FORM 10-K

Annual report pursuant to section 13 and 15(d)

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MAINLAND RESOURCES INC.

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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Mark One
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **February 28, 2010**

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NO. **000-52782**

MAINLAND RESOURCES, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**90-0335743**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

21 WATERWAY AVENUE
SUITE 300
THE WOODLANDS, TEXAS 77380

(Address of principal executive offices)

(281) 469-5990

(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Act: **NONE**

Title of each class:	Name of each exchange on which registered:
N/A	**N/A**

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $0.001

(Title of Class)

Indicate by check mark if the registration is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

Indicate by check mark whether the registrant has (i) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. [ ] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated file, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filed	[ ]	Accelerated filer	[X]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business of the registrant's most recently completed second fiscal quarter: **August 31, 2009 - $75,343,821**

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. [ ] Yes [ ] No

N/A

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

80,969,502 shares of common stock issued and outstanding as of May 28, 2010

DOCUMENTS INCORPORATED BY REFERENCE
N/A

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Statements made in this Form 10-K that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbour provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," "anticipate," "estimate," "approximate" or "continue," or the negative thereof. We intend that such forward-looking statements be subject to the safe harbours for such statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

AVAILABLE INFORMATION

Mainland Resources, Inc. files annual, quarterly, current reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy documents referred to in this Annual Report on Form 10-K that have been filed with the SEC at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20459. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also obtain copies of our SEC filings by going to the SEC's website at www.sec.gov.

PART I

Item 1. Business

Corporate History

Mainland Resources, Inc. was incorporated under the laws of the State of Nevada on May 12, 2006 and has been engaged in the business of acquisition, exploration and development of mineral properties in the United States since its inception.

On March 11, 2008 Mainland completed a forward stock split of twenty for one (20:1) basis. On May 29, 2008 Mainland completed a forward stock split on a 1.5 for one (1.5:1) basis. On August 3, 2009 Mainland completed a forward stock split on a two for 1 (2:1) basis.

Mainland's shares of common stock trade on the OTC Bulletin Board under the symbol "MNLU:OB."

Proposed Merger with American Exploration Corporation

We have entered into a Merger Agreement and Plan of Merger with American Exploration Corporation ("American Exploration") dated as of March 22, 2010 (the "Merger Agreement"), pursuant to which American Exploration will be merged with and into our Company (the "Merger"), with our Company as the surviving company of the Merger. By way of background, we have entered into a joint area development agreement with American Exploration to jointly develop contiguous acreage comprising the Buena Vista Prospect, an oil and gas exploration project located in Jackson County, Mississippi, U.S.A. As operator on the Buena Vista Prospect, we recently issued an Authority for Expenditure (AFE) for the Burkley-Phillips No. 1 Well to be drilled on the Prospect for the purpose of evaluating the Haynesville Shale formation. American Exploration was unable to fund its 20% share of the estimated total well costs of the Burkley-Phillips No. 1 Well. As a result, American Exploration has forfeited its right to a 29% working interest in the well and in the Buena Vista Prospect in favor of our Company. American Exploration will continue to be entitled to receive a 20% working interest in the well and the Prospect after completion (subject to compliance by American Exploration with all other terms and conditions of the Letter Agreement and the related Joint Operating Agreement).

We were previously required to pay 72% of the total cost to drill and complete the Burkley-Phillips No. 1 Well, for a 45.9% working interest. Due to American Exploration's inability to make its contribution in response to the cash call, we will now pay 90% of the total cost of the well to earn a 72% interest, and Guggenheim Energy Opportunities, LLC ("Guggenheim") will pay 10% of the total cost to earn an 8% interest. Accordingly, the respective working interests of the parties after completion are anticipated to be as follows: Mainland - 72%, American Exploration - 20%, and Guggenheim - 8%. This working interest breakdown will apply to the remainder of the leasehold and project area. We currently hold interests in excess of 17,000 acres in the Buena Vista Prospect.

The Merger Agreement represents our agreement with American Exploration to combine our businesses and ownership of the Buena Vista Prospect.

If the Merger is completed, each share of American Exploration's common stock at the effective time of the Merger will be exchanged for 0.25 common shares of Mainland. Based on the estimated number of shares of Mainland issued and outstanding on the record date, Mainland expects to issue approximately 14,929,500 common shares to American Exploration stockholders in the Merger. We estimate that immediately after the effective time of the Merger, former stockholders of American Exploration will hold common shares of Mainland representing approximately 15.6% of the then-outstanding common shares of Mainland.

In addition: (a) all outstanding common stock options of American Exploration will be disposed of by the holders thereof in consideration for the issue by Mainland of non-transferable stock options; and (b) all of the outstanding common stock purchase warrants of American Exploration will be disposed of by the holders thereof in consideration for the issue by Mainland of non-transferable common stock purchase warrants. The number of Mainland options and warrants issuable will be determined with reference to the exchange ratio which determines the number of shares of Mainland common stock that are to be issued on completion of the Merger for all of the shares of American Exploration common stock.

Important Additional Information Will Be Filed With The SEC

In connection with the proposed Merger transaction with American Exploration, Mainland intends to file relevant materials with the SEC, including a Registration Statement on Form S-4 (the "Registration Statement"), which will include a preliminary prospectus and related materials to register the securities of Mainland to be issued in exchange for securities of American Exploration. The Registration Statement will incorporate a joint proxy statement/ prospectus (the "Proxy Statement/Prospectus") that Mainland and American Exploration plan to file with the SEC and mail to their respective stockholders in connection with obtaining stockholder approval of the proposed Merger. The Registration Statement and the Proxy Statement/Prospectus will contain important information about Mainland, American Exploration, the Merger and related matters. Investors and security holders are urged to read the Registration Statement and the Proxy Statement/Prospectus carefully when they are available. Investors and security holders will be able to obtain free copies of the Registration Statement and the Proxy Statement/ Prospectus when they become available, and other documents filed with the SEC by Mainland and American Exploration, through the web site maintained by the SEC at www.sec.gov. Mainland's security holders will also receive information at an appropriate time on how to obtain these documents free of charge from Mainland. In any event, documents filed by Mainland with the SEC may be obtained free of charge by contacting the Company at: Mainland Resources, Inc.; Attention: Mr. William Thomas, CFO; 21 Waterway Avenue, Suite 300, The Woodlands, Texas 77380; Facsimile: (713) 583-1162.

Overview of Our Business

We are a natural resource exploration company engaged in the exploration, acquisition and development of oil and gas properties in North America. We are currently focused on our interests in oil and gas prospects located in Louisiana and Mississippi.

Until recently, acting primarily through our joint venture with Petrohawk Energy Corporation, we have been concentrating on exploring and developing certain natural gas leases covering approximately 2,904 net acres in the East Holly Field of De Soto Parish, in the State of Louisiana.

Our joint venture agreement with Petrohawk contemplated the development of the Haynesville Shale on the East Holly Field leases, with Petrohawk as operator. We transferred 60% of our interest in the De Soto Parish leases to Petrohawk, but only with respect to the Haynesville Shale below the Cotton Valley formation - in other words, Petrohawk acquired 60% of our Company's interest in the leases at all depths below the base of the Cotton Valley formation (which has been defined to be 100 feet below the stratigraphic equivalent of the Cotton Valley formation). In return, Petrohawk agreed to, among other things, pay 100% of the costs of development associated with the first well drilled below the Cotton Valley formation, as well as costs up to and including pipeline connection. The first well, the Griffiths 11-1, began drilling in October 2008 and commenced production at the end of January 2009. One additional producing well has since been drilled and completed under our joint venture with Petrohawk. Two additional wells have been drilled and are being completed, and the fifth is currently being drilled.

In early 2010, we entered into a purchase and sale agreement for the sale to EXCO Operating Company, LP, a wholly owned subsidiary of Exco Resources (NYSE - XCO), of our remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases, for $28,159,604. This agreement, which closed on April 22, 2010 with an effective date of January 1, 2010, provided for the sale of all of our Company's right, title and interest 100 feet below the base of the Cotton Valley formation in the East Holly Field. As noted above, the base of the Cotton Valley formation has been defined to be 100 feet below the stratigraphic equivalent of the Cotton Valley formation.

We have retained all of the rights in all formations above the base of the Cotton Valley formation in the East Holly Field, encompassing 2,745 net acres with an estimated 65 net potential drilling locations. The four recent wells drilled by the original operator through the Hosston and Cotton Valley zones to the Haynesville formation calculate as productive.

Based on the available data and economics, we plan to drill three wells as operator in the Hosston/Cotton Valley formations in 2010, and also to evaluate the shale gas production value of the Upper Bossier formation on the DeSoto Parish leases. We expect that these formations will provide continual solid pay with little risk and predictable development costs.

Our Buena Vista Prospect is located along the Gulf Coast Salt Basin in the Buena Vista area of Jackson County, Mississippi. Based on proprietary information gained from previous drilling, we believe an extension of the Haynesville Shale similar to the discovery region in Louisiana may exist there.

Our Company has entered into a joint area development agreement with American Exploration to jointly develop contiguous acreage comprising the Buena Vista Prospect. As operator on the Buena Vista Prospect, we recently issued an Authority for Expenditure (AFE) for the Burkley-Phillips No. 1 Well to be drilled on the Prospect. We intend to drill the well to a depth sufficient to evaluate the Haynesville Shale formation, currently expected to total 22,000 feet. The AFE estimates the drilling cost to be approximately $8,650,000 and completion cost to be approximately $4,900,000 for a total completed well cost of approximately US$13,550,000. Drilling is expected to commence in the latter part of the second quarter of 2010.

American Exploration was unable to fund its 20% share of the estimated total well costs of the Burkley-Phillips No. 1 Well. As a result, American Exploration has forfeited its right to a 29% working interest in the well and in the Buena Vista Prospect in favor of our Company. American Exploration will continue to be entitled to receive a 20% working interest in the well and the Prospect after completion (subject to compliance by American Exploration with all other terms and conditions of our letter agreement and related joint operating agreement with American Exploration).

We were previously required to pay 72% of the total cost to drill and complete the Burkley-Phillips No. 1 Well, for a 45.9% working interest. Due to American Exploration's inability to make its contribution in response to the cash call, we will now pay 90% of the total cost of the well to earn a 72% interest, and Guggenheim Energy Opportunities, LLC ("Guggenheim") will pay 10% of the total cost to earn an 8% interest.

OIL AND GAS PROPERTIES

Louisiana

East Holly Field, De Soto Parish

Our East Holly Field leases cover a central area in the fairway of what is now widely recognized as the Haynesville Shale discovery in northwest Louisiana (see Figure 1 - Location Map). The Haynesville Shale has become one of the most active natural gas plays in the United States. The Haynesville formation is located approximately 1,500 feet below the base of the Cotton Valley formation at depths ranging from approximately 10,500 feet to 13,000 feet. The formation is as much as 300 feet thick and is composed of a rich organic black shale. It is located across northwest Louisiana (primarily in Caddo, Bossier, Red River, DeSoto, Webster and Bienville Parishes), east Texas (primarily in Harrison, Panola, Shelby and Nacogdoches Counties), and extends into Arkansas.

Fig. 1: Location Map -
De Soto Parish Prospect, Louisiana

On February 27, 2008, we entered into an option agreement with Kingsley Resources, Inc., a Nevada corporation, pursuant to which we acquired all the right, title and interest Kingsley had in and to certain leasehold estates located in East Holly Field of De Soto Parish. The East Holly Field leases create a contiguous block of acreage on the southeast flank of the East Holly Field, totaling approximately 2,551 net acres. The leases were the subject of a leasehold purchase agreement dated December 11, 2007, and modified February 1, 2008, between Kingsley and Permian Basin Acquisition Fund, pursuant to which Kingsley acquired the sub-surface rights covered by the East Holly Field leases.

In accordance with the terms and provisions of our option agreement with Kingsley, we were required to pay $100,000 to Kingsley (which represented reimbursement to Kingsley of a deposit paid by it to Permian under their leasehold purchase agreement) and assume all of Kingsley's obligations under its leasehold purchase agreement with Permian. We completed the acquisition of the East Holly Field leases by way of assignment on March 14, 2008 at a total cost of $687,596, comprised of the $100,000 payment to Kingsley (which was subsequently made on April 2, 2008), and payments to Permian totalling $587,596. The East Holly Field leases remain subject to a residual royalty payment and other rights reserved under the leasehold purchase agreement with Permian.

In accordance with the area of mutual interest provision contained in our joint operating agreement with Petrohawk, we and Petrohawk leased an additional 353.77 net acres, and the acreage and costs were split as to 60% for Petrohawk, and as to 40% for our Company. We have a 100% working interest and a 75% net revenue interest in the Cotton Valley/Haynesville leases.

Our Buena Vista leasehold and project is located in the Gulf Coast Salt Basin trend, outside of the core area initially exploited for the Haynesville Shale. Management believes that over-thickened Haynesville Shale deposits can be isolated which are rich in organic carbon, possess superior rock properties and are gas-charged. A deep well drilled on the leases in 1981 confirmed the presence of highly pressured natural gas within an over-thickened Haynesville shale section. The well was drilled to a depth of 22,000 feet, reaching total depth while still within the Haynesville Shale. A poor understanding of shale gas 28 years ago combined with a casing problem in the wellbore, encouraged the operator to plug and abandon the well.

We have been able to secure a full suite of data from that well/project area which included all geophysical seismic data, well logs, drill cuttings, drilling reports, and related technical information. This information was critical in determining the quality of the gas within the reservoir, the propensity of the Haynesville Shale to produce gas on the leases, as well as the gas in place per section.

A geophysical assessment of the property was commissioned. Seismic lines crossing the property were reprocessed and a detailed interpretation was made by a geophysicist with strong knowledge of the play. A well-defined turtle structure was mapped and the leased acreage which sits squarely on the crest is ideally positioned for gas accumulation. A series of maps were produced which image the reservoir surface as well as other potentially prospective horizons on the property. These maps also assist in better evaluating surrounding acreage.

Rock data (cuttings samples) were viewed and sampled and sent to a rock evaluation lab for testing. Parameters such as mineralogy and geochemistry were measured using x-ray diffraction and rock evaluation pyrolysis. Thin section (microscope slide) work was also conducted to better evaluate rock type, mineral characteristics and porosity styles. This data was then provided to a leading petrophysical group who has experience with the Haynesville Shale to complete a petrophysical analysis (log analysis) of the entire prospective section, which included all of the penetrated Haynesville formation.

The results of these extensive studies suggested that the leases of interest contain significant hydrocarbons. Since the Haynesville is so thick in this locale, vertical wells can be used to develop the property, reducing costs and many of the drilling challenges associated with horizontal wellbores.

Joint Venture with Petrohawk Energy Corporation

Effective July 14, 2008, we entered into a binding letter agreement with Petrohawk Energy Corporation relating to the joint development of acreage of our Company's leases in DeSoto Parish, Louisiana, including those in East Holly Field and Cotton Valley/Haynesville.

Under the letter agreement: (i) Petrohawk agreed to pay 100% of the development costs of the first well drilled below the base of the Cotton Valley formation (which, as noted above, has been defined to be 100 feet below the stratigraphic equivalent of the Cotton Valley formation), including those related to drilling, completion and fracture stimulation, as well as costs up to and including pipeline connection; (ii) Petrohawk agreed to pay 80%, and we agreed to pay 20%, of all costs of the second well drilled below the base of the Cotton Valley formation; (iii) Petrohawk agreed to pay 60%, and we agreed to pay 40%, of all costs of the third well and all additional wells drilled below the base of the Cotton Valley formation; and (iv) we agreed to transfer a 60% working interest in our leases in DeSoto Parish to Petrohawk at closing, but only as such leases related to all depths below the base of the Cotton Valley formation, and specifically the Haynesville Shale. Petrohawk further agreed to gather and market our production from above the base of the Cotton Valley formation pursuant to a mutually acceptable agreement. The letter agreement was expressly made subject to completion of due diligence investigation by the parties, and execution and delivery of a definitive agreement by both parties.

We entered into a definitive agreement with Petrohawk effective August 4, 2008, pursuant to which we effectively transferred and conveyed to Petrohawk 60% of our right, title and interest in and to the leases in the DeSoto Parish. Petrohawk was designated as the operator on all development relating to these leases.

Griffith 11-1 Well

The initial well under our agreement with Petrohawk, the Griffith 11-1 Well, was spudded on October 20, 2008, and commenced production at the end of January 2009. The approximate reading for total gas produced from the Griffith 11-1 Well and shipped to market through April 5, 2010 was 2.5 billion cubic feet (Bcf).

Stephenson Douglas LLC 16-1 Well

Drilling began on the second well under our agreement with Petrohawk, the Stevenson Douglas LLC 16-1 Well, in April 2009. The Stephenson Douglas LLC 16-1 Well has spudded, and surface casing was cemented at about 1800 feet. The Stephenson Douglas LLC 16-1 Well has been successfully drilled to a depth of 10,700 feet and 7 5/8 inch intermediate casing was run on the well to this depth. Petrohawk scheduled a larger rig capable of whip stocking the well and drilling the lateral portion of the wellbore. The well was completed and commenced production in March 2010.

Dehan 15-1 Well

The third well to be drilled, the Dehan 15-1 Well, was drilled in May 2009 and commenced production in August 2009. The well had an initial production rate (IP) of 7.643 million on a 14/64th choke. The approximate reading for total gas produced from the Dehan 15-1 Well and shipped to market through April 5, 2010 was 1.7 billion cubic feet (Bcf).

Fourth and Fifth Wells

The fourth well has been drilled and awaiting completion. The fifth well is being drilled and is close to total depth.

Sale of Remaining 40% Interest in Haynesville Shale, East Holly Prospect, De Soto Parish

On March 12, 2010, we entered into a purchase and sale agreement for the sale to EXCO Operating Company, LP, a wholly owned subsidiary of Exco Resources, of our remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases, for $28,159,604. This agreement, which closed on April 22, 2010 with an effective date of January 1, 2010, provided for the sale of all of our right, title and interest below the base of the Cotton Valley formation in the East Holly Field.

Under the purchase and sale agreement: (i) our Company sold its remaining 40% working interest in the Haynesville Shale, covering 2,903 acres or 1,161 net acres; and (ii) the purchaser paid to our Company $17,500 per net acre, totalling $20,321,525, subject to certain adjustments. The purchaser also agreed to be responsible for ad valorem, property or similar taxes, and to reimburse our Company for any and all out-of-pocket operating costs and capital expenditures costs incurred by us prior to closing (which totaled $7,838,079).

We intend to apply the net proceeds to: (a) provide initial funding for the drilling of up to three wells in the Hosston/Cotton Valley formations of the East Holly Prospect in 2010; (b) fund the drilling of the Burkley-Phillips No. 1 well on the Buena Vista prospect in Mississippi; and (c) to retire our debt to Guggenheim. Additional funding will be required to complete our 2010-2011 operations program. We anticipate that we will receive this funding from a variety of methods, including private placements, equity funding, entering into joint venture transactions with third parties, mezzanine financing and cash flows from successful wells.

