in Ecuador as noted below. Orosources Minerals S.A. became the operational management subsidiary in October 2007, replacing the functions previously carried out by Ecuaro Resources S.A. Activities in all of these subsidiaries have now all been abandoned.

<u>Subsidiary</u>	<u>Properties</u>
Orosources Minerals S.A.	Nil – operations only
Ecuaro Resources S.A.	Nil
Marissaoro Minerals S.A.	Marissa concession
Monte Minerals S.A.	Virgen del Cisne concessions
Oromonte Resources S.A.	Pangui and Chimbuza (El Macizo) concessions

## **STOCK OPTIONS**

The Corporation granted 1,175,000 options to the directors and officers during the month of August 2009. At December 31, 2009, the Corporation currently has 1,375,000 options outstanding at an average exercise price of \$0.36 per share, which have been granted to directors, officers, employees and other service providers of the Corporation pursuant to the Corporation's stock option plan.

## **WARRANTS**

During the year ended December 31, 2009, no warrants expired or were exercised. As at December 31, 2009, the Corporation had 1,573,334 warrants outstanding.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no off-balance sheet arrangements.

## **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2009, \$17,117 (2008 - \$28,943) was expensed for legal services provided by a law firm of which a director of the Corporation is a partner. Included in accounts payable and accrued liabilities at December 31, 2009 was \$19,174 (2008 - \$30,390) owing to this law firm.

During the year ended December 31, 2009, management and consulting fees of \$33,940 (2008 - \$41,175) were charged by officers or former officers or corporations controlled by an officer or former officer of the Corporation. As at December 31, 2009, \$NIL (2008 - \$12,668) was included in accounts payable and accrued liabilities in relation to these fees.

In 2008, a director of the Corporation, an officer who is also a director of the Corporation and a corporation controlled by an officer who is also a director of the Corporation subscribed for an aggregate of 1,650,000 units for gross proceeds of \$82,500 pursuant to the financing described in Note 7(b)(ii).

In 2009, an officer of the Corporation subscribed for an aggregate of 416,667 units for gross proceeds of \$50,000 pursuant to the financing described in Note 7(b)(iii).

During the year ended December 31, 2009, \$NIL (2008 - \$4,375) was paid to a director for 43-101 Qualified Person (QP) Services in Ecuador.

These transactions were in the normal course of operations and were recorded at the exchange amount. Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

## **COMMITMENTS**

The Corporation has a lease commitment for its office premises extending through March 1, 2011. The remaining amounts due under this lease, exclusive of estimated operating expenses are approximately \$12,600 for 2010 and \$2,800 for 2011.

On September 25, 2009, the Corporation signed a farm-in agreement to earn a 15% net working interest on the related lands. The Corporation has agreed to pay \$50,000 for the right to participate in a drilling program, of which \$25,000 was paid upon signing of the farm-in agreement and the balance of \$25,000 is to be paid when the first well is spud. The Corporation is also committed to pay the Farmor \$600,000 to satisfy initial cash call obligations under the agreement. An amount of \$625,000 has been deposited with Georox's legal counsel and shall be released upon receipt of authorization of expenditures related to the drilling activities. The spud date of the first well has been extended to April 30, 2010, and as a result, a total of \$625,000 is included as cash held in trust on the Corporation's balance sheet at December 31, 2009.

## **RISK AND UNCERTAINTIES**

The risks in the oil and gas industry are varied and wide-ranging:

### **Exploration, Development and Production Risks**

Petroleum and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce petroleum and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time, and the production there from, will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties and prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Corporation may determine that current markets, terms of acquisitions and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of petroleum and natural gas will be discovered or acquired by the Corporation.

Future petroleum and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

## **Global Financial Crisis**

Recent market events and conditions, including disruptions in the international credit markets and to the financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted Corporation valuations and will impact the performance of the global economy going forward. Petroleum prices are expected to remain volatile for the near future as a result of the market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

## **Operational Dependence**

Other companies operate some of the assets in which the Corporation has an interest. As a result the Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets depends upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

## **Regulatory**

Petroleum and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the petroleum and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In order to conduct petroleum and natural gas operations, the Corporation will require licenses from various government authorities. There can be no assurance that the Corporation will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

## **Environmental**

All phases of the petroleum and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with petroleum and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of petroleum, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There has been much public debate with respect to Canada's ability to meet targets set out by the Kyoto Protocol and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined could have a material impact on the nature of petroleum and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition.

## **Substantial Capital Requirements**

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of petroleum and natural gas reserves in the future. If the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

## **Dilution**

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

## **Conflicts of Interest**

Certain directors of the Corporation are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the CBCA. See "Directors and Officers – Conflicts of Interest".

## **CHANGE IN ACCOUNTING POLICIES**

### **Adoption of new accounting policies**

On January 1, 2009, the Corporation adopted CICA Handbook Section 3064 - Goodwill and Intangible Assets which replaced the existing goodwill and intangible asset standard. The new standard revises the requirements for the recognition, measurement, presentation and disclosure of intangible assets. The adoption of these new standards did not have any impact on the Corporation's financial statements.

The Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over a five-year transitional period. In February 2008 the AcSB announced that January 1, 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing current Canadian GAAP. The transition date of January 1, 2011 will also require the restatement for comparative purposes of the Corporation's 2010 interim and annual financial statements. The Corporation has begun assessing the impact of adoption of IFRS for 2011 and intends to develop and implement a plan for the changeover in late 2010. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **ACCOUNTING ESTIMATES**

The significant accounting policies used by Georox are disclosed in note 2 to the Audited Financial Statements for the year ended December 31, 2009.

Estimates are based on historical experience and on various other assumptions that the Corporation believes to be reasonable. These estimates form the basis of judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. The Corporation's most significant areas of estimation are in relation to recoverability of mineral properties, stock-based compensation expenses, warrant valuation, and future tax assets and liabilities. Actual results could differ from those estimates.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely information.

## **DIRECTORS**

Burkhard Franz, Kelowna, BC, Canada  
Daryl Fridhandler, Calgary, AB, Canada  
Lorraine McVean, Calgary, AB, Canada

**OTHER**

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