Cotton Valley, Hosston and Upper Bossier Formations, East Holly Prospect, De Soto Parish

As indicated above, we continue to retain all rights to all formations above the base of the Cotton Valley formation, encompassing the 2,745 net acres (including the Hosston and Cotton Valley zones) with an estimated 65 net potential drilling locations. Detailed analysis of the Cotton Valley/Hosston and Upper Bossier formations on the East Holly Field has been facilitated by review of the drill logs obtained from our previous Haynesville Shale joint venture partner, Petrohawk Energy. The four recent wells drilled by Petrohawk on the leases calculate as productive from all three formations.

Our Company and Brammer Engineering, Inc., of Shreveport, Louisiana, have entered into a Contract Operating Agreement dated April 1, 2010 relating to the first of three wells that we are planning to drill in the Cotton Valley/Hosston and Upper Bossier formations of the East Holly Field. The initial well is to be drilled in Section 11, T 13N-R14W, DeSoto Parish, Louisiana, to test these formations. Brammer Engineering will act as contract operator for our Company, the operator of the Prospect. Brammer Engineering is a highly qualified contract operator that has been active in the Louisiana and Gulf Coast Region for 40 years. It has drilled over 130 wells and acted as operator on more than 300 wells.

We have initiated the drilling and site preparation necessary to spud the well in the latter part of the second quarter or early third quarter of 2010.

Depending on results of the Upper Bossier formation, the total completed well cost is estimated at between US$2 million and $2.25 million dollars. We will fund 100% of the costs of this initial well.

Mississippi

Buena Vista Prospect

We entered into a letter agreement with American Exploration effective September 17, 2009, to jointly develop contiguous acreage known as the Buena Vista area located in Jefferson County, Mississippi (see Figure 2 - Location Map). Under our agreement with American Exploration: (i) we and American Exploration each agreed to commit at least 5,000 net acres to the joint development project; (ii) we will be the operator of project; (iii) we agreed to pay 80% of the initial well drilling and completion costs, to earn a 51% working interest in the well and the total joint development project; and (iv) American Exploration agreed to pay 20% of the initial well drilling and completion costs to earn a 49% working interest in the well and the total joint development project. The agreement also contemplates that the future costs of the joint development project, including drilling and completions, will be split in accordance with the respective working interests of the parties.

Fig. 2: Location Map -
Buena Vista Prospect
Buena Vista Area, Mississippi

Prior to entering into our joint area development agreement with American Exploration, we entered into an option agreement with Westrock Land Corp. on June 22, 2009, to acquire approximately 8,000 net acres in mineral oil and gas leases located in the Buena Vista area. Under our option agreement with Westrock, we agreed to acquire a 100% working interest and a minimum 75% net revenue interest in the leases upon payment of certain acquisition costs per net mineral acres by August 31, 2009. On September 28, 2009, the option agreement was amended to expand the acreage to include an additional 225 acres, thereby increasing coverage under the option agreement to 8,225 net acres, and to extend the time for closing. At that time, we agreed to advance a payment of $300,000 towards the total purchase price on August 31, 2009. We paid an additional $900,000 towards the purchase price on October 13, 2009, and the final instalment of $2,090,060 on November 3, 2009, for a total purchase price of $3,290,060.

We satisfied our obligation under our joint area development agreement with American Exploration to contribute at least 5,000 net acres to the joint development project using the leases we acquired from Westrock. We and American Exploration have contributed 8,225.3 net acres and 5,000 net acres, respectively, of contiguous lands (for a total of approximately 13,225.3 net acres).

In early April, 2010, we, as operator, issued an Authority for Expenditure (AFE) for the Burkley-Phillips No. 1 Well to be drilled on the Buena Vista Prospect, in Jefferson County. We intend to drill the well to a depth sufficient to evaluate the Haynesville Shale formation, currently expected to total 22,000 feet. The AFE estimates the drilling cost to be approximately $8,650,000 and completion cost to be approximately $4,900,000 for a total completed well cost of approximately US$13,550,000.

American Exploration was unable to fund its 20% share of the estimated total well costs ($2,710,000) of the Burkley-Phillips No. 1 Well within the 30 day period provided for in the joint development agreement, which expired on April 23, 2010. As a result, American Exploration forfeited its 29% working interest in the well and the Prospect in favor of our Company. We currently hold interests in excess of 17,000 acres in the Buena Vista Prospect. American Exploration will continue to be entitled to receive a 20% working interest in the well and the Prospect after completion (subject to compliance by American Exploration with all other terms and conditions of the Letter Agreement and the related Joint Operating Agreement).

Our Company was previously paying 72% of the total cost to drill and complete the Burkley-Phillips No. 1 Well, for a 45.9% working interest. Due to the fact American Exploration did not make its contribution in response to the cash call, Mainland will now pay 90% of the total cost of the well and Guggenheim Energy Opportunities, LLC ("Guggenheim") will pay 10%. Accordingly, the respective working interests of the parties after completion are anticipated to be as follows: Mainland - 72%, American Exploration -20%, and Guggenheim - 8%. This working interest breakdown will apply to the remainder of the leasehold and project area.

Extensive historic and proprietary data from a previous well drilled on the Buena Vista, combined with petrochemical analysis reviewed by Mainland's land and geological teams provide the basis for drilling the Burkley-Phillips No. 1 well to the deeper Haynesville formation. Additionally, it will be the only well drilled in the Buena Vista area testing the Haynesville shale formation since shale gas has emerged as a major production resource.

We have deposited an aggregate total of $8.65 million into escrow to be used to drill the Burkley-Phillips No. 1 well. The escrow funds are comprised of $7.785 million contributed by our Company and $865,000 contributed by Guggenheim. We, as operator, will drill the Burkley-Phillips No. 1 well using RAPAD Drilling & Well Service, Inc., of Jackson, Mississippi.

We have commenced road construction and drill site preparations for the Burkley-Phillips No. 1 Well, and we are currently planning to spud the well June 15, 2010 or thereabouts. The permitting for the well is now complete.

Earlier Option Agreement with Westrock Land Corp. Terminated

We had previously entered into an option agreement with Westrock effective September 3, 2008, to acquire 5,000 net acres in certain other mineral oil and gas leases located in the State of Mississippi. Under the option agreement: (i) our Company was to acquire a 100% working interest and a minimum 75% net revenue interest in the leases; (ii) we paid a $500,000 deposit on September 3, 2008 to secure the option, and agreed to pay certain acquisition costs per net mineral acres by August 31, 2009; and (iii) the balance of the acquisition costs, totaling $2,275,000, were due and payable upon completion, no later than October 15, 2008, of our due diligence investigation of the underlying properties. The option period was ultimately extended to January 20, 2010, pursuant to successive amending agreements executed on each of October 15, 2008, November 30, 2008, April 16, 2009 and June 1, 2009. We paid additional deposits of $250,000, $100,000, $250,000, $100,000 and $100,000, respectively, on October 17, 2008, December 1, 2008, December 29, 2009, April 27, 2009, May 6, 2009 and June 5, 2009, for an aggregate deposit of $1,300,000.

Our Company's Board of Directors determined that, based on the results of our due diligence investigation of the underlying properties, it was not in the best interests of our Company and its stockholders to proceed with the acquisition and development of the leases covered by our option agreement with Westrock dated September 3, 2008. Therefore, we and Westrock agreed to the termination of the option agreement without any further obligation on the part of either party. In accordance with the terms of our option agreement with Westrock, we forfeited our deposit of $1,300,000.

RESERVES

New SEC Disclosure Requirements

On January 14, 2009, the SEC published the final rules for "Modernization of Oil and Gas Reporting" in the Federal Register, which apply to oil and gas reserves estimates disclosed in registration statements and annual reports containing financial statements for fiscal years ending on or after December 31, 2009. The new disclosure requirements supersede SEC Industry Guide 2 and are consolidated in new Subpart 1200 of Regulation S-K, and include certain revisions and additions to the definition section of Rule 4-10 of Regulation S-X. In addition, the amendments concurrently align the full cost accounting rules with the revised disclosures.

Generally, the new disclosure rules require reporting of oil and gas reserves using a price based on a 12-month unweighted average of the first-day-of-the-month prices rather than year-end prices, and permit the use of new technologies to determine proved reserves if they are demonstrated to result in reliable conclusions about reserve volumes. The new rules also permit disclosure of probable and possible reserves meeting new SEC definitions in SEC filed documents, as well as additional reserve cases showing pricing and cost sensitivities. In addition, an oil and gas company is required to report the independence and qualifications of its reserves preparer or auditor, and to file reports when a third party is relied upon to prepare reserves estimates or engaged to conduct a reserves audit.

As noted above, the modernization disclosure requirements apply to oil and gas reserves estimates disclosed in registration statements and annual reports containing financial statements for fiscal years ending on or after December 31, 2009. This may make comparisons to prior periods difficult.

Internal Controls

Our Company's senior management, under the supervision of our Board of Directors, is responsible for the preparation of our estimates of proved reserves at February 28, 2010 and 2009. Our proved reserves are estimated at the property level and compiled for reporting purposes by our external engineers with input from our senior management. Reserves are reviewed and approved internally by our senior management and audit committee.

Our management works closely with our external engineers to ensure the integrity, accuracy and timeliness of data that is furnished to them for their reserve estimation process. We provide our external engineers with pertinent data, such as seismic information, geologic maps, well logs, production tests, material balance calculations, well performance data, operating procedures and relevant economic criteria. We make available all information requested, including our pertinent personnel and consultants, to the external engineers as part of their evaluation of our reserves.

Qualifications of responsible technical persons

Michael J. Newport

Michael J. Newport, our Company's President and Chief Executive Officer, has been actively involved in petroleum land management for nearly thirty years, with experience in all phases of oil and gas land management and expertise in acquisitions, operations, divestitures, agreement preparation, negotiations, CAD mapping and broker supervision.

Mr. Newport started his career with Amoco in its New Orleans office in May 1979 where he spent two years. He was actively involved in supervising brokers and writing all forms of land contracts for North and South Louisiana, Mississippi, Alabama and Florida.

In 1981, Mr. Newport became a district landman for Harkins & Company in its Jackson, Mississippi office where he spent four years assembling drilling prospects and all land activities associated with operations in Mississippi, Alabama, Florida and Louisiana. From 1985 to 1989, Mr. Newport was posted to Harkins & Company's Oklahoma City office where he had the same responsibilities for Oklahoma and Arkansas as well as Mississippi, Alabama, Florida and Louisiana.

Mr. Newport joined Greenhill Petroleum in 1989 in Houston, Texas, where he was the land manager for six years in the Permian Basin Region. In addition to land management activities, Mr. Newport was responsible for acquisitions and divestitures.

After leaving Greenhill, Mr. Newport has spent the last thirteen years managing brokers for West Texas, South Texas, East Texas, Oklahoma and North Louisiana as well as performing all landman management activities for various operators actively drilling and completing wells in these areas.

Mr. Newport received a Bachelor of Business Administration (Finance) degree in June of 1977, a Master of Business Administration degree in August of 1978, and also completed the required hours for a Petroleum Land Management degree in May, 1979.

Simeon King Horton

Simeon King Horton, one of our Company's directors, is a Petroleum Geologist with over thirty years' experience, and provides geological consulting services to Mainland from time to time on a per diem basis. Ms. Horton has an extensive background in exploration and development of major oil and gas projects working as a consultant for oil and gas companies.

Ms. Horton worked for Mr. Dudley Hughes, an independent geologist, in Jackson, Mississippi, from 1977 to 1986. During that time, she gained broad experience in the Mississippi/Alabama Salt Basin, Black Warrior Basin in North Mississippi and Northwest Alabama, and South Florida. The main targets of exploration were the Smackover/Norphlet Formations (located in the Salt Basin), the Paleozoics (located in the Black Warrior Basin), and the Sunniland Lime (located in South Florida). Ms. Horton was also exposed to the Perth Basin in Australia. As District Geologist, she was extensively involved in the exploration and development of a very aggressive drilling program and all facets of the industry.

In 1986, Ms. Horton moved to Shreveport, Louisiana where she was a consultant for various oil and gas investors until 1989.

From 1989 to 1996, Ms. Horton worked with Grigsby Petroleum in Shreveport, Louisiana, a company owned by Mr. Jack Grigsby, an independent geologist. Grigsby Petroleum is very active in North Louisiana and East Texas with numerous properties. Among these are Hosston and Cotton Valley production. Ms. Horton was responsible for all the producing properties, the development of the properties, and the drilling of new wells for Grigsby Petroleum.

From 1996 to present, Ms. Horton has been a consulting petroleum geologist. She has been very active in the Hosston/Cotton Valley trends in North Louisiana and East Texas. She has generated drilling prospects in the area, and has successfully been responsible for the drilling of the Hosston/Cotton Valley in an area where there are sixteen to twenty wells per section.

Simeon King Horton received a Bachelor of Science degree with a Major in Geology and a Minor in Mathematics from the University of Southern Mississippi, Hattiesburg, Mississippi in 1977. She graduated with honors and was selected Outstanding Graduating Senior in Geology for the academic year of 1976-1977. She attended geology field camp thru the Rolla School of Mines, University of Missouri, which was conducted in the state of Utah.

Ms. Horton is an active member of the American Association of Petroleum Geologist and the Shreveport Geological Society, Shreveport, Louisiana.

Ryder Scott Company

The reserves estimates as of February 28, 2010 disclosed herein have been independently prepared by Ryder Scott Company, L.P., a petroleum consulting engineering firm with offices in Houston, Texas, Calgary, Alberta, and Denver, Colorado. Within Ryder Scott, the technical person primarily responsible for overseeing the estimation and evaluation process with respect to the preparation of Ryder Scott's report dated May 11, 2010, filed as an exhibit hereto, was Mr. Joseph E. Blankenship. Mr. Blankenship, an employee of Ryder Scott since 1982, is a Senior Vice President and also serves as chief technical advisor for unconventional reserves evaluation.

Mr. Blankenship is responsible for coordinating and supervising Ryder Scott's staff and consulting engineers in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Blankenship served in a number of engineering positions with Exxon Company USA.

Mr. Blankenship earned a Bachelor of Science degree in Mechanical Engineering from the University of Alabama in 1977. He is a member of the Honorary Engineering Society Pi Tau Sigma and is a registered Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers (SPE) and the Society of Petroleum Evaluation Engineers (SPEE).

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Blankenship fulfills. As part of his 2009 continuing education hours, Mr. Blankenship attended an internally presented 17 hours of formalized training as well as Ryder Scott's day long 2009 Reserves Conference, and a presentation by Dr. John Lee, on the new SEC regulations relating to the "Modernization of Oil and Gas Reporting," published in the Federal Register on January 14, 2009. Mr. Blankenship attended an additional 2 hours of formalized in-house training as well as 15 hours of formalized external training during 2009 covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants. Mr. Blankenship was class instructor in Ryder Scott's 2009 in-house course on unconventional reserves evaluation.

Based on his educational background, professional training and more than 32 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Blankenship has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

Our Oil And Natural Gas Reserves

The following tables set forth our estimated net proved oil and natural gas reserves at February 28, 2010. The subject properties are the Griffith 11-1 well and the Dehan et al. 15H-1 well, both of which are located in the East Holly Field, Desoto Parish, Louisiana. The reserves and income data were estimated based on the definitions and disclosure guidelines of the SEC contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule, released January 14, 2009 in the Federal Register.

Summary of Oil and Gas Reserves as of Fiscal Year-End Based on Average Fiscal-Year Prices

Reserves Category	**Reserves at February 28, 2010 - Onshore Louisiana USA[(1)]**

	Oil (mbbls)	Natural Gas (mmcf)	Synthetic Oil (mbbls)	Synthetic Gas (mmcf)	Natural Gas Liquids (mbbl)
Proved	-	-	-	-	-
Developed	-	1,901	-	-	-
Undeveloped	-	-	-	-	-
Total Proved	-	1,901	-	-	-

Note:

1. On March 12, 2010, we entered into a purchase and sale agreement for the sale to EXCO Operating Company, LP, a wholly owned subsidiary of Exco Resources, of its remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases, for $28,159,604. This agreement, which closed on April 22, 2010 with an effective date of January 1, 2010, provided for the sale of all of our right, title and interest below the base of the Cotton Valley formation in the East Holly Field.

Proved Reserves	Estimated Net Reserves and Income Data at February 28, 2010 - East Holly Field, DeSoto Parish, Louisiana USA[1]						
	Oil (barrels)	Natural Gas[2] (mmcf)	Future Gross Revenue[3]	Deductions[4]	Future Net Income[5]	Discounted Future Net Income at 10%	Percent of Total[6]
Dehan et al. 15H0119	-	1,152	3,658,583	1,245,455	2,413,128	1,880,888	62.754
Griffith 11-001	-	749	2,626,572	1,222,996	1,403,577	1,116,361	37.246
Proved developed producing	-	1,901	6,285,156	2,468,451	3,816,704	2,997,249	100.000
Proved developed non-producing	-	-	-	-	-	-	-

Proved undeveloped	-	-	-	-	-	-	-
Total Proved	-	1,901	6,285,156	2,468,451	3,816,704	2,997,249	100.000

Notes:

1. On March 12, 2010, we entered into a purchase and sale agreement for the sale to EXCO Operating Company, LP, a wholly owned subsidiary of Exco Resources, of its remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases, for $28,159,604. This agreement, which closed on April 22, 2010 with an effective date of January 1, 2010, provided for the sale of all of our right, title and interest below the base of the Cotton Valley formation in the East Holly Field.

2. All gas volumes are reported on an "as sold" basis expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of Louisiana, which are 60 degrees Fahrenheit and 15.025 psi. No attempt has been made to quantify or otherwise account for any accumulated gas production imbalances that may exist. The gas volumes included herein do not attribute gas consumed in operations as reserves.

3. The future gross revenue is after the deduction of production taxes.

4. The deductions incorporate the normal direct costs of operating the wells, ad valorem taxes, gathering and treating fees and certain abandonment costs net of salvage.

5. The future net income is before the deduction of state and federal income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income.

6. Gas hydrocarbon reserves account for 100 percent of total future gross revenue from proved reserves.

Reserve engineering is a subjective process of estimating underground accumulations of natural gas that cannot be measured in an exact manner. More specifically, reserves are those estimated remaining quantities of petroleum which are anticipated to be economically producible, as of a given date, from known accumulations under defined conditions. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may lead to revising the original estimate. Accordingly, initial reserve estimates are often different from the quantities of natural gas that are ultimately recovered. The meaningfulness of such estimates depends primarily on the accuracy of the assumptions upon which they were based. Furthermore, estimated reserves may or may not be actually recovered, and if recovered, the revenues therefrom, and the actual costs related thereto, could be more or less than the estimated amounts.

Furthermore, the estimated reserves and future net income amounts disclosed in this proxy statement/prospectus as of February 28, 2010, are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of Ryder Scott's report are based on the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements as required by the SEC regulations. Actual future prices may vary significantly from the prices required by SEC regulations; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented.

All reserve estimates involve some degree of uncertainty. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. At Mainland's request, Ryder Scott's report addresses only the proved reserves attributable to the properties evaluated therein.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward. The reserves included in this annual report were estimated using deterministic methods.

The reserves disclosed in this annual report are limited to the period prior to expiration of current contracts providing the legal rights to produce or a revenue interest in such production unless evidence indicates that contract renewal is reasonably certain. Furthermore, properties may be subjected to significantly varying contractual fiscal terms that affect the net revenue to Mainland for the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts. Therefore, when applicable, Ryder Scott reviewed the fiscal terms of such contracts and discussed with our Company the net economic benefit attributed to such operations for the determination of the net hydrocarbon volumes and income thereof. Ryder Scott has not conducted an exhaustive audit or verification of such contractual information. Neither Ryder Scott's review of such contractual information nor their acceptance of our Company's representations regarding such contractual information should be construed as a legal opinion on this matter.

Our Company's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include matters relating to land tenure, drilling, production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of reserves actually recovered and amounts of income actually received to differ significantly from the estimated quantities.

The estimates of reserves presented herein were based upon a detailed study of the properties in which we own an interest; however, Ryder Scott did not make any field examination of the properties. Further, no consideration was given in Ryder Scott's report to potential environmental liabilities that may exist, nor were any costs included for potential liabilities to restore and clean up damages, if any, caused by past operating practices.

As disclosed above, subsequent to our financial year end, we entered into a purchase and sale agreement dated March 12, 2010, for the sale to EXCO Operating Company, LP, a wholly owned subsidiary of Exco Resources, of our remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases, for $28,159,604. This agreement, which closed on April 22, 2010 with an effective date of January 1, 2010, provided for the sale of all of our right, title and interest below the base of the Cotton Valley formation in the East Holly Field. Accordingly, we no longer hold any reserves.

Cautionary Note on Certain Canadian Disclosure

Our Company is an "OTC Reporting Issuer" as defined in BC Instrument 51-509, *Issuers Quoted in the U.S. Over-the-Counter Markets*, adopted by the British Columbia Securities Commission, and is therefore subject to National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* (NI 51-101), adopted by the Canadian Securities Administrators, which prescribes the standards for the preparation and disclosure of reserves and related information for companies subject to continuous disclosure requirements under Canadian provincial securities legislation.

As required by NI 51-101, we have disclosed reserves estimates at February 28, 2010 and 2009 in certain filings we have made with the British Columbia Securities Commission which have been evaluated by Ryder Scott Company, LP. Such evaluation of our estimates of proved reserves under NI 51-101 at February 28, 2010 and 2009 was carried out in accordance with the standards set out in the Canadian Oil and Gas Evaluation (COGE) Handbook, prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society). Those standards require that the evaluator plan and perform an evaluation to obtain reasonable assurance as to whether the reserves are free of material misstatement. An evaluation must also include an assessment as to whether the reserves data are in accordance with the principles and definitions presented in the COGE Handbook.

On December 31, 2008, the SEC released its final rules for the modernization of oil and gas reporting. The material changes include the ability to classify unconventional resources such as oil shales and bitumen as proved reserves, if reasonably certain to be economically producible, the ability to use reliable technology to establish undeveloped reserves, the optional ability to report probable reserves, the requirement to track undeveloped locations, as well as the directive to use 12-month average prices and current costs. These resulting changes are more in line with NI 51-101. However, there are material differences to the type of volumes disclosed and the basis from which the volumes are determined. Among other things, NI 51-101 requires gross reserves and future net revenue under forecast pricing and costs; however, the SEC requires disclosure of net reserves, after royalties, under 12-month average prices and current costs. Accordingly, certain reports filed by our Company with the British Columbia Securities Commission pursuant to NI 51-101, and publicly available at

www.sedar.com, contain data which may be materially different from the data contained herein.

DRILLING ACTIVITY

As indicated above, Petrohawk acquired 60% of our Company's right, title and interest in and to the leases in the DeSoto Parish in August 2008. Petrohawk has been designated as the operator on all development relating to these leases, and carried out all drilling and extractive operations during the fiscal years ended February 28, 2010 and 2009. Petrohawk has reported that its current horizontal drilling and completion methodology focuses on completing wells with longer laterals and maximizing the number of fracture stages, spaced approximately 325 feet apart. The objective of this technique is to minimize the total number of wells required to effectively drain the reservoir, resulting in lower overall development costs. Petrohawk also reports that it is currently targeting lateral lengths between 4,300 feet and 4,800 feet with up to 15 fracture stages.

The initial well under our agreement with Petrohawk, the Griffiths 11-1 Well, was spudded on October 20, 2008, and commenced production at the end of January 2009.

Drilling began on the second well under our agreement with Petrohawk, the Stevenson Douglas LLC 16-1 Well, in April 2009. The Stephenson Douglas LLC 16-1 Well has spudded, and surface casing was cemented at about 1800 feet. The Stephenson Douglas LLC 16-1 Well has been successfully drilled to a depth of 10,700 feet and 7 5/8 inch intermediate casing was run on the well to this depth. Petrohawk scheduled a larger rig capable of whip stocking the well and drilling the lateral portion of the wellbore. The well was completed and commenced production in March 2010.

The third well to be drilled, the Dehan 15-1 Well, was drilled in May 2009 and commenced production in August 2009. The well had an initial production rate (IP) of 7.643 million on a $14/64^{th}$ choke. The approximate reading for total gas produced from the Dehan 15-1 Well and shipped to market through April 5, 2010 was 1.7 billion cubic feet (Bcf).

The fourth well has been drilled and awaiting completion. The fifth well is being drilled and is close to total depth.

The table below sets forth the results of drilling activities undertaken by Petrohawk, as operator, the De Soto Parish leases during the periods indicated:

	Years Ended February 28,			
	2010		**2009**	
	Gross	**Net**	**Gross**	**Net**
Exploratory Wells				
Productive[(1)]	-	-	1.0	0.40
Dry	-	-	-	-
Total Exploratory	-	-	1.0	0.40
Development Wells				
Productive[(1)]	1.0	0.26	-	-
Dry	-	-		-
Total Development	1.0	0.26	-	-

Total Wells				
Productive[1]	1.0	0.26	1.0	0.40
Dry	-	-	-	-
Total	1.0	0.26	1.0	0.40

Note:

1. Although a well may be classified as productive upon completion, future changes in oil and natural gas prices, operating costs and production may result in the well becoming uneconomical, particularly exploratory wells where there is no production history.

PRODUCTION INFORMATION

We had no oil and gas production prior to the fiscal year ended February 29, 2009.

Net Production, Average Sales Price And Average Production Costs

The table below sets forth the net quantities of gas production (net of all royalties, overriding royalties and production due to others) attributable to us for fiscal years ended February 28, 2010 and 2009, and the average sales prices, average costs per unit of production.

East Holly Field (Haynesville Shale), De Soto Parish, Louisiana	**Year Ended February 28,**			
	2010		**2009**	
Net Production:				
Natural Gas (Mcf)		675,871		131,442
Natural Gas Equivalent (Mcf)		-		-
Average Daily Production (Mcf)		1,851		4,240
Average Sales Price Per Unit				

Natural Gas (per Mcf)	$	3.56	$	3.93
Natural Gas Equivalent (per Mcf)		-		-
Average Cost per Mcf				
Production				
Direct lifting costs	$	0.146	$	0.044
Workover and other		-		-
Taxes other than income		0.29		0.29
Gathering transportation and other		0.549		0.804

Productive Wells as of Fiscal Year End

The following table sets forth the number of productive oil and natural gas wells in which we owned an interest as of February 28, 2010 and 2009. Shut-in wells currently not capable of production are excluded from producing well information.

	Year Ended February 28,			
	2010[1]		**2009**	
	Gross[2]	Net[3]	Gross[2]	Net[3]
Oil	-	-	-	-

Natural Gas	2	0.33	1	0.40
Total	2	0.33	1	0.40

Notes:

1. On March 12, 2010, we entered into a purchase and sale agreement for the sale to EXCO Operating Company, LP, a wholly owned subsidiary of Exco Resources, of its remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases, for $28,159,604. This agreement, which closed on April 22, 2010 with an effective date of January 1, 2010, provided for the sale of all of our right, title and interest below the base of the Cotton Valley formation in the East Holly Field.

2. A gross well is a well in which a working interest is owned. The number of gross wells is the total number of wells in which a working interest is owned.

3. Net wells represent our working interest share of each well. The term "net" as used in "net production" throughout this document refers to amounts that include only acreage or production that we own and produce to our interest, less royalties and production due to others.

SUMMARY OF DEVELOPED AND UNDEVELOPED ACREAGE INTERESTS

We own interests in developed and undeveloped oil and natural gas acreage in Louisiana and Mississippi. Our ownership interests take the form of working interests in oil and natural gas leases that have varying terms. The following table presents a summary of our acreage interests as of February 28, 2010:

Prospect	**Developed Acreage[(1)]**		**Undeveloped Acreage**		**Total Acreage**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Louisiana						
East Holly - Haynesville[(2)]	640	256	2,055	822	2,640	1,078
East Holly - Cotton Valley	-	-	2,695	2,021	2,695	2,021
Mississippi						
Buena Vista - Haynesville/Bossier	-	-	11,839	8,761	11,839	8,761

Notes:

1. Consists of acres spaced or assignable to productive wells.

2. On March 12, 2010, we entered into a purchase and sale agreement for the sale to EXCO Operating Company, LP, a wholly owned subsidiary of Exco Resources, of its remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases, for $28,159,604. This agreement, which closed on April 22, 2010 with an effective date of January 1, 2010, provided for the sale of all of our right, title and interest below the base of the Cotton Valley formation in the East Holly Field.

We have no gas delivery commitments.

As of our fiscal year ended February 28, 2010, we hade no proved undeveloped reserves ("PUD").

The estimates of quantities of proved reserves above were made in accordance with the definitions contained in SEC Release No. 33-8995, Modernization of Oil and Gas Reporting.

We account for our oil and natural gas producing activities using the full cost method of accounting in accordance with SEC regulations. Accordingly, all costs incurred in the acquisition, exploration, and development of proved oil and natural gas properties, including the costs of abandoned properties, dry holes, geophysical costs, and annual lease rentals are capitalized. All general and administrative corporate costs unrelated to drilling activities are expensed as incurred. Sales or other dispositions of oil and natural gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recorded unless the ratio of cost to proved reserves would significantly change. Depletion of evaluated oil and natural gas properties is computed on the units of production method based on proved reserves. The net capitalized costs of evaluated oil and natural gas properties are subject to a quarterly full cost ceiling test.

Capitalized Costs Relating to Oil and Natural Gas Producing Activities

The following table illustrates the total amount of capitalized costs relating to oil and natural gas producing activities and the total amount of related accumulated depreciation, depletion and amortization.

	Year Ended February 28,		
	2010	2009	2008
	(in thousands)		
Evaluated oil and natural gas properties	$ 7,916	$ 787	$ -
Unevaluated oil and natural gas properties	3,534	-	-
	11,450	787	-
Accumulated depletion, depreciation and amortization	(1,147)	(12)	-
	$ 10,303	$ 775	$ -
			-

Competition

We operate in a highly competitive industry, competing with major oil and gas companies, independent producers and institutional and individual investors, which are actively seeking oil and gas properties throughout the world together with the equipment, labour and materials required to operate properties. Most of our competitors have financial resources, staff and facilities substantially greater than ours. The principal area of competition is encountered in the financial ability to acquire good acreage positions and drill wells to explore for oil and gas, then, if warranted, drill production wells and install production equipment. Competition for the acquisition of oil and gas wells is intense with many oil and gas properties and/or leases or concessions available in a competitive bidding process in which we may lack technological information or expertise available to other bidders. Therefore, we may not be successful in acquiring and developing profitable properties in the face of this competition. No assurance can be given that a sufficient number of suitable oil and gas wells will be available for acquisition and development.

Government Regulation

The production and sale of oil and gas are subject to various federal, state and local governmental regulations, which may be changed from time to time in response to economic or political conditions and can have a significant impact upon overall operations. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties, taxation, abandonment and restoration and environmental protection. These laws and regulations are under constant review for amendment or expansion. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. Changes in these regulations could require us to expend significant resources to comply with new laws or regulations or changes to current requirements and could have a material adverse effect on our business operations.

Regulation Of Oil And Natural Gas Production

Our oil and natural gas exploration, production and related operations are subject to extensive rules and regulations promulgated by federal, state and local authorities and agencies. Failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases our cost of doing business and affects our profitability. Although we believe we are in substantial compliance with all applicable laws and regulations, because such rules and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws.

Many states require permits for drilling operations, drilling bonds and reports concerning operations and impose other requirements relating to the exploration and production of oil and natural gas. Such states also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum rates of production from wells, and the regulation of spacing, plugging and abandonment of such wells.

Federal Regulation Of Natural Gas

The Federal Energy Regulatory Commission ("FERC") regulates interstate natural gas transportation rates and service conditions, which affect the marketing of natural gas produced by us, as well as the revenues received by us for sales of such production. Since the mid-1980's, FERC has issued a series of orders that have significantly altered the marketing and transportation of natural gas. These orders mandate a fundamental restructuring of interstate pipeline sales and transportation service, including the unbundling by interstate pipelines of the sale, transportation, storage and other components of the city-gate sales services such pipelines previously performed. One of FERC's purposes in issuing the orders was to increase competition within all phases of the natural gas industry. Certain aspects of these orders may

be modified as a result of various appeals and related proceedings and it is difficult to predict the ultimate impact of the orders on us and others. Generally, the orders eliminate or substantially reduce the interstate pipelines' traditional role as wholesalers of natural gas in favour of providing only storage and transportation service, and have substantially increased competition and volatility in natural gas markets.

The price, which we may receive for the sale of oil and natural gas liquids, would be affected by the cost of transporting products to markets. FERC has implemented regulations establishing an indexing system for transportation rates for oil pipelines, which, generally, would index such rates to inflation, subject to certain conditions and limitations. We are not able to predict with certainty the effect, if any, of these regulations on any future operations. However, the regulations may increase transportation costs or reduce wellhead prices for oil and natural gas liquids.

Environmental Matters

Our operations and properties will be subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue. These laws and regulations may (i) require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities; (ii) limit or prohibit construction, drilling and other activities on certain lands lying within wilderness and other protected areas; and (iii) impose substantial liabilities for pollution resulting from our operations. The permits required for several of our operations are subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce their regulations, and violations are subject to fines or injunctions, or both. In the opinion of management, we are in substantial compliance with current applicable environmental laws and regulations, and we have no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on our business operations, as well as the oil and natural gas industry in general.

The Comprehensive Environmental, Response, Compensation, and Liability Act ("CERCL") and comparable state statutes impose strict, joint and several liabilities on owners and operators of sites and on persons who disposed of or arranged for the disposal of "hazardous substances" found at such sites. It is not uncommon for the neighbouring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes govern the disposal of "solid waste" and "hazardous waste" and authorize the imposition of substantial fines and penalties for noncompliance. Although CERCLA currently excludes petroleum from its definition of "hazardous substance," state laws affecting our operations impose clean-up liability relating to petroleum and petroleum related products. In addition, although RCRA classifies certain oil field wastes as "non-hazardous," such exploration and production wastes could be reclassified as a hazardous wastes, thereby making such wastes subject to more stringent handling and disposal requirements.

We intend to acquire leasehold interests in properties that for many years have produced oil and natural gas. Although the previous owners of these interests may have used operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties. In addition, some of our properties may be operated in the future by third parties over which we have no control. Notwithstanding our lack of control over properties operated by others, the failure of the operator to comply with applicable environmental regulations may, in certain circumstances, adversely impact our business operations.

The National Environmental Policy Act ("NEPA") is applicable to many of our planned activities and operations. NEPA is a broad procedural statute intended to ensure that federal agencies consider the environmental impact of their actions by requiring such agencies to prepare environmental impact statements ("EIS") in connection with all federal activities that significantly affect the environment. Although NEPA is a procedural statute only applicable to the federal government, a portion of our properties may be acreage located on federal land. The Bureau of Land Management's issuance of drilling permits and the Secretary of the Interior's approval of plans of operation and lease agreements all constitute federal action within the scope of NEPA. Consequently, unless the responsible agency determines that our drilling activities will not materially impact the environment, the responsible agency will be required to prepare an EIS in conjunction with the issuance of any permit or approval.

The Endangered Species Act ("ESA") seeks to ensure that activities do not jeopardize endangered or threatened animals, fish and plant species, nor destroy or modify the critical habitat of such species. Under ESA, exploration and production operation, as well as actions by federal agencies, may not significantly impair or jeopardize the species or their habitat. ESA provides for criminal penalties for wilful violations of the Act. Other statutes that provide protection to animal and plant species and that may apply to our operations include, but are not necessarily limited to, the Fish and Wildlife Coordination Act, the Fishery Conservation and Management Act, the Migratory Bird Treaty Act and the National Historic Preservation Act. Although we believe that our operations are in substantial compliance with such statutes, any change in these statutes or any reclassification of a species as endangered could subject us to significant expense to modify our operations or could force to discontinue certain operations altogether.

Management believes that we are in substantial compliance with current applicable environmental laws and regulations.

Research And Development Activities

No research and development expenditures have been incurred, either on our account or sponsored by customers, to the date of our inception.

Employees

We do not employ any persons on a full-time or on a part-time basis. Michael J. Newport is our President and Chief Executive Officer and William D. Thomas is our Chief Financial Officer and Treasurer. These individuals are primarily responsible for all of our day-to-day operations. Our executive officers are retained and compensated in accordance with the terms and provisions of certain verbal consultant agreements. Other services are provided by outsourcing and consultant and special purpose contracts.

Item 1A. Risk Factors

An investment in our common stock involves a number of very significant risks. You should carefully consider the following risks and uncertainties in addition to other information in evaluating our company and its business before purchasing shares of our common stock. Our business, operating results and financial condition could be seriously harmed due to any of the following risks. The risks described below are all of the material risks that we are currently aware of that are facing our company. Additional risks not presently known to us may also impair our business operations. You could lose all or part of your investment due to any of these risks.

We have a history of operating losses and there can be no assurance we will be profitable in the future.

We are an exploration stage oil and gas company with a history of operating losses. We expect to continue to incur losses in the foreseeable future, and may never be profitable. Although our Company has realized revenues, as of February 28, 2010, we have an accumulated deficit during the exploration stage of $17,948,946. Further, we sold our remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases on April 22, 2010, with an effective date of January 1, 2010, and we no longer have interests in any producing oil and gas properties. Accordingly, we do not expect positive cash flow from operations in the foreseeable future.

Our Company's continuation as a going concern is dependent upon our ability to fund ongoing operations, carry out our business plan, and ultimately to attain profitable operations, all of which is uncertain.

Our Company's continuation as a going concern is dependent upon our ability to fund ongoing operations, carry out our business plan and ultimately to attain profitable operations, all of which is uncertain. Our audited financial statements for the year ended February 28, 2010 contain additional note disclosures to this effect, and the audited financial statements do not include any adjustments that might result from the outcome of this uncertainty. In addition, the report of our Company's independent registered accounting firm accompanying our audited financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern.

There can be no assurance that we will be able to raise sufficient additional capital or eventually have positive cash flow from operations to address all of our cash flow needs. If we are not able to find alternative sources of cash or generate positive cash flow from operations, our business and shareholders will be materially and adversely affected.

We will need to raise additional financing to complete further exploration activities.

We sold our remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases for $28,159,604 on April 22, 2010, with an effective date of January 1, 2010. We initially intended to apply the net proceeds to: (a) provide initial funding for the drilling of up to three wells in the Hosston/Cotton Valley formations of the East Holly Prospect in 2010; (b) fund the drilling of the Burkley-Phillips No. 1 well on the Buena Vista prospect in Mississippi; and (c) to retire our debt to Guggenheim. Additional funding will be required to complete our 2010-2011 operations program. We anticipate that we will receive this funding from a variety of methods, including private placements, equity funding, entering into joint venture transactions with third parties, mezzanine financing and cash flows from successful wells.

Furthermore, if the results of our initial exploratory drilling activities on the East Holly Prospect and/or the Buena Vista Prospect justify further work on the properties, we will require significant additional financing in order to continue our exploration activities and, if warranted, to undertake any development activities. Our exploration and development of, and participation in, what could evolve into an increasing number of oil and gas prospects may require substantial capital expenditures.

There can be no assurance that we will be successful in our efforts to raise these required funds, or on terms satisfactory to us. The continued exploration of our oil and gas properties, and the development of our business, will depend upon our ability to establish the commercial viability of our oil and gas properties, to develop cash flow from operations, and ultimately to achieve profitability, none of which can be assured.

We believe that debt financing will not be available to us, and that we will have to continue to rely on equity financing, the availability of which cannot be assured or, if available, may result in substantial dilution to our existing stockholders. Alternatively, we may be required to finance additional exploration work and, if merited, future development work on our oil and gas properties by offering interests in such properties to one or more third parties, on an earn-in basis.

We presently believe that debt financing (including project financing) will not be available to us as all of our properties are in the early exploration stage. Accordingly, we will have to continue to rely on equity financing, the availability of which cannot be assured or, if available, may result in substantial dilution to our existing stockholders. If equity financing is not available on terms that are satisfactory to us, we may be required to finance additional exploration work and, if merited, future development work on our oil and gas properties by offering interests in such properties to one or more third parties, on an earn-in basis.

If we are unable to obtain additional financing when it is required, we will not be able to continue our exploration activities and our assessment of the commercial viability of our oil and gas properties. Further, if we are able to establish that development of our oil and gas properties is commercially viable, our inability to raise additional financing at that stage would result in our inability to place our oil and gas properties into production and recover our investment.

Exploration expenditures are difficult to predict, and there is no assurance that our actual cash requirements will not exceed our estimates.

There is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that: (i) drilling and completion costs for the three wells that we are planning to drill in the Hosston/Cotton Valley formations of the East Holly Prospect and the Burkley-Phillips No. 1 well on the Buena Vista Prospect increase beyond our expectations; or (ii) we encounter greater costs associated with general and administrative expenses or securities offering costs.

As our oil and gas properties do not contain any reserves, we may not discover commercially exploitable quantities of oil or gas on our properties that would enable us to enter into commercial production, achieve revenues and recover the money we spend on exploration.

Our existing properties do not contain reserves in accordance with the definitions adopted by the SEC and there is no assurance that any exploration program that we carry out will establish reserves. There is a substantial risk that our exploration activities will not result in discoveries of commercially recoverable reserves of oil or gas. Any determination that our property contains commercially recoverable quantities of oil or gas may not be reached until such time that final comprehensive feasibility studies have been concluded establishing that a potential reserve is likely to be economic. There is a substantial risk that any preliminary or final feasibility studies carried out by us will not result in a positive determination that any of our oil and gas properties can be commercially developed.

Our exploration and development activities on our oil and gas properties may not be commercially successful, which could lead us to abandon our plans to develop the property and our investments in exploration.

Our long-term success depends on our ability to establish commercially recoverable quantities of oil and natural gas on our properties that can then be developed into commercially viable operations. Oil and gas exploration is highly speculative in nature, involves many risks and is frequently non-productive. These risks include unusual or unexpected geologic formations, and the inability to obtain suitable or adequate machinery, equipment or labour. The success of oil and gas exploration is determined in part by the following factors:

- identification of potential oil and natural gas reserves based on superficial analysis;
- availability of government-granted exploration permits;
- the quality of management and geological and technical expertise; and
- the capital available for exploration.

Substantial expenditures are required to establish proven and probable reserves through drilling and analysis, to develop processes to extract oil and gas, and to develop the drilling and processing facilities and infrastructure at any chosen site. Whether an oil and gas reserve will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the reserve; oil and natural gas prices, which fluctuate widely; and

government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of oil and gas and environmental protection. We may invest significant capital and resources in exploration activities and abandon such investments if we are unable to identify commercially exploitable reserves. The decision to abandon a project may reduce the trading price of our common stock and impair our ability to raise future financing. We cannot provide any assurance to investors that we will discover or acquire any oil or gas reserves in sufficient quantities on any of our properties to justify commercial operations. Further, we will not be able to recover the funds that we spend on exploration if we are not able to establish commercially recoverable reserves of oil or natural gas on our property.

There is no guarantee that the potential drilling locations we have or acquire in the future will ever produce natural gas or oil, which could have a material adverse effect upon our results of operations.

Prospects that we decide to drill may not yield natural gas or oil in commercially viable quantities. Our prospects were in the stage of preliminary evaluation and assessment and we have decided to drill on the property. However, the use of seismic data, historical drilling logs, offsetting well information, and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling and testing whether natural gas or oil will be present or, if present, whether natural gas or oil will be present in sufficient quantities or quality to recover drilling or completion costs or to be economically viable.

Although extensive historic and proprietary data from a previous well drilled on the Buena Vista, combined with petrochemical analysis reviewed by our Company's land and geological teams have provided the basis for drilling the Burkley-Phillips No. 1 well to the deeper Haynesville formation, it will be the only well drilled in the Buena Vista area testing the Haynesville shale formation since shale gas has emerged as a major production resource. Similarly, although four recent wells drilled by the original operator through the Hosston and Cotton Valley zones to the Haynesville formation on the East Holly Prospect calculate as productive, the three wells that we are planning to drill in the Hosston and Cotton Valley formations are exploratory in nature and intended to evaluate the shale gas production value of these formations.

There can be no assurance that our current drilling activities will be successful, and we may not recover all or any portion of our capital investment in the wells or the underlying leaseholds. Unsuccessful drilling activities would have a material adverse effect upon our results of operations and financial condition. The cost of drilling, completing, and operating wells is often uncertain, and a number of factors can delay or prevent drilling operations including: (i) unexpected drilling conditions; (ii) pressure or irregularities in geological formations; (iii) equipment failures or accidents; (iv) adverse weather conditions; and (iv) shortages or delays in availability of drilling rigs and delivery of equipment.

Shale gas production is subject to certain risks that our production initiatives may not be able to cope with.

The properties from which we intend to produce natural gas frequently contain water, which may hamper our ability to produce gas in commercial quantities. The amount of natural gas that can be commercially produced depends upon the coal quality, the original gas content of the coal seam, the thickness of the seam, the reservoir pressure, the rate at which gas is released from the coal, and the existence of any natural fractures through which the gas can flow to the well bore. However, coal beds frequently contain water that must be removed in order for the gas to detach from the coal and flow to the well bore. The average life of a coal bed well is only five to six years. Our ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not we can produce coal bed methane in commercial quantities.

Our business is difficult to evaluate because we have a limited operating history.

In considering whether to invest in our common stock, you should consider that there is only limited historical financial and operating information available on which to base your evaluation of our performance. Our inception was May 12, 2006 and, as a result, we have a limited operating history.

We are a new entrant into the oil and gas exploration and development industry without profitable operating history.

Initially, our activities were limited to organizational efforts, obtaining working capital and acquiring and developing a very limited number of mineral properties. Subsequently, we changed our business strategy from mineral exploration to oil and gas exploration. As a result, there is limited information regarding our oil and gas property related production potential or revenue generation potential.

The business of oil and gas exploration and development is subject to many risks and if oil and natural gas is found in economic production quantities, the potential profitability of future possible oil and gas ventures depends upon factors beyond our control. The potential profitability of oil and natural gas properties if economic quantities are found is dependent upon many factors and risks beyond our control, including, but not limited to: (i) unanticipated ground conditions; (ii) geological problems; (iii) drilling and other processing problems; (iv) the occurrence of unusual weather or operating conditions and other force majeure events; (v) lower than expected reserve quantities; (vi) accidents; (vii) delays in the receipt of or failure to receive necessary government permits; (viii) delays in transportation; (ix) labour disputes; (x) government permit restrictions and regulation restrictions; (xi) unavailability of materials and equipment; and (xii) the failure of equipment or drilling to operate in accordance with specifications or expectations.

As part of our growth strategy, we intend to acquire additional oil and gas properties.

As part of our growth strategy, we intend to acquire additional oil and gas production properties. Current and subsequent acquisitions may pose substantial risks to our business, financial condition, and results of operations. In pursuing acquisitions, we will compete with other companies, many of which have greater financial and other resources to acquire attractive properties. Even if we are successful in acquiring additional properties, some of the properties may not produce revenues at anticipated levels or failure to conduct drilling on prospects within specified time periods may cause the forfeiture of the lease in that prospect. There can be no assurance that we will be able to successfully integrate acquired properties, which could result in substantial costs and delays or other operational, technical, or financial problems. Further, acquisitions could disrupt ongoing business operations. If any of these events occur, it would have a material adverse effect upon our operations and results from operations.

We may be unable to identify liabilities associated with the property or obtain protection from sellers against them.

One of our growth strategies is to capitalize on opportunistic acquisitions of oil and natural gas reserves. However, our review of our current acquired property is inherently incomplete because it generally is not feasible to review in depth every individual property involved in each acquisition. A detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Further, environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. We may not be able to obtain indemnification or other protections from the sellers against such potential liabilities, which would have a material adverse effect upon our results of operations.

The potential profitability of oil and gas ventures depends upon global political and market related factors beyond our control.

World prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. The potential profitability of oil and gas properties is dependent on these and other factors beyond our control. These factors may materially affect our financial performance if we are successful in our exploration activities and ultimately place any oil or gas wells into production, and, in the near term, may impact on our ability to raise financing for our exploration activities.

Production of oil and gas resources, if found, are dependent on numerous operational uncertainties specific to the area of the resource that affects its profitability.

If we are successful in our exploration activities and ultimately place any oil or gas wells into production, the production area specifics will affect profitability. Adverse weather conditions can hinder drilling operations and ongoing production work. A productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. Production and treatments on other wells in the area can have either a positive or negative effect on our production and wells. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. The content of hydrocarbons is subject to change over the life of producing wells. The marketability of oil and gas from any specific reserve which may be acquired or discovered will be affected by numerous factors beyond our control. These factors include, but are not limited to, the proximity and capacity of oil and gas pipelines, availability of room in the pipelines to accommodate additional production, processing and production equipment operating costs and equipment efficiency, market fluctuations of prices and oil and gas marketing relationships, local and state taxes, mineral owner and other royalties, land tenure, lease bonus costs and lease damage costs, allowable production, and environmental protection. These factors cannot be accurately predicted and the combination of these factors may result in us not receiving an adequate return on our invested capital.

If production results from operations, we will be dependent upon transportation and storage services provided by third parties.

If we are successful in our exploration activities and ultimately place any oil or gas wells into production, we will be dependent on the transportation and storage services offered by various interstate and intrastate pipeline companies for the delivery and sale of our gas supplies. Both the performance of transportation and storage services by interstate pipelines and the rates charged for such services are subject to the jurisdiction of the Federal Energy Regulatory Commission or state regulatory agencies. An inability to obtain transportation and/or storage services at competitive rates could hinder our processing and marketing operations and/or affect our sales margins.

Our results of operations will be dependent upon market prices for oil and gas, which fluctuate widely and are beyond our control.

If we are successful in our exploration activities and ultimately place any oil or gas wells into production, the production area specifics will affect profitability, our revenue, profitability, and cash flow will depend upon the prices and demand for oil and natural gas. The markets for these commodities are very volatile and even relatively modest drops in prices can significantly affect our financial results and impede our growth. Prices received also will affect the amount of future

cash flow available for capital expenditures and may affect our ability to raise additional capital. Lower prices may also affect the amount of natural gas and oil that can be economically produced from reserves either discovered or acquired. Factors that can cause price fluctuations include: (i) the level of consumer product demand; (ii) domestic and foreign governmental regulations; (iii) the price and availability of alternative fuels; (iv) technical advances affecting energy consumption; (v) proximity and capacity of oil and gas pipelines and other transportation facilities; (vi) political conditions in natural gas and oil producing regions; (vii) the domestic and foreign supply of natural gas and oil; (viii) the ability of members of Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls; (ix) the price of foreign imports; and (x) overall domestic and global economic conditions.

The availability of a ready market for our oil and gas, if any, will depend upon numerous factors beyond our control, including the extent of domestic production and importation of oil and gas, the relative status of the domestic and international economies, the proximity of our properties to gas gathering systems, the capacity of those systems, the marketing of other competitive fuels, fluctuations in seasonal demand and governmental regulation of production, refining, transportation and pricing of oil, natural gas and other fuels.

The oil and gas industry in which we operate involved many industry related operating and implementation risks that can cause substantial losses, including, but not limited to, unproductive wells, natural disasters, facility and equipment problems and environmental hazards.

Our drilling activities are subject to many risks, including the risk that we will not discover commercially productive reservoirs. Drilling for oil and natural gas can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficient revenues to return a profit. In addition, our drilling and producing operations may be curtailed, delayed or cancelled as a result of other drilling and production, weather and natural disaster, equipment and service failure, environmental and regulatory, and site specific related factors, including but not limited to: (i) fires; (ii) explosions; (iii) blow-outs and surface cratering; (iv) uncontrollable flows of underground natural gas, oil, or formation water; (v) natural disasters; (vi) facility and equipment failures; (vii) title problems; (viii) shortages or delivery delays of equipment and services; (ix) abnormal pressure formations; and (x) environmental hazards such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.

If any of these events occur, we could incur substantial losses as a result of: (i) injury or loss of life; (ii) severe damage to and destruction of property, natural resources or equipment; (iii) pollution and other environmental damage; (iv) clean-up responsibilities; (v) regulatory investigation and penalties; (vi) suspension of our operations; or (vii) repairs necessary to resume operations.

If we were to experience any of these problems, it could affect well bores, gathering systems and processing facilities, any one of which could adversely affect our ability to conduct operations. We may be affected by any of these events more than larger companies, since we have limited working capital.

The oil and gas industry is highly competitive and there is no assurance that we will be successful in acquiring leases.

The oil and natural gas industry is intensely competitive, and we compete with other companies that have greater resources. Many of these companies not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may have a greater ability to continue exploration activities during periods of low oil and natural gas market prices. Our larger competitors may be able to absorb the burden of present and future federal, state, local and

other laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, because we have fewer financial and human resources than many companies in our industry, we may be at a disadvantage in bidding for exploratory prospects and producing oil and natural gas properties.

Oil and gas operations are subject to comprehensive regulation which may cause substantial delays or require capital outlays in excess of those anticipated causing an adverse effect on our business operations.

Oil and gas operations are subject to federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to federal, state, and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. Environmental standards imposed by federal, provincial, or local authorities may be changed and any such changes may have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Additionally, we may be subject to liability for pollution or other environmental damages which we may elect not to insure against due to prohibitive premium costs and other reasons. To date we have not been required to spend material amounts on compliance with environmental regulations. However, we may be required to do so in the future and this may affect our ability to expand or maintain our operations.

In general, our exploration activities are, and any future production activities will be, subject to certain federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally, environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry.

We believe that our operations comply, in all material respects, with all applicable environmental regulations.

We do not insure against all risks, and we may be unable to obtain or maintain insurance to cover the risks associated with our operations at economically feasible premiums. Losses from an uninsured event may cause us to incur significant costs that could have a material adverse effect upon our financial condition.

Our insurance will not cover all the potential risks associated with the operations of a exploration stage oil and gas company. We may also be unable to obtain or maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, we expect that insurance against risks such as environmental pollution or other hazards as a result of exploration and production may be prohibitively expensive to obtain for a company of our size and financial means. We might also become subject to liability for pollution or other hazards for which insurance may not be available or for which we may elect not to insure against because of premium costs or other reasons. Losses from these events may

cause us to incur significant costs that could have a material adverse effect upon our financial condition and results of operations.

Any change to government regulation/administrative practices may have a negative impact on our ability to operate and our profitability.

The laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in the United States or any other jurisdiction, may be changed, applied or interpreted in a manner which will fundamentally alter our ability to carry on business. The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on us. Any or all of these situations may have a negative impact on our ability to operate and/or our profitability.

We may be unable to retain key employees or consultants or recruit additional qualified personnel.

Our extremely limited personnel means that we would be required to spend significant sums of money to locate and train new employees in the event any of our employees resign or terminate their employment with us for any reason. Due to our limited operating history and financial resources, we are entirely dependent on the continued service of Michael J. Newport, our Chief Executive Officer, and William D. Thomas, our Chief Financial Officer. Further, we do not have key man life insurance on either of these individuals. We may not have the financial resources to hire a replacement if one or both of our officers were to die. The loss of service of either of these employees could therefore significantly and adversely affect our operations.

Our officers and directors may be subject to conflicts of interest.

Our officers and directors serve only part time and are subject to conflicts of interest. Each devotes part of his working time to other business endeavours, including consulting relationships with other entities, and has responsibilities to these other entities. Such conflicts include deciding how much time to devote to our affairs, as well as what business opportunities should be presented to us. Because of these relationships, our officers and directors will be subject to conflicts of interest. Currently, we have a policy in place to address such conflicts of interest.

Nevada law and our articles of incorporation may protect our directors from certain types of lawsuits.

Nevada law provides that our officers and directors will not be liable to us or our stockholders for monetary damages for all but certain types of conduct as officers and directors. Our Bylaws permit us broad indemnification powers to all persons against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing stockholders from recovering damages against our officers and directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require us to use our limited assets to defend our officers and directors against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

Item 1B. Unresolved Staff Comments

The Company received a comment letter from the SEC, dated April 15, 2010, providing comments to the Company's Annual Report on Form 10-K/A (Amendment No. 1) for the Company's fiscal year ended February 28, 2009, as filed with the SEC on March 16, 2010. The Company is in the process of providing responses to such comments and anticipates that such comments will be resolved in the near future.

Item 2. Properties

We lease our principal office space located at 21 Waterway Avenue, Suite 300, The Woodlands, Texas 77380., at a rental cost of approximately $4,200 monthly. The lease may be cancelled at any time with a thirty day notice.

The oil and gas properties in which we have an interest are described above under "Item 1. Business".

Item 3. Legal Proceedings

Except as disclosed below, management is not aware of any legal proceedings contemplated by any governmental authority or any other party involving us or our properties. As of the date of this Annual Report, no director, officer or affiliate is (i) a party adverse to us in any legal proceeding, or (ii) has an adverse interest to us in any legal proceedings. Management is not aware of any other legal proceedings pending or that have been threatened against us or our properties.

During August 2009, we were included in a third party lawsuit filed by Abigail Investments LLC against David Urquhart, a former director of our Company, in the United States District Court for the State of Nevada, Case No. 09-CV-1174. The lawsuit includes a counter-claim by David Urquhart and his personal holding company, Westhampton, Ltd., (together "Urquhart") against the Company and others. The Company's management is of the view that Urquhart has made certain allegations against it including, but not limited to, neglect in the issuance of shares of common stock and granting of stock options. On April 15, 2010 the Company's litigation attorney together with other defendant's litigation attorneys made applications to dismiss the claims of Urquhart. In granting in part and denying in part the various motions to dismiss, Mahan J., held that among other things Urquhart's claims against non-resident defendants by counterclaim should be dismissed, since Urquhart had failed to plead facts sufficient to establish that the court had specific or general jurisdiction over them. The court granted Company's application to dismiss Urquhart's claims for fraud, conspiracy and aiding and abetting, for lack of sufficient particularity. The remainder of the Company's application to dismiss was itself dismissed, but without prejudice to the Company's right to reapply in the future, preferably after completion of discovery. Urquhart's application to amend his pleadings was withdrawn, but without prejudice to his application to reapply for leave to amend. Although we refute these allegations and believe that we should not be included in this action and that the claims contained within the complaint are without merit, it is possible that we may be exposed to a loss contingency. However, the amount of such loss, if any, cannot be reasonably estimated at this time and accordingly, no amount has been recorded to date.

A complaint was filed in the second judicial district court in Washoe County, Nevada by Avasha Group, Ltd. ("Avasha") on November 18, 2009 (such complaint as amended November 23, 2009) against the Company and certain other unnamed defendants. Avasha alleges that on or about April 21, 2008, Avasha entered into private placement subscription agreement with the Company to purchase 500,000 units from the Company (with each unit consisting of one share of the Company's common stock and one-half of one stock purchase warrant, together, the "Securities") for a total purchase price of $500,000. Avasha alleges that it paid such purchase price to the Company but the Securities were not delivered to Avasha. Avasha alleges that it is entitled to delivery of such Securities, as adjusted to take into account subsequent stock split(s) by the Company. The Company believes that this claim is without merit and intends to vigorously defend this matter.

Item 4. (Removed and Reserved)

Not applicable.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities

Market For Common Equity

Shares of our common stock commenced trading on the OTC Bulletin Board under the symbol "MNLU:OB" on approximately May 24, 2006. The market for our common stock is limited, and can be volatile. The following table sets forth the high and low bid prices relating to our common stock on a quarterly basis for the periods indicated as quoted by the NASDAQ stock market, adjusted to give retroactive effect to stock splits. These quotations reflect inter-dealer prices without retail mark-up, mark-down, or commissions, and may not reflect actual transactions.

Quarter Ended	High Bid	Low Bid
February 28, 2010	$1.84	$1.02
November 30, 2009	$1.55	$0.84
August 31, 2009	$1.70	$1.15
May 31, 2009	$2.13	$1.00
February 28, 2009	$2.90	$1.40
November 30, 2008	$3.15	$1.75
August 31, 2008	$3.68	$1.91
May 31, 2008	$2.00	$0.58

As of May 28, 2010, we had 27 shareholders of record, which does not include shareholders whose shares are held in street or nominee names.

Dividend Policy

No dividends have ever been declared by the Board of Directors on our common stock. Our losses do not currently indicate the ability to pay any cash dividends, and we do not indicate the intention of paying cash dividends either on our common stock in the foreseeable future.

Forward Stock Splits

March 2008 Forward Stock Split

On February 25, 2008, our Board of Directors, pursuant to minutes of written consent in lieu of a special meeting, authorized and approved a twenty for one (20:1) forward stock split. This forward split was effectuated on March 11, 2008 upon filing the appropriate documentation with NASDAQ. This forward split increased the issued and outstanding shares of common stock from 1,120,500 to 22,410,000 shares of common stock. Pursuant to Nevada corporate law, at the time of the forward split of our issued and outstanding stock, our authorized share capital was also increased on a 20:1 basis from 10,000,000 shares of common stock to 200,000,000 shares of common stock, with a par value remaining unchanged at $0.0001 per share.

May 2008 Forward Stock Split

On May 12, 2008, our Board of Directors, pursuant to minutes of written consent in lieu of a special meeting, authorized and approved a one-and-one-half for one (1.5:1) forward stock split. This forward split was effectuated on May 29, 2008 upon filing the appropriate documentation with NASDAQ. This forward split increased our issued and outstanding shares of common stock from 26,410,000 to 39,615,000 shares of common stock. At the time the Company effected this forward split, due to an administrative oversight, a Certificate of Change to effect a simultaneous 1.5:1 increase of the Company's authorized common stock was not filed with the Nevada Secretary of State. The Company has rectified this administrative oversight by filing a Certificate of Change with the Nevada Secretary of State to effect, as of May 26, 2010, the 1.5:1 increase of the Company's authorized common stock.

July Forward Stock Split

On June 12, 2009, our Board of Directors, pursuant to minutes of written consent in lieu of a special meeting, authorized and approved a two for one (2:1) forward stock split. This forward split was effectuated on July 13, 2009 upon filing the appropriate documentation with NASDAQ. This forward split increased the issued and outstanding shares of common stock from 40,484,751 to 80,969,502 shares of common stock. Pursuant to Nevada corporate law, at the time of the forward split of our issued and outstanding stock, our authorized share capital was also increased on a 2:1 basis.

As a result of these forward splits and increases of our authorized share capital, as of the date of this Annual Report, our authorized share capital it 600,000,000 shares of common stock, with a par value of $0.0001 per share.

Securities Authorized For Issuance Under Compensation Plans

We have one equity compensation plan, the Mainland Resources Inc. 2008 Stock Option Plan (the "2008 Plan"). The table set forth below presents information relating to our equity compensation plans as of February 28, 2010:

Plan Category	**Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (A)**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (B)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Column (A)) (C)**
Equity Compensation Plans Approved by Securityholders:	-0-	-0-	
Equity Compensation Plans Not Approved by Securityholders:			

2008 Stock Option Plan	7,000,000	1.19	5,000,000
Total:	7,000,000	1.19	5,000,000

2008 Stock Option Plan

On April 7, 2008, our Board of Directors ratified, approved and adopted a Stock Option Plan for the Company allowing for the grant of up to 4,400,000 options to acquire common shares with terms of up to 10 years. Subsequently, our Board of Directors ratified, approved and amended the Stock Option Plan increasing the allowable grant as follows: to 7,600,000 options effective July 9, 2008, to 12,000,000 options effective September 22, 2009 and to 15,000,000 options effective March 22, 2010.

The purpose of the 2008 Plan is to enhance our long-term stockholder value by offering opportunities to our directors, officers, employees and eligible consultants to acquire and maintain stock ownership in order to give these persons the opportunity to participate in our growth and success, and to encourage them to remain in our service.

The 2008 Plan is to be administered by our Board of Directors or a committee appointed by and consisting of one or more members of the Board of Directors, which shall determine (i) the persons to be granted Stock Options under the 2008 Plan; (ii) the number of shares subject to each option, the exercise price of each Stock Option; and (iii) whether the Stock Option shall be exercisable at any time during the option period up to ten (10) years or whether the Stock Option shall be exercisable in instalments or by vesting only. At the time a Stock Option is granted under the 2008 Plan, the Board of Directors shall fix and determine the exercise price at which shares of our common stock may be acquired.

In the event an optionee ceases to be employed by or to provide services to us for reasons other than cause, retirement, disability or death, any Stock Option that is vested and held by such optionee generally may be exercisable within up to ninety (90) calendar days after the effective date that his position ceases, and after such 90-day period any unexercised Stock Option shall expire. In the event an optionee ceases to be employed by or to provide services to us for reasons of retirement, disability or death, any Stock Option that is vested and held by such optionee generally may be exercisable within up to one-year after the effective date that his position ceases, and after such one-year period any unexercised Stock Option shall expire.

No Stock Options granted under the Stock Option Plan will be transferable by the optionee, and each Stock Option will be exercisable during the lifetime of the optionee subject to the option period up to ten (10) years or limitations described above. Any Stock Option held by an optionee at the time of his death may be exercised by his estate within one (1) year of his death or such longer period as the Board of Directors may determine.

The exercise price of a Stock Option granted pursuant to the 2008 Plan shall be paid in full to us by delivery of consideration equal to the product of the Stock Option in accordance with the requirements of the Nevada Revised Statutes. Any Stock Option settlement, including payment deferrals or payments deemed made by way of settlement of pre-existing indebtedness may be subject to such conditions, restrictions and contingencies as may be determined.

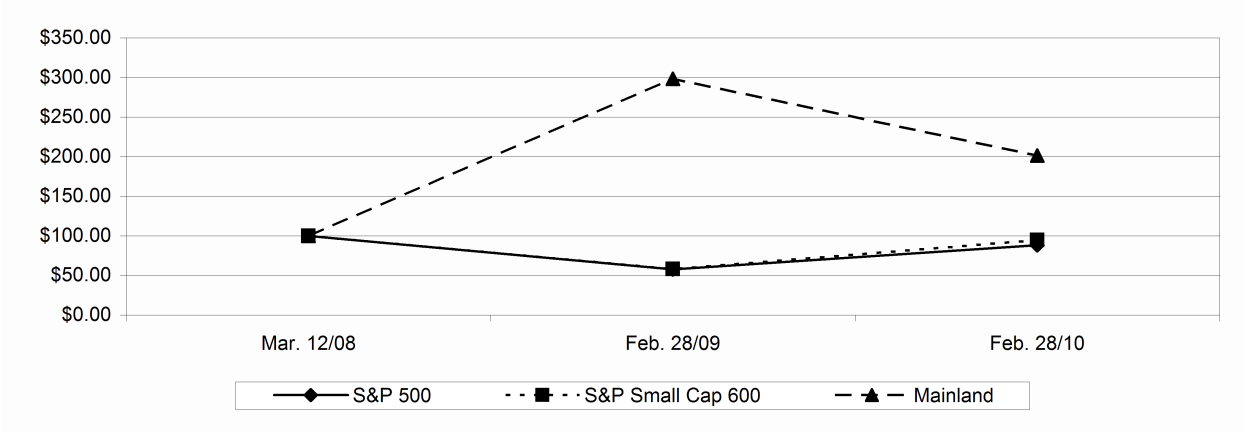
Incentive Stock Options

The 2008 Plan further provides that, subject to the provisions of the Stock Option Plan and prior shareholder approval, the Board of Directors may grant to any key individuals who are our employees eligible to receive options, one or more incentive stock options to purchase the number of shares of common stock allotted by the Board of Directors (the "Incentive Stock Options"). The option price per share of common stock deliverable upon the exercise of an Incentive Stock Option shall be at least 100% of the fair market value of the common shares of the Company, and in the case of an Incentive Stock Option granted to an optionee who owns more than 10% of the total combined voting power of all classes of our stock, shall not be less than 100% of the fair market value of our common shares. The option term of each Incentive Stock Option shall be determined by the Board of Directors, which shall not commence sooner than from the date of grant and shall terminate no later than ten (10) years from the date of grant of the Incentive Stock Option, subject to possible early termination as described above.

As of the date of this Annual Report, no Stock Options have been exercised.

Comparative Stock Performance

Our shares of common stock were first quoted on the OTC Bulletin Board on May 24, 2006; however, no trades occurred until March 12, 2008. The graph below compares the cumulative total stockholder return on our common stock for the period from March 12, 2008 to February 28, 2009 and for the year ended February 28, 2010, with the cumulative total return of the S&P 500 and the cumulative total return of the S&P Small Cap 600 over the same periods (assuming an investment of $100 in our common stock, the S&P 500 and the S&P Small Cap 600 on March 12, 2008, and the reinvestment of all dividends, if any). The cumulative returns of the S&P 500 and the S&P Small Cap 600 from March 12, 2008 through February 28, 2010 were closely aligned, which is why the lines tracking the their performance in the chart below are closely correlated.



Recent Sales Of Unregistered Securities

As of the date of this Annual Report and during fiscal year ended February 28, 2010, to provide capital, we issued stock in exchange for our debts or pursuant to contractual agreements as set forth below.

Effective on March 17, 2009, we issued 5,000 shares of our restricted common stock at a deemed per share price of $1.78 per share in accordance with the terms and provisions of a consulting services agreement. The shares of common stock were issued in reliance on Regulation S promulgated under the Securities Act.

Effective on June 15, 2009, we issued 5,000 shares of our restricted common stock at a deemed per share price of $1.45 per share in accordance with the terms and provisions of a consulting services agreement. The shares of common stock were issued in reliance on Regulation S promulgated under the Securities Act.

During our fiscal year ended February 28, 2010, we issued an aggregate of 1,729,500 shares upon exercise of warrants at an exercise price of $0.67 per share with net proceeds to us of $1,153,000. The shares of common stock were issued in reliance on Rule 506 and Regulation S promulgated under the Securities Act. These warrants were originally issued by us between May 1, 2008 and July 22, 2008 pursuant to a private placement of units.

Item 6. Selected Financial Data

The following selected financial information is qualified by reference to, and should be read in conjunction with our financial statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained elsewhere herein. The selected income statement data for fiscal years ended February 28, 2010 and February 28, 2009 and the selected balance sheet data as of February 28, 2010 and February 28, 2009 are derived from our audited financial statements which are included elsewhere herein.

	Year Ended February 28, 2010 (Audited)	Year Ended February 28, 2009 (Audited)	Inception (May 12, 2006) to February 28, 2010 (Audited)
GENERAL AND ADMINISTRATIVE EXPENSES			
Consulting Fees	$ 311,334	$ 595,374	$ 906,708
Management and rent fees - related party	250,164	126,400	390,984
Marketing expenses	560,025	921,107	1,481,132

Office and general	123,101	82,798	265,148
Professional fees	490,858	243,710	802,168
Salary expense	1,148,000	12,002,685	13,150,685
	2,883,482	13,972,074	16,996,825
NET OPERATING LOSS	(2,883,482)	(13,972,074)	(16,996,825)
OTHER ITEMS			
Interest income	1,070	7,399	8,469
Gain on settlement of debt	-	33,239	33,239
Loss on abandonment on option deposit	(1,300,000)	-	(1,300,000)
NET LOSS BEFORE DISCONTINUED OPERATIONS	(4,182,412)	(13,931,436)	(18,255,117)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(34,575)	355,256	306,171
NET LOSS	(4,216,987)	(13,576,180)	(17,948,946)

Foreign currency translation adjustment	-	422	-
COMPREHENSIVE LOSS	$ (4,216,987)	$ (13,575,758)	$ (17,948,946)
BASIC LOSS PER COMMON SHARE:			
From continuing operations	$ (0.05)	$ (0.18)	
From discontinued operations	(0.00)	0.00	
	$ (0.05)	$ (0.18)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	80,569,066	77,055,822	

Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operation

The following discussion should be read in conjunction with our audited financial statements and the related notes that appear elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and elsewhere in this Annual Report, particularly in the section entitled "Risk Factors". Our audited financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

We are an exploration stage company and have generated limited revenue to date. The table set forth in Item 6 above presents selected financial information for the periods indicated. We have incurred recurring losses to date. Our financial statements have been prepared assuming that we will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

We expect we will require additional capital to meet our long term operating requirements. We expect to raise additional capital through, among other things, the sale of equity or debt securities.

Results Of Operation

Fiscal Year Ended February 28, 2010 Compared To Fiscal Year Ended February 28, 2009.

We did not generate any revenue during our fiscal year ended February 28, 2010 or our fiscal year ended February 28, 2009.

During our fiscal year ended February 28, 2010, we incurred general and administrative expenses of $2,883,482 compared to $13,972,074 incurred during our fiscal year ended February 28, 2009. These general and administrative expenses included the following:

- consulting fees of $311,334 during our fiscal year ended February 28, 2010 (2009 - $595,374), which decreased in 2010 due to higher services required in 2009 during preparation for our drilling program;

- management and rent fees of $250,164 during our fiscal year ended February 28, 2010 (2009 - $126,400), which increased in 2010 due to our expanded program in Mississippi;

- marketing expenses of $560,025 during our fiscal year ended February 28, 2010 (2009 - $921,107), which decreased in 2010 due to our greater emphasis on asset divestiture and building acreage position in Mississippi;

- office and general expenses of $123,101 during our fiscal year ended February 28, 2010 (2009 - $82,798), which increased in 2010 due to our expanded program in Mississippi;

- professional fees of $490,858 during our fiscal year ended February 28, 2010 (2009 - $243,710), which increased in 2010 due to our expanded program in Mississippi, asset divestiture, setting up mezzanine financing program and the proposed merger with American Exploration;

- salary expenses of $1,148,000 during our fiscal year ended February 28, 2010 (2009 - $12,002,685), which decreased in 2010 due to lower stock option grants in 2010 versus 2009.

Our general and administrative expenses incurred during our fiscal year ended February 28, 2010 compared to our fiscal year ended February 28, 2009 decreased primarily due to a decrease in salary expenses from $12,002,685 in 2009 to $1,148,000 in 2010. Our salary expenses were considerably higher in 2009 due to the valuation of stock based compensation consisting of the grant of 4,000,000 stock options during 2009, based on an expected volatility of 260%. We arrived at the 260% volatility by a comparison of other small oil and gas reporting companies regarding valuation of stock options since we have a lack of liquidity and trading history for our shares of common stock. We thus determined that the 260% volatility was appropriate for calculation of the employee stock option compensation using the Black-Sholes method.

As a result, our net operating loss during our fiscal year ended February 28, 2010 was $2,883,482 compared to a net operating loss of $13,972,074 during our fiscal year ended February 28, 2009.

During our fiscal year ended February 28, 2010, we recorded other income in the amount of $1,070, consisting of interest income (2009 - $40,638, consisting of $7,399 in interest income and a $33,239 gain on the settlement of debt). During our fiscal year ended February 28, 2010, we recorded a $1,300,000 loss on the abandonment of an option deposit (2009 - $Nil). In addition, during our fiscal year ended February 28, 2010, we recorded a $34,575 loss from discontinued operations (2009 - $355,256 income from discontinued operations). As a result, our net loss for our fiscal year ended February 28, 2010 was $4,216,987 (2009 - $13,576,180). We had no foreign currency translation adjustment in 2010 (2009 - $422), as result of which our comprehensive loss for fiscal year ended February 28, 2010 was $4,216,987, compared to a comprehensive loss of $13,575,758 during fiscal year ended February 28, 2009.

Liquidity And Capital Resources

As at February 28, 2010, our current assets were $642,042 (2009 - $1,623,321) and our current liabilities were $711,044 (2009 - $70,230), which resulted in a working capital deficit of $69,002 (2009 - working capital surplus of $1,553,091). As at February 28, 2010, our current assets were comprised of $610,124 in cash and $31,918 in prepaid expenses. As at February 28, 2010, current liabilities were comprised of accounts payable and accrued liabilities.

As at February 28, 2010, our total assets were $12,348,940 (2009 - $2,398,332), comprised of: (i) current assets in the amount of $642,042 (2009 - $1,623,321), (ii) oil and gas properties, net of accumulated depletion, in the amount of $3,534,436 (2009 - $775,011), and (iii) $8,172,462 in assets held for sale (2009 - $Nil).

As at February 28, 2010, we had $711,044 in current liabilities (2009 - $70,230) and $11,209,656 in liabilities held for sale (2009 - $Nil).

Stockholders' equity decreased from $2,398,102 as at February 28, 2009 to $428,240 as at February 28, 2010.

Cash Flows From Operating Activities

For our fiscal year ended February 28, 2010, net cash from operating activities was $2,919,284. Our net loss from continuing operations was ($4,182,412). Net cash flows used in operating activities was adjusted by $1,300,000 in non-cash mineral property losses, $1,148,000 in stock-based compensation and $16,125 in non-cash consulting fees. Net cash flows related to operating activities was further changed by ($31,918) in changes to prepaid expenses and $640,814 in changes to accounts payable and accrued liabilities. As a result, net cash used in continuing operations was ($1,109,391), which was offset by cash from discontinued operations of $4,028,675.

For our fiscal year ended February 28, 2009, net cash used in operating activities was ($2,649,341). Our net loss from continuing operations was ($13,931,436). Net cash flows used in operating activities was adjusted by ($33,239) in non-cash mineral property recoveries and $12,002,685 in stock-based compensation. Net cash flows related to operating activities was further changed by ($6,138) in changed to related party accounts payable and $32,111 in changes to accounts payable and accrued liabilities. As a result, net cash used in continuing operations was ($1,936,017), which was further adjusted by ($713,324) in net cash used in discontinued operations.

Cash Flows From Investing Activities

For our fiscal year ended February 28, 2010, net cash flows used in investing activities was ($3,612,436), consisting of investment in oil and gas property of ($3,412,436) and deposit on properties of ($200,000).

For our fiscal year ended February 28, 2009, net cash flows used in investing activities was ($1,170,300), consisting of investment in oil and gas property of ($70,300) and deposit on properties of ($1,100,000).

Cash Flows From Financing Activities

We have financed our operations primarily from either advancements or the issuance of equity and debt instruments.

For our fiscal year ended February 28, 2010, net cash provided by financing activities was $1,153,000 compared to $3,950,000 for our fiscal year ended February 28, 2009. Cash flows provided by financing activities in 2010 consisted of proceeds from the exercise of warrants, while cash flows provided by financing activities in 2009 consisted of proceeds on the sale of common stock.

We expect that working capital requirements will continue to be funded through a combination of our existing funds and further issuances of securities. Our working capital requirements are expected to increase in line with the growth of our business.

Plan Of Operation And Funding

As indicated above, as of February 28, 2010, we had current assets of $642,042 and current liabilities of $711,044, resulting in a working capital deficit of $69,002. Subsequent to our February 28, 2010 year end, we sold our remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases for $28,159,604 on April 22, 2010, with an effective date of January 1, 2010. We intend to apply the net proceeds to: (a) provide initial funding for the drilling of up to three wells in the Hosston/Cotton Valley formations of the East Holly Prospect in 2010; (b) fund the drilling of the Burkley-Phillips No. 1 well on the Buena Vista prospect in Mississippi; and (c) to retire our debt to Guggenheim. Additional funding will be required to complete our 2010-2011 operations program and to complete the merger with American Exploration. We anticipate that we will receive this funding from a variety of methods, including private placements, equity funding, entering into joint venture transactions with third parties, mezzanine financing and cash flows from successful wells.

We have no lines of credit or other bank financing arrangements. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt instruments. In connection with our business plan, management anticipates additional increases in operating expenses and capital expenditures relating to: (i) oil and gas operating properties; (ii) possible drilling initiatives on current properties and future properties; and (iii) future property acquisitions. We intend to finance these expenses with further issuances of securities, and debt issuances. Thereafter, we expect we will need to raise additional capital and generate revenues to meet long-term operating requirements. Additional issuances of equity or convertible debt securities will result in dilution to our current shareholders. Further, such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavours or opportunities, which could significantly and materially restrict our business operations.

Material Commitments

As of February 28, 2010, Guggenheim held a promissory note totalling $10,277,485 payable by us. As a result of our sale of our remaining 40% interest in the Haynesville Shale portion of the East Holly Field leases for $28,159,604 on April 22, 2010, we retired this debt to Guggenheim.

As described above under Item 1 of this Annual Report, our Company has entered into a joint area development agreement with American Exploration to jointly develop contiguous acreage comprising the Buena Vista Prospect. As operator on the Buena Vista Prospect, we recently issued an Authority for Expenditure (AFE) for the Burkley-Phillips

No. 1 Well to be drilled on the Prospect. We intend to drill the well to a depth sufficient to evaluate the Haynesville Shale formation, currently expected to total 22,000 feet. The AFE estimates the drilling cost to be approximately $8,650,000 and completion cost to be approximately $4,900,000 for a total completed well cost of approximately US$13,550,000. Drilling is expected to commence in the latter part of the second quarter of 2010.

American Exploration was unable to fund its 20% share of the estimated total well costs of the Burkley-Phillips No. 1 Well. As a result, American Exploration has forfeited its right to a 29% working interest in the well and in the Buena Vista Prospect in favor of our Company. American Exploration will continue to be entitled to receive a 20% working interest in the well and the Prospect after completion (subject to compliance by American Exploration with all other terms and conditions of our letter agreement and related joint operating agreement with American Exploration).

We were previously required to pay 72% of the total cost to drill and complete the Burkley-Phillips No. 1 Well, for a 45.9% working interest. Due to American Exploration's inability to make its contribution in response to the cash call, we will now pay 90% of the total cost of the well to earn a 72% interest, and Guggenheim Energy Opportunities, LLC ("Guggenheim") will pay 10% of the total cost to earn an 8% interest.

Other than our debt outstanding to Guggenheim as of February 28, 2010 (subsequently retired) and our obligations under our joint operating agreement with American Exploration as described immediately above and under Item 1, we did not have any material commitments for capital expenditures as of February 28, 2010.

Tabular Disclosure of Contractual Obligations

The following table provides information regarding our known contractual oblations as of February 28, 2010:

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations	Nil	Nil	Nil	Nil	Nil
Capital lease obligations	Nil	Nil	Nil	Nil	Nil
Operating lease obligations	Nil	Nil	Nil	Nil	Nil
Purchase obligations	Nil	Nil	Nil	Nil	Nil

Other long-term liabilities reflected on balance sheet under GAAP	Nil	Nil	Nil	Nil	Nil

Off-Balance Sheet Arrangements

As of the date of this Annual Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Going Concern

The independent auditors' report accompanying our February 28, 2010 and February 28, 2009 financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The financial statements have been prepared "assuming that we will continue as a going concern," which contemplates that we will realize our assets and satisfy our liabilities and commitments in the ordinary course of business.

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 860-10, "Transfers and Servicing", FASB ASC 860-10 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. FASB ASC 860-10 is effective for fiscal years beginning after November 15, 2009. The Company will adopt FASB ASC 860-10 in fiscal 2010. The Company does not expect that the adoption of FASB ASC 860-10 will have a material impact on its financial position, cash flows or results of operations.

In June 2009, the FASB issued FASB ASC 810-10, "Consolidation", which included the following: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. FASB ASC 810-10 is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The Company will adopt FASB ASC 810-10 in fiscal 2010. The Company does not expect that the adoption of FASB ASC 810-10 will have a material impact on its financial position, cash flows or results of operations.

In June 2009, the FASB issued FASB ASC 105-10, "Generally Accepted Accounting Principles replaces SFAS No. 162, which establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of FASB ASC 105-10 and the Codification does not change GAAP. FASB ASC 105-10 becomes effective for interim and annual periods

ending after September 15, 2009. The adoption of this statement did not have a material impact on the Company's financial position, cash flows and results of operations.

In August 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-05, "Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value". The guidance provided in this update is effective for the first reporting period beginning after issuance. The adoption of this statement has had no material effect on the Company's financial position, cash flows or results of operations.

In September 2009, the Financial Accounting Standards Board (FASB) issued ASU 2009-12, "Fair Value Measurements and Disclosures" (Topic 820): Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent). This update provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures - Overall, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this update are effective for interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. The adoption of this statement did not have a material impact on the Company's financial position, cash flows and results of operations.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-01, "Equity (Topic 505-10): Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force)". This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. This standard is effective for interim and annual periods ending on or after December 15, 2009, and would be applied on a retrospective basis. The adoption of this statement did not have a material impact on the Company's financial position, cash flows and results of operations.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-02, "Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary". This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations or cash flows of the Company.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-6, "Improving Disclosures about Fair Value Measurements." This update requires additional disclosure within the roll forward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, the update requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Levels 2 and 3. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009, except for the disclosure of purchases, sales, issuances and settlements of Level 3 measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. As ASU 2010-6 only requires enhanced

disclosures, the Company does not expect that the adoption of this update will have a material effect on its financial position, cash flows and results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are subject to risks related to foreign currency exchange rate fluctuations. However, they have not had a material impact on our results of operations to date.

Our functional currency is the United States dollar. However, a portion of our business is transacted in other currencies (the Canadian dollar). As a result, we are subject to exposure from movements in foreign currency exchange rates. We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure to manage our foreign currency fluctuation risk.

Item 8. Financial Statements And Supplemental Data

Report of Independent Registered Public Accounting Firm.

Report of Independent Registered Public Accounting Firm (ICOFR).

Balance Sheets as at February 28, 2010 and February 28, 2009.

Statements of Operations for Fiscal Years Ended February 28, 2010 and February 28, 2009 and from Inception (May 12, 2006) to February 28, 2010.

Statement of Stockholders' Equity for the Period from Inception (May 12, 2006) to February 28, 2010.

Statements of Cash Flows for the Fiscal Years Ended February 28, 2010 And February 28, 2009 and from Inception (May 12, 2006) to February 28, 2010.

Notes to Financial Statements.

De Joya Griffith & Company, LLC

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders
Mainland Resources, Inc.
Las Vegas, Nevada

We have audited the accompanying balance sheets of Mainland Resources, Inc. (An Exploration Stage Company) as of February 28, 2010 and 2009, and the related statements of operations, stockholders' equity, and cash flows for the years then ended and from inception (May 12, 2006) to February 28, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mainland Resources, Inc. as of February 28, 2010 and 2009, and the results of its operations and cash flows for the years then ended and from inception (May 12, 2006) to February 28, 2010, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Mainland Resources, Inc.'s internal control over financial reporting as of February 28, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 27, 2010 expressed an unqualified opinion thereon.

De Joya Griffith & Company, LLC

/s/ De Joya Griffith & Company, LLC
Henderson, NV
May 27, 2010

2580 Anthem Village Drive, Henderson, NV 89052
Telephone (702) 563-1600 • Facsimile (702) 920-8049

De Joya Griffith & Company, LLC

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Registered Public Accounting Firm (ICOFR)

To The Board of Directors and Stockholders
Mainland Resources, Inc.
Las Vegas, Nevada

We have audited Mainland Resources, Inc.'s internal control over financial reporting as of February 28, 2010, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Mainland Resources, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting which is contained in Part I, Item 9A of this Annual Report on Form 10-K under the heading "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Mainland Resources, Inc. maintained, in all material respects, effective internal control over financial reporting as of February 28, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets as of February 28, 2010 and 2009, and the related statements of operations, stockholders' equity, and cash flows for the years then ended and from inception (May 12, 2006) to February 28, 2010, of Mainland Resources, Inc. and our report dated May 27, 2010 expressed an unqualified opinion thereon.

De Joya Griffith & Company, LLC

/s/ De Joya Griffith & Company, LLC
Henderson, NV
May 27, 2010

2580 Anthem Village Drive, Henderson, NV 89052
Telephone (702) 563-1600 • Facsimile (702) 920-8049

MAINLAND RESOURCES INC.

(An Exploration Stage Company)

BALANCE SHEETS
(Audited)

	February 28, 2010	February 28, 2009
	(Audited)	(Audited)
ASSETS		

CURRENT ASSETS		
Cash	$ 610,124	$ 150,276
Accounts Receivable	-	373,045
Prepaid expenses	31,918	-
Deposit on properties (Note 3)	-	1,100,000
Total current assets	642,042	1,623,321
OIL AND GAS PROPERTIES, (Note 3)		
Proved, net of accumulated depletion $Nil (2009 - 12,000)	-	775,011
Unproved	3,534,436	-
Total Oil and Gas Properties	3,534,436	775,011
ASSETS HELD FOR SALE (Notes 3 and 9)	8,172,462	-
TOTAL ASSETS	$ 12,348,940	$ 2,398,332

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 711,044	$ 70,230
TOTAL CURRENT LIABILITIES	711,044	70,230
LIABILITIES HELD FOR SALE (Notes 3, 5 and 9)	11,209,656	-
CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY (Note 6)		
Common stock, 400,000,000 shares authorized with $0.0001 par value		
Issued and outstanding - 80,969,502 common shares	8,097	7,923
(February 28, 2009 - 79,230,000)		
Additional paid-in-capital	18,369,089	16,052,138
Deficit accumulated during exploration stage	(17,948,946)	(13,731,959)

TOTAL STOCKHOLDERS' EQUITY	428,240	2,328,102
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 12,348,940	$ 2,398,332

The accompanying notes are an integral part of these financial statements.

MAINLAND RESOURCES INC.

(An Exploration Stage Company)

STATEMENTS OF OPERATIONS

	Year Ended February 28, 2010	Year Ended February 28, 2009	Inception (May 12, 2006) to February 28, 2010
	(Audited)	(Audited)	(Audited)
GENERAL AND ADMINISTRATIVE EXPENSES			
Consulting Fees	$ 311,334	$ 595,374	$ 906,708
Management and rent fees - related party (Note 8)	250,164	126,400	390,984

Marketing expenses	560,025	921,107	1,481,132
Office and general	123,101	82,798	265,148
Professional fees	490,858	243,710	802,168
Salary expense (Note 7)	1,148,000	12,002,685	13,150,685
	2,883,482	13,972,074	16,996,825
NET OPERATING LOSS	(2,883,482)	(13,972,074)	(16,996,825)
OTHER ITEMS			
Interest income	1,070	7,399	8,469
Gain on settlement of debt	-	33,239	33,239
Loss on abandonment on option deposit (Note 3)	(1,300,000)	-	(1,300,000)
NET LOSS BEFORE DISCONTINUED OPERATIONS	(4,182,412)	(13,931,436)	(18,255,117)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 9)	(34,575)	355,256	306,171
NET LOSS	(4,216,987)	(13,576,180)	(17,948,946)

Foreign currency translation adjustment	-	422	-
COMPREHENSIVE LOSS	$ (4,216,987)	$ (13,575,758)	$ (17,948,946)
BASIC LOSS PER COMMON SHARE:			
From continuing operations	$ (0.05)	$ (0.18)	
From discontinued operations	(0.00)	0.00	
	$ (0.05)	$ (0.18)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	80,569,066	77,055,822	

The accompanying notes are an integral part of these financial statements.

MAINLAND RESOURCES INC.

(An Exploration Stage Company)

STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE PERIOD FROM MAY 12, 2006 (INCEPTION) TO FEBRUARY 28, 2010
(Audited)

	Common Stock			Deficit accumulated	Other Accumulated	
	Number of Shares	Amount	Additional Paid in Capital	during exploration stage	Compre-hensive Income	Stockholders' Equity
Balance, May 12, 2006	-	$ -	$ -	$ -	$ -	$ -
Common stock issued for cash at $0.0000143 per share - June 15, 2006	12,000,000	1,200	(1,028)	-	-	172
Common stock issued for mineral properties at $0.000715 per share - July 15, 2006	6,210,000	621	3,819	-	-	4,440
Common stock issued for cash at $0.000715 per share - October 6, 2006	25,020,000	2,502	15,390	-	-	17,892
Donated Services and rent	-	-	5,793	-	-	5,793
Foreign currency translation adjustment	-	-	-	-	195	195
Net loss for the year	-	-	-	(11,256)	-	(11,256)
Balance, February 28, 2007	43,230,000	4,323	23,974	(11,256)	195	17,236
Common stock issued for cash at $0.00085 per share - October 15, 2007	24,000,000	2,400	18,052	-	-	20,452
Donated services and rent	-	-	8,627	-	-	8,627
Foreign currency translation adjustment	-	-	-	-	(617)	(617)
Net loss for the year	-	-	-	(144,523)	-	(144,523)

Balance, February 29, 2008	67,230,000	6,723	50,653	(155,779)	(422)	(98,825)
Common stock issued for cash at $0.33 per share - May 1, 2008 to July 22, 2008	12,000,002	1,200	3,998,800	-	-	4,000,000
Foreign currency translation adjustment	-	-	-	-	422	422
Stock based compensation	-	-	12,002,685	-	-	12,002,685
Net loss for the year	-	-	-	(13,576,180)	-	(13,576,180)
Balance, February 28, 2009	79,230,002	7,923	16,052,138	(13,731,959)	-	2,328,102
Common stock issued for consulting agreement at $1.78 per share - March 17, 2009	5,000	1	8,874	-	-	8,875
Common stock issued exercise of warrants at $0.67 per share - April 30 - June 1, 2009	1,729,500	172	1,152,828	-	-	1,153,000
Commons stock issued for consulting agreement at $1.45 per share - June 1, 2009	5,000	1	7,249	-	-	7,250
Stock based compensation	-	-	1,148,000	-	-	1,148,000
Net loss for the year	-	-	-	(4,216,987)	-	(4,216,987)
Balance, February 28, 2010	80,969,502	$ 8,097	$ 18,369,089	$ (17,948,946)	$ -	$ 428,240

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended February 28, 2010	Year Ended February 28, 2009	Inception (May 12, 2006) to February 28, 2010
	(Audited)	(Audited)	(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss from continuing operations	$ (4,182,412)	$ (13,931,436)	$ (18,255,117)
Adjustments to reconcile net loss to net cash used in operating activities:			
- Non-cash mineral property losses (recoveries)	1,300,000	(33,239)	1,271,201
- Stock-based compensation (Note 7)	1,148,000	12,002,685	13,150,685
- Non-cash consulting fees (Note 6)	16,125	-	16,125
- Donated services and expenses	-	-	14,420
CHANGES IN OPERATING ASSETS AND LIABILITIES			
- Prepaid expenses	(31,918)	-	(31,918)
- Accounts payable - related parties	-	(6,138)	-
- Accounts payable and accrued liabilities	640,814	32,111	711,044
NET CASH (USED IN) CONTINUING OPERATIONS	(1,109,391)	(1,936,017)	(3,123,560)
NET CASH FROM (USED IN) DISCONTINUED OPERATIONS	4,028,675	(713,324)	2,788,128

NET CASH FROM (USED IN) OPERATING ACTIVITIES	2,919,284	(2,649,341)	(335,432)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in oil and gas property	(3,412,436)	(70,300)	(4,199,447)
Deposit on properties	(200,000)	(1,100,000)	(1,300,000)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(3,612,436)	(1,170,300)	(5,499,447)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds on sale of common stock	-	3,950,000	3,988,516
Proceeds from exercised warrants	1,153,000	-	1,153,000
Advances from related party	-	-	83,239
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,153,000	3,950,000	5,224,755
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	422	-
INCREASE IN CASH	459,848	130,781	610,124
CASH, BEGINNING OF PERIOD	150,276	19,495	-

CASH, END OF PERIOD	$ 610,124	$ 150,276	$ 610,124

SUPPLEMENTAL CASH FLOW INFORMATION AND NONCASH INVESTING AND FINANCING ACTIVITIES:

Cash paid for interest	$ 201,159	$ -	$ 201,159
Cash paid for income taxes	$ -	$ -	$ -
Common stock issued for acquisition of mineral property	$ -	$ -	$ 4,440
Common stock issued for consulting fees	$ 16,125	$ -	$ 16,125
Common stock issued for satisfaction of liability	$ -	$ 50,000	$ 50,000
Donated services and rent	$ -	$ -	$ 14,420

The accompanying notes are an integral part of these financial statements.

MAINLAND RESOURCES INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2010 and 2009
(Audited)

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Mainland Resources Inc. (the "Company") is an exploration stage as defined in FASB ASC 915 "Development Stage Entities" . The Company was incorporated May 12, 2006 in the State of Nevada for the purpose of mineral exploration. During 2008, the Company entered into an option agreement on certain oil and gas leaseholds in the state of Louisiana (refer to Note 3). The Company now intends to locate, explore, acquire and develop oil and gas properties in the United States. The Company began drilling its first well in October 2008 which was completed at the end of January 2009 and commenced production from the Haynesville Shale formation. Through April 2010, the Company had five wells at various stages of drilling, completion and production in the Haynesville Shale formation. Subsequent to the period on April 22, 2010 the Company sold all its Haynesville Shale assets in East Holly Field, DeSoto Parish, Louisiana including the five producing wells (refer to Note 9).

Subsequent to the year end on March 22, 2010, the Company and American Exploration Corporation ("AEC") entered into a definitive Merger Agreement and Plan of Merger (the "Merger Agreement") that contemplates a stock-for-stock merger to be effected under the laws of Nevada. Under the terms of the Merger Agreement, the AEC stockholders will receive one share of the Company for every four shares of AEC common stock they own. Currently, there are approximately 59,718,000 shares of AEC common stock outstanding, which would result in the issuance of approximately 14,929,500 shares of the Company's common stock to the former stockholders of AEC which would represent approximately 15.6% of the issued and outstanding common stock of the Company, as the surviving corporation. The merger is be subject to various conditions, including approval of the respective stockholders of each of the Company and AEC and completion of due diligence. The due diligence by both parties was completed on May 5, 2010. The proposed merger is still subject to respective stockholders approval (refer to Note 4).

Going concern

The Company commenced operations on May 12, 2006. Although the Company has realized revenues, as of February 28, 2010, the Company has an accumulated deficit during the exploration stage of $17,948,946. The ability of the Company to continue as a going concern is dependent on raising capital to fund ongoing operations and carry out its business plan and ultimately to attain profitable operations. Accordingly, these factors raise substantial doubt as to the Company's ability to continue as a going concern. These financials do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from this uncertainty. To date, the Company has funded its initial operations by way of private placements of common stock, advances from related parties and bridge loan financing. During fiscal 2009, the Company completed a private placement of $4,000,000 at $0.33 per unit with each unit consisting of one common share and one half warrant at $0.67 per share exercisable for a period of one year from issuance (refer to Note 6). In addition, during the year ended February 28, 2010, 1,729,500 warrants were exercised at $0.67 for net proceeds to the company of $1,153,000. On August 10, 2009, the Company closed a $3,500,000 bridge loan financing which was replaced effective October 16, 2009 with a secured senior line of credit for $40,000,000 of which $10,278,485 had been advanced as of February 28, 2010. Subsequent to the year end, the entire outstanding balance owed on the secured line of credit was repaid from the sale of assets (refer to Note 3 and 5).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Company was incorporated on May 12, 2006 in the State of Nevada. The Company's fiscal year end is February 28.

Basis of presentation

These financial statements are presented in United States dollars and have been prepared in accordance with United States generally accepted accounting principles.

Oil and gas properties

The Company follows the full cost method of accounting for its oil and gas operations whereby all costs related to the acquisition of methane, petroleum, and natural gas interests are capitalized. Under this method, all productive and non-productive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. Proceeds from the disposal of oil and gas properties are recorded as a reduction of the related capitalized costs without recognition of a gain or loss unless the disposal would result in a change of 20 percent or more in the depletion rate. The Company currently operates solely in the U.S.

Depreciation and depletion of proved oil and gas properties is computed on the units-of-production method based upon estimates of proved reserves, as determined by independent consultants, with oil and gas being converted to a common unit of measure based on their relative energy content.

The costs of acquisition and exploration of unproved oil and gas properties, including any related capitalized interest expense, are not subject to depletion, but are assessed for impairment either individually or on an aggregated basis. The costs of certain unevaluated leasehold acreage are also not subject to depletion. Costs not subject to depletion are periodically assessed for possible impairment or reductions in recoverable value. If a reduction in recoverable value has occurred, costs subject to depletion are increased or a charge is made against earnings for those operations where a reserve base is not yet established.

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

The Company applies a ceiling test to capitalized costs which limits such costs to the aggregate of the estimated present value, using a ten percent discount rate of the estimated future net revenues from production of proven reserves at year end at market prices less future production, administrative, financing, site restoration, and income tax costs plus the lower of cost or estimated market value of unproved properties. If capitalized costs are determined to exceed estimated future net revenues, a write-down of carrying value is charged to depletion in the period.

Asset retirement obligations

The Company has adopted the provisions of FASB ASC 410-20 "Asset Retirement and Environmental Obligations," which requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the related oil and gas properties. As of February 28, 2010, there has been no asset retirement obligations recorded.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant areas requiring management's estimates and assumptions are the determination of the fair value of transactions involving common stock, stock based compensation, financial instruments as well as deferred tax balances and asset impairment tests. Further, depreciation, depletion and amortization of oil and gas properties and the impairment of oil and gas properties are determined using estimates of oil and gas reserves. There are numerous uncertainties in estimating the quantity of reserves and in projecting the future rates of production and timing of development expenditures, including future costs to dismantle, dispose, plug, and restore the Company's properties. Oil and gas reserve engineering must be recognized as a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way. Proved reserves of oil and natural gas are estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in the future from known reservoirs under existing conditions.

Financial instruments

The fair value of the Company's financial assets and financial liabilities approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. As of February 28, 2010, the Company's cash and cash equivalents exceed federally insured limits.

Earnings (loss) per common share

Basic earnings (loss) per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings (loss) per share reflect the potential dilution of securities that could share in the earnings of the Company. Where applicable, dilutive loss per share is equal to that of basic loss per share as the effects of stock options and warrants have been excluded as they are anti-dilutive.

Revenue Recognition

Oil and natural gas revenues are recorded using the sales method, whereby the Company recognizes oil and natural gas revenue based on the amount of oil and gas sold to purchasers, when title passes, the amount is determinable and collection is reasonably assured. Actual sales of gas are based on sales, net of the associated volume charges for processing fees and for costs associated with delivery, transportation, marketing, and royalties in accordance with industry standards. Operating costs and taxes are recognized in the same period in which revenue is earned.

MAINLAND RESOURCES INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2010 and 2009
(Audited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to the taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. As at February 28, 2010, the Company had net operating loss carryforwards, however, due to the uncertainty of realization, the Company has provided a full valuation allowance for the deferred tax assets resulting from these loss carryforwards.

Stock-based compensation

The Company has adopted FASB ASC 718-10, "Compensation- Stock Compensation", which requires the compensation cost related to share-based payments, such as stock options and employee stock purchase plans, be recognized in the financial statements based on the grant-date fair value of the award.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with FASB ASC 718-10 and the conclusions reached by the FASB ASC 505-50. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by FASB ASC 505-50.

Recent accounting pronouncement

In June 2009, the FASB issued FASB ASC 860-10, "Transfers and Servicing", FASB ASC 860-10 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. FASB ASC 860-10 is effective for fiscal years beginning after November 15, 2009. The Company will adopt FASB ASC 860-10 in fiscal 2010. The Company does not expect that the adoption of FASB ASC 860-10 will have a material impact on its financial position, cash flows or results of operations.

In June 2009, the FASB issued FASB ASC 810-10, "Consolidation", which included the following: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. FASB ASC 810-10 is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The Company will adopt FASB ASC 810-10 in fiscal 2010. The Company does not expect that the adoption of FASB ASC 810-10 will have a material impact on its financial position, cash flows or results of operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Recent accounting pronouncement (continued)

In June 2009, the FASB issued FASB ASC 105-10, "Generally Accepted Accounting Principles replaces SFAS No. 162, which establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of FASB ASC 105-10 and the Codification does not change GAAP. FASB ASC 105-10 becomes effective for interim and annual periods ending after September 15, 2009. The adoption of this statement did not have a material impact on the Company's financial position, cash flows and results of operations.

In August 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-05, "Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value". The guidance provided in this update is effective for the first reporting period beginning after issuance. The adoption of this statement has had no material effect on the Company's financial position, cash flows or results of operations.

In September 2009, the Financial Accounting Standards Board (FASB) issued ASU 2009-12, "Fair Value Measurements and Disclosures" (Topic 820): Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent). This update provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures - Overall, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this update are effective for interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. The adoption of this statement did not have a material impact on the Company's financial position, cash flows and results of operations.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-01, "Equity (Topic 505-10): Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force)". This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. This standard is effective for interim and annual periods ending on or after December 15, 2009, and would be applied on a retrospective basis. The adoption of this statement did not have a material impact on the Company's financial position, cash flows and results of operations.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-02, "Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary". This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations or cash flows of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Recent accounting pronouncement (continued)

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-6, "Improving Disclosures about Fair Value Measurements." This update requires additional disclosure within the roll forward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, the update requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Levels 2 and 3. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009, except for the disclosure of purchases, sales, issuances and settlements of Level 3 measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. As ASU 2010-6 only requires enhanced disclosures, the Company does not expect that the adoption of this update will have a material effect on its financial position, cash flows and results of operations.

NOTE 3 - OIL AND GAS PROPERTIES

East Holly Prospect

On February 27, 2008, the Company entered into an option agreement (the "Option Agreement") with Kingsley Resources, Inc. ("Kingsley"), pursuant to which the Company acquired all the right, title and interest Kingsley had in and to certain leasehold estates in the state of Louisiana ("the Leases") which were the subject of a purchase agreement dated December 11, 2007, and modified February 1, 2008 (collectively, the "Leasehold Purchase Agreement") between Kingsley and Permian Basin Acquisition Fund ("Permian"), pursuant to which Kingsley had the right to acquire the sub-surface rights provided for in the Leases. In order to complete the acquisition of the Leases the Company was required to pay $100,000 on April 2, 2008 to Kingsley and assume all of Kingsley's obligations under the Leasehold Purchase Agreement. On March 14, 2008, the Company completed the Option agreement and the Leasehold Purchase Agreement at a total cost of $687,596, which includes the $100,000 that was paid on April 2, 2008, for approximately 2,551 net acres.

On December 21, 2009, the Company acquired, under its agreement with Petrohawk, an additional 159.3 net acres for $412,985 and on December 23, 2009 the Company also acquired an additional 51.96 net acres in conjunction with Petrohawk for $94,731 within the Cotton Valley/Haynesville trend in the State of Louisiana.

Cotton Valley/ Haynesville

The Company has leased various other properties totalling approximately 144 net acres, consisting of approximately 84 net acres leased as of February 29, 2008 and added 60 net acres leased during the year ended February 28, 2009 for additional consideration of $22,753. These additional property leases, within the Cotton Valley/Haynesville trend in the state of Louisiana, are for three year terms. The Company has a 100% Working Interest and a 75% N.R.I. in the leases comprising a total of 2,695 net acres.

Petrohawk Venture Agreement

On July 14, 2008, The Company entered into a binding venture agreement with Petrohawk Energy Corporation ("Petrohawk") for the joint development of the Haynesville Shale on the Company's properties ("the Leases") in De Soto Parish, Louisiana. Effective August 4, 2008, the Company entered into a definitive binding agreement with Petrohawk consummating the transaction on July 14, 2008.

NOTE 3 - OIL AND GAS PROPERTIES (continued)

Petrohawk Venture Agreement (continued)

Under the terms of the Agreement, Petrohawk agreed to pay 100% of the costs of development associated with the first well drilled below the Cotton Valley Formation, including drilling, completing and fracture stimulating, as well as costs up to and including pipeline connection. Petrohawk also agreed to pay 80% of all costs of the second well drilled on the Leases below the base of the Cotton Valley with the Company paying the remaining 20% of the costs. For the third and all subsequent wells drilled on the Leases below the base of the Cotton Valley Formation, Petrohawk will pay 60% of the drilling and completion costs and the Company will pay 40%.

The Company will transfer 60% of its De Soto Parish leases to Petrohawk at closing, but only as the Leases relate to all depths below the base of the Cotton Valley Formation, and specifically the Haynesville Shale. Petrohawk agrees to gather and market the Company's production from above the base of the Cotton Valley Formation, pursuant to a mutually acceptable agreement.

Griffiths 11- #1

The first well under the Petrohawk Agreement, the Griffiths 11- #1, began drilling in October 2008. The well commenced production at the end of January 2009. The Company owns a 40% working interest in the well.

Stevenson Douglas LLC. 16 - #1

The second well under the Petrohawk Agreement, the Steven Douglas LLC 16 - #1, began drilling in April 2009. The well commenced production in March, 2010. The Company owns a 19.09% working interest in the well.

Dehan 15 - #1-H

The third well under the Petrohawk Agreement, the Dehan 15 - #1-H, began drilling in May 2009. The well commenced production in August 2009. The Company owns a 25.73% working interest in the well.

International Paper 12H-1

The fourth well under the Petrohawk Agreement, the International Paper 12-#1H commenced production in April 2010. The Company owns a 20.58% working interest in the well.

Paul Little 7H-#1

The fifth well under the Petrohawk Agreement, the Paul Little 7H-#1. Drilling was completed in May 2010 and is waiting on completion. The Company owns a 20.54% working interest in the well.

Exco Operating Company, LP - Sale

Subsequent to the period on April 22, 2010, the Company closed the sale of its Haynesville Shale assets in East Holly Field, DeSoto Parish, Louisiana. The assets have been sold to EXCO Operating Company, LP., a wholly owned subsidiary of EXCO Resources, for $28,159,604 effective January 1, 2010. The Company has sold its 40% working interest in all rights deeper than the base of the Cotton Valley formation (which has been defined to be 100 feet below the stratigraphic equivalent of the Cotton Valley formation and includes all of the Company's producing wells as described above) in the East Holly Field. The Company continues to own a 100% interest in all rights above this depth and specifically, in the Cotton Valley, Hosston and Upper Bossier sections.

NOTE 3 - OIL AND GAS PROPERTIES (continued)

Exco Operating Company, LP - Sale (continued)

The Company intends to use the proceeds of the sale to fund the drilling of the initial well (designated as the Burkley-Phillips No. 1 Well) on its Buena Vista prospect in Jefferson County, Mississippi, as well as to commence development drilling on the Hosston/Cotton Valley formations in the East Holly Field, and to retire its debt to Guggenheim Partners LLC. (Refer to Note 9).

Mississippi Prospect

On September 3, 2008, the Company signed an Option Agreement with Westrock Land Corp ("Westrock") to acquire 5,000 net acres in mineral oil and gas leases located in the State of Mississippi. In accordance with the terms and provisions of the Option Agreement; (i) the Company will acquire a 100% working interest and a 75% net revenue interest in the Leases; (ii) the Company has agreed to pay certain acquisition costs per net mineral acres and also paid a $500,000 deposit on September 3, 2008 to secure the Option Agreement; (iii) the balance of the acquisition costs totalling $2,275,000 will be due and payable upon completion of the due diligence, to be completed by the Company no later than October 15, 2008. The Option Agreement was subsequently

extended on each of October 15, 2008, November 30, 2008, April 16, 2009 and June 1, 2009 whereby the option period has been extended until January 20, 2010. Additional deposits of $250,000, $100,000, $250,000, $100,000 and $100,000 were paid on October 17, 2008, December 1, 2008, December 29, 2008, April 27, 2009, May 6, 2009 and June 5, 2009 for a total deposit to date of $1,300,000 (February 28, 2009 - $1,100,000). Effective February 12, 2010, based upon completion of its due diligence, the Board of Directors determined that it was not in the best interests of the Company and its shareholders to proceed with the acquisition and development of the Leases in accordance with the terms and provisions of the Option Agreement and the Company authorized the termination of the Option Agreement. The company and Westrock agreed that the Option Agreement would be terminated and the Company and Westrock would be released from their respective duties and obligations. The Company has forfeited its deposit of the $1,300,000 paid to Westrock which was recorded as a loss during the period.

Buena Vista -Mississippi Haynesville/Bossier Prospect

On June 22, 2009, the Company signed an Option Agreement with Westrock Land Corp to acquire approximately 8,000 net acres in mineral oil and gas leases located in the State of Mississippi. In accordance with the terms and provisions of the Option Agreement; (i) the Company will acquire a 100% working interest and a minimum 75% net revenue interest in the Leases; (ii) the Company has agreed to pay certain acquisition costs per net mineral acres by August 31, 2009. On September 28, 2009, the Company amended the Option Agreement to expand the acreage to include an additional 225 acres thus aggregating approximately 8,225 net acres subject to the Option Agreement. The Company further agreed to advance a payment of $300,000 towards the total purchase price of the acreage under the Option Agreement on August 31, 2009. On October 13, 2009 the Company paid an addition $900,000 towards the purchase price of the property and paid the final instalment of $2,090,060 on November 3, 2009 for a total purchase price of $3,290,060. During the year

the Company acquired approximately an additional 861 net acres for $122,376 and subsequent to year end the Company acquired approximately an additional 8,573 net acres at a cost of $556,258. The Company's total acreage as of May 14, 2010 is approximately 17,434 net acres, with net revenue interests ranging from 71.00% to 78.34%.

NOTE 3 - OIL AND GAS PROPERTIES (continued)

Buena Vista -Mississippi Haynesville/Bossier Prospect (continued)

Effective on September 17, 2009, the Board of Directors of the Company authorized the execution of a letter agreement (the "Letter Agreement") with American Exploration Corporation, a Nevada corporation ("AEC") to jointly develop contiguous acreage known as the Buena Vista Area located in Mississippi (the "Joint Development Project"). In accordance with the terms and provisions of the Letter Agreement: (i) AEC agreed to commit approximately 5,000 net acres and the Company agreed to commit approximately 8,225 net acres to the Joint Development Project; (ii) the Company shall be the operator of the Joint Development Project; (iii) the Company agreed to pay 80% of the initial well drilling and completion costs to earn a 51% working interest in the well and the total Joint Development Project; and (iv)AEC agreed to pay 20% of the initial well drilling and completion costs to earn a 49% working interest in the well and the total Joint Development Project. Also in accordance with the terms and provisions of the Joint Development Project, future costs, including drilling and completions, for oil and gas activities of the net acreage in the Joint Development Project will be split on a 51% / 49% basis between the Company and AEC, respectively. The Company was required to acquire the acreage committed to the Joint Development Project from an unrelated third party on or before October 15, 2009 otherwise the Letter Agreement would terminate and would no longer be in force and effect. The Company completed the transaction as per above paragraph.

Subsequent to the year end on April 26, 2010, AEC failed to fund its 20% share of the estimated total well costs of the Burkley-Phillips No. 1 well on the company's Buena Vista Prospect ("Prospect") in Jefferson County, Mississippi. As a result, AEC forfeited its rights to a 29% working interest in the well and in the Prospect in favour of the Company. AEC will continue to be entitled to receive a 20% working interest in the first well and the Prospect after completion, subject to compliance by AEC with all other terms and conditions of the Letter Agreement and the related Joint Operating Agreement. Subsequent to the year end on March 22, 2010 the Company and AEC entered into a definitive Merger Agreement and Plan of Merger (refer to Note 4).

The Company's Oil and Gas properties are made up as follows:

	February 28 2010	February 29, 2009

Oil and Gas Properties:		
Proved, subject to depletion	$ 3,227,866	$ 787,011
Unproved, not subject to depletion	8,223,155	-
	11,451,021	787,011
Accumulated depletion	(1,147,465)	(12,000)
Preliminary Oil and Gas Properties	10,303,556	775,011
Less: reclassified to Assets held for Sale (refer to Note 9)	(6,769,120)	-
Total Oil and Gas Properties	$ 3,534,436	$ 775,011

NOTE 3 - OIL AND GAS PROPERTIES (continued)

The following is a summary of the transactions involving the Company's unproven properties not subject to depletion:

	Acquisition Costs	Development Costs	Total
Balance, February 28, 2008	$ 9,176	$ -	$ 9,176
Incurred during the year	702,923	74,912	777,835
Reallocated to proven and subject to depletion	(712,099)	(74,912)	(787,011)
Balance, February 29, 2009	-	-	-
Incurred during the period	3,920,152	6,743,858	10,664,010
Reallocated to proven and subject to depletion	-	(2,440,855)	(2,440,855)
Preliminary unproven properties	3,920,152	4,303,003	8,223,155
Less: reclassified to Assets held for Sale (refer to Note 9)	(385,716)	(4,303,003)	(4,688,719)
Balance, February 28, 2010	$ 3,534,436	$ -	$ 3,534,436

Depletion of proved oil and gas properties during the year ended February 28, 2010 was computed on the units-of-production method based upon estimated proved reserves of 1,901 MMCF, reserves produced during the period of 675,781 Mcf and net capitalized costs to be amortized totalling $3,227,866 resulting in a depletion cost of $1,135,465 for the period and total accumulated depletion costs as of February 28, 2010 of $1,147,465.

NOTE 4 - PLAN OF MERGER

Merger Agreement and Plan of Merger

Subsequent to the year end on March 22, 2010 the Company and American Exploration Corporation ("AEC") entered into a definitive Merger Agreement and Plan of Merger (the "Merger Agreement") that contemplates a stock-for-stock merger to be effected under the laws of Nevada. If the merger is completed, the Company will be the surviving corporation, and will become vested with all of American Exploration's assets and property.

Under the terms of the Merger Agreement, AEC's stockholders will receive one share of the Company for every four shares of AEC common stock they own. Currently, there are approximately 59,718,000 shares of AEC common stock outstanding, which would result in the issuance of approximately 14,929,500 shares of the Company's common stock to the former stockholders of AEC upon completion of the merger. The former AEC stockholders would then own approximately 15.6% of the issued and outstanding common stock of the Company, as the surviving corporation. The Merger also contemplates that all outstanding common stock options of AEC and all outstanding share purchase warrants of AEC will be replaced with non-transferable stock options non-transferable common stock purchase warrants of the Company under similar terms and conditions as the original AEC options and share purchase warrants. The number of replacement options and warrants issuable will be determined with reference to the above four to one share exchange ratio. The replacement options will be exercisable at a price of $1.50 per share. The Merger Agreement provides that not more that 15,000,000 shares of the Company's common stock shall be issued in exchange for shares of AEC.

The merger is subject to various conditions, including approval of the respective stockholders of each of AEC and the Company, completion of fairness opinions by both parties and completion by each party to its satisfaction, due diligence investigation of the other party's business and affairs to determine the feasibility, economic or otherwise. Both parties have obtained their respective fairness opinions. The due diligence by both parties was completed on May 5, 2010. The proposed merger is still subject to respective stockholders approval.

NOTE 5 - PROMISSORY NOTE

Effective July 21, 2009, the Board of Directors of the Company authorized the execution of a $3,500,000 senior secured bridge loan with Guggenheim Corporate Funding LLC ("Guggenheim") (the "Loan Agreement"). The Company closed the Loan Agreement effective August 10, 2009 with a maturity date of December 1, 2009. In connection with the bridge

loan, $2,000,000 was advanced to the Company with the remaining $1,500,000 to be advanced after certain conditions were met. The term financing also proposes non-binding conditions for a $10,000,000 senior secured advancing line of credit to be negotiated between the Company and Guggenheim. On October 16, 2009, the Board of Directors of the Company authorized the execution of a senior secured advancing line of credit agreement with a maturity date of October 16, 2011 (the "Line of Credit Agreement"). The Line of Credit Agreement represents a $40,000,000 line of credit facility with Guggenheim and certain other lenders. The advances have been used to retire the $2,000,000 outstanding on the $3,500,000 senior secured bridge loan indicated above and to fund well drilling and completion costs and property acquisition costs.

NOTE 5 - PROMISSORY NOTE (continued)

The original bridge loan and the line of credit bear interest at the lower of 12% or bank prime rate plus 7.00% calculated and paid on a monthly basis, of which $201,159 was paid through February 28, 2010. The line of credit is secured by way of a first-priority security interest in all of the Company's assets including the Company's interest in the an area of mutual interest (" AMI") (including but not limited to all properties and leasehold within the DeSoto Acreage and the Buena Vista prospect). In addition, the Company has agreed to assign permanent overriding royalty interests ("ORRI") to Guggenheim ranging from 2.5% (proportionately reduced from the Company's working interest) on any acreage now owned or hereafter acquired within the AMI. If the Company repays the outstanding principal early, and an agreed rate of return has not been realized by Guggenheim, an additional ORRI of 5.5% will be added to the permanent ORRI until Guggenheim realizes the required rate of return, after which only the permanent ORRI will remain. Additionally, Guggenheim will participate through an associated company as a 10% working interest partner in the drilling and development of the Company's Buena Vista project in Mississippi.

The Company paid financing fees in connection with the original bridge loan of $415,600 which were being amortized over the life of the loan of which $249,277 was amortized through October 16, 2009. The then unamortized balance of $166,323 along with $1,093,617 of additional costs incurred in connection with the new line of credit will be amortized over the life of the line of credit to October 16, 2011. A total of $438,276 of this balance was amortized through February 28, 2010 leaving an unamortized balance of $1,070,941.

Subsequent to the period on April 22, 2010 the Company closed the sale of its Haynesville Shale assets in East Holly Field, DeSoto Parish, Louisiana. The assets have been sold to EXCO Operating Company, LP., a wholly owned subsidiary of EXCO Resources, for $28,159,604. The Company used part of the proceeds to retire its debt to Guggenheim and to re-acquire the overriding royalty interests granted to Guggenheim in the DeSoto Acreage. The assets and liabilities related to this disposal have been reclassified as of February 28, 2010 and include the promissory note payable to Guggenheim totalling $10,278,485 being classified as liabilities held for sale and the unamortized deferred financing costs totalling $1,070,941 being classified as assets held for sale (refer to Note 9).

NOTE 6 - STOCKHOLDERS' EQUITY

(a) Share Capital

The Company's capitalization is 400,000,000 common shares with a par value of $0.0001 per share.

The directors of the Company have approved various special resolutions to undertake forward splits of the common stock of the Company as follows: 20 new shares for 1 old share which was effective March 11, 2008; 1.5 new shares for 1 old share which was effective May 29, 2008 and 2 new shares for 1 old share which was effective on July 15, 2009.

All references in these financial statements to number of common shares, price per share and weighted average number of common shares outstanding prior to the 20:1 forward stock split on March 11, 2008, the 1.5:1 forward stock split on May 29, 2008 and the 2:1 forward stock split on July 15, 2009 have been adjusted to reflect these stock splits on a retroactive basis, unless otherwise noted.

MAINLAND RESOURCES INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2010 and 2009
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NOTE 6 - STOCKHOLDERS' EQUITY, (continued)

(a) Share Capital (continued)

Subsequent to the year end, on May 26, 2010 the Company corrected an administrative oversight regarding the Company's authorized share capital in relationship to the 1.5 for 1 forward split that was effective May 28, 2008, by filing a Certificate of Change with the Nevada Secretary of State. As a result, as of May 26, 2010, the Company's authorized share capital has been increased from 400,000,000 to 600,000,0000 shares of common stock, par value $0.0001 per share. There was no change to the Company's issued and outstanding share capital.

(b) Private Placements

On June 15, 2006, the Company issued 12,000,000 unregistered shares of common stock at $0.0000143 per share for proceeds of $172.

On October 6, 2006, the Company issued 25,020,000 unregistered shares of common stock at a price of $0.000715 per share for proceeds of $17,892.

On October 15, 2007, the Company issued 24,000,000 unregistered shares of common stock at a price of $0.00085 per share for proceeds of $20,452.

Between May 1, 2008 and July 22, 2008, the Company completed a private placement of 12,000,000 unregistered units at $0.33 per unit for proceeds of $4,000,000. Of this amount, $50,000 was by way of a settlement of debt and the remaining $3,950,000 was received in cash. Each unit consists of one common share and one-half non-transferable share purchase warrant; one whole non-transferable purchase warrant is exercisable at $0.67 per share for a period of one year from the date of issuance ending on May 1, 2009.

(c) Other issuances

On July 15, 2006, the Company issued 6,210,000 shares of common stock at a price of $0.00071 per share on settlement of $4,440 for mineral property acquisition.

On March 17, 2009, the Company issued 5,000 shares of common stock at an estimated fair value of $1.78 per share as per the terms of a consulting agreement that became effective March 1, 2009.

On June 15, 2009, the Company issued 5,000 shares of common stock at an estimated fair value of $1.45 per share as per the terms of a consulting agreement that became effective March 1, 2009.

MAINLAND RESOURCES INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2010 and 2009
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NOTE 6 - STOCKHOLDERS' EQUITY, (continued)

(d) Share Purchase Warrants

On April 29, 2009, the Company extended the expiration of 6,000,000 warrants from May 1, 2009 to June 1, 2009.

During the year ended February 28, 2010, a total of 1,729,500 warrants were exercised at $0.67 per share with net proceeds of $1,153,000 to the Company and the remaining 4,270,500 warrants expired unexercised.

The Company's share purchase warrants activity for the year ended February 28, 2010 is summarized as follows:

	Number of Warrants	Weighted average exercise Price per share	Weighted average remaining In contractual life (in years)
Balance, February 29, 2009	-	$ -	-
Issued	6,000,000	0.67	-
Expired	-	-	-
Exercised	-	-	-

Balance, February 29, 2009	6,000,000	0.67	0.17
Issued	-	-	-
Expired	(4,270,500)	0.67	-
Exercised	(1,729,500)	0.67	-
Balance, February 28, 2010	-	$ -	-

NOTE 7 - STOCK OPTION PLAN

On April 7, 2008, the Board of Directors of the Company ratified, approved and adopted a Stock Option Plan for the Company allowing for the grant of up to 4,400,000 options to acquire common shares with terms of up to 10 years. Subsequently, the Board of Directors of the Company ratified, approved and amended the Stock Option Plan increasing the allowable grant as follows: to 7,600,000 options effective July 9, 2008, to 12,000,000 options effective September 22, 2009 and to 15,000,000 options effective March 22, 2010. In the event an optionee ceases to be employed by or to provide services to the Company for reasons other than cause, any Stock Option that is vested and held by such optionee may be exercisable within up to ninety calendar days after the effective date that his position ceases. No Stock Option granted under the Stock Option Plan is transferable. Any Stock Option held by an optionee at the time of his death may be exercised by his estate within one year of his death or such longer period as the Board of Directors may determine.

As approved by the Board of Directors, on April 7, 2008, the Company granted 4,200,000 fully vested stock options to certain officers, directors and management of the Company at $0.59 per share for terms of ten years. The total fair value of these options at the date of grant was estimated to be $2,457,000 and was determined using the Black-Scholes option pricing model with an expected life of 5 years, a risk free interest rate of 2.75%, a dividend yield of 0% and expected volatility of 260% and was recorded as a stock based compensation expense in 2009.

As approved by the Board of Directors, between July 9, 2008 and August 19, 2008, the Company granted a total of 2,700,000 fully vested stock options to certain officers and directors of the Company at prices ranging from $2.10 per share to $3.18 per share for terms of ten years. The total fair value of these options at the date of grant was estimated to be $7,157,685 and was determined using the Black-Scholes option pricing model with the following assumptions; expected lives of 5 years, risk free interest rates ranging from 3.07% - 3.12%, dividend yields of 0% and expected volatility of 260% and was recorded as a stock based compensation expense in 2009.

As approved by the Board of Directors, on November 18, 2008, the Company granted a total of 500,000 fully vested stock options to a director of the Company at $2.50 per share for terms of ten years. The total fair value of these options at the date of grant was estimated to be $1,182,500 and was determined using the Black-Scholes option pricing model with the following assumptions; an expected life of 5 years, a risk free interest rate of 2.22%, a dividend yield of 0% and expected volatility of 260% and was recorded as a stock based compensation expense in 2009.

As approved by the Board of Directors, on February 4, 2009, the Company granted a total of 600,000 fully vested stock options to two directors of the Company at $1.50 per share for terms of ten years. The total fair value of these options at the date of grant was estimated at $1,197,000 and determined using the Black-Scholes option pricing model with the following assumptions; an expected life of 5 years, a risk free interest rate of 1.91%, a dividend yield of 0% and expected volatility of 260% and was recorded as a stock based compensation expense in 2009.

Also effective February 4, 2009, the Company cancelled 1,800,000 previously granted and fully vested options to a former director at $0.59 per share and re-priced to $1.50 per share, 3,200,000 previously granted and fully vested options with original exercise prices ranging from $2.10 per share to $3.18 per share with all other terms remaining unchanged from the original issuances. The estimated incremental fair value resulting from the modification of these options of $8,500 was recorded as a stock based compensation expense in 2009.

NOTE 7 - STOCK OPTION PLAN (continued)

As approved by the Board of Directors, on August 14, 2009, the Company granted a total of 800,000 fully vested stock options to two directors of the Company at $1.50 per share for terms of ten years. The total fair value of these options at the date of grant was estimated at $1,148,000 and determined using the Black-Scholes option pricing model with the following assumptions; an expected life of 5 years, a risk free interest rate of 2.51%, a dividend yield of 0% and expected volatility of 260% and was recorded as a stock based compensation expense in 2009.

On September 22, 2009, the Company granted an aggregate of 3,000,000 stock options to the Chief Financial Officer of the Company under the 2008 Stock Option Plan, as amended, with such terms and provisions of the grant, including exercise price and duration of exercise period, to be determined at the time of grant as follows: (a) 1,500,000 Stock Options vesting when the Company has successfully raised equity funding in the amount of $10,000,000 and (b) 500,000 Stock Options vesting when the Company has completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities"); (c) 500,000 Stock Options vesting at the one year anniversary date of the Trading Date, and (d) 500,000 Stock Options vesting at the second year anniversary date of the Trading Date. The exercise price at each vesting date shall be

the lesser of (a) the thirty-day weighted average price of the Company's shares of common stock prior to each of the respective vesting dates and (b) the issue price of the shares of common stock in the equity financings above. To February 28, 2010, no amounts have vested or been recorded in connection with this agreement (refer to Note 8).

On September 22, 2009, the Company granted an aggregate of 1,500,000 stock options to the President of the Company, under the 2008 Stock Option Plan, as amended, with such terms and provisions of the grant, including exercise price and duration of exercise period, to be determined at the time of grant as follows: (a) 500,000 Stock Options vesting when the Company has completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities"); (b) 500,000 Stock Options vesting at the one year anniversary date of the Trading Date, and (c) 500,000 Stock Options vesting at the second year anniversary date of the Trading Date. The exercise price at each vesting date shall be the lesser of (a) the thirty-day weighted average price of the Company's shares of common stock prior to each of the respective vesting dates and (b) the issue price of the shares of common stock in the equity financings above. To February 28, 2010, no amounts have vested or been recorded in connection with this agreement.

Subsequent to the year end between March 25, 2010 and April 8, 2010, the Company granted a total of 3,950,000 stock options to certain officers, directors and advisory board members of the Company at exercise prices ranging from $1.15 to $1.47 per share.

NOTE 7 - STOCK OPTION PLAN (continued)

The Company's stock option activity for the year ended February 28, 2010 is summarized as follows:

	Number of Options	Weighted average exercise Price per share	Weighted average remaining In contractual life (in years)
Balance, February 29, 2009	-	$ -	-
Granted	8,000,000	1.41	-
Exercised	-	-	-
Expired / cancelled	(1,800,000)	0.59	

Balance, February 28, 2009	6,200,000	1.15	9.36
Granted	800,000	1.50	-
Exercised	-	-	-
Expired / cancelled	-	-	
Balance, February 28, 2010	7,000,000	$ 1.19	8.49

NOTE 8 - RELATED PARTY TRANSACTIONS

The Company paid a total of $234,039 in management fees to officers and directors of the Company for the period ended February 28, 2010 (February 28, 2009 - $126,400).

Effective September 22, 2009, the Board of Directors authorized the execution of a two-year executive service agreement with Michael J. Newport, the President/Chief Executive Officer and a director of the Company (the "Executive Service Agreement"). In accordance with the terms and provisions of the Executive Service Agreement: (i) the Company shall continue to pay Mr. Newport a monthly salary of $15,000; (ii) the Company shall grant an aggregate of 1,500,000 stock options (the "Stock Options") to Mr. Newport under its 2008 Stock Option Plan, as amended (the "Stock Option Plan"), with such terms and provisions of the grant, including exercise price and duration of exercise period, to be determined at the time of grant as follows: (a) 500,000 Stock Options vesting when the Company has completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities"); (b) 500,000 Stock Options vesting at the one year anniversary date of the Trading Date, and (c) 500,000 Stock Options vesting at the second year anniversary date of the Trading Date. The exercise price at each vesting date shall be the lesser of (a) the thirty-day weighted average price of the Company's shares of common stock prior to each of the respective vesting dates and (b) the issue price of the shares of common stock in the equity financings above; and (iii) Mr. Newport shall continue to provide services to the Company in the capacity as the President/Chief Executive Officer and a director and further provide consulting advise on exploration strategies, management and operational service considerations.

NOTE 8 - RELATED PARTY TRANSACTIONS (continued)

To February 28, 2010 no amounts have vested or been recorded in connection with the options granted in connection with this agreement.

Effective September 22, 2009, the Board of Directors authorized the execution of a two-year executive service agreement with Mark Witt (the "Executive Service Agreement"). In accordance with the terms and provisions of the Executive Service Agreement: (i) the Company shall pay Mr. Witt a monthly salary of $10,000; (ii) the Company shall grant an aggregate of 3,000,000 stock options (the "Stock Options") to Mr. Witt under its 2008 Stock Option Plan, as amended (the "Stock Option Plan"), with such terms and provisions of the grant, including exercise price and duration of exercise period, to be determined at the time of grant as follows: (a) 1,500,000 Stock Options vesting when the Company has successfully raised equity funding in the amount of $10,000,000 and (b) 500,000 Stock Options vesting when the Company has completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities"); (c) 500,000 Stock Options vesting at the one year anniversary date of the Trading Date, and (d) 500,000 Stock Options vesting at the second year anniversary date of the Trading Date. The exercise price at each vesting date shall be the lesser of (a) the thirty-day weighted average price of the Company's shares of common stock prior to each of the respective vesting dates and (b) the issue price of the shares of common stock in the equity financings above, and (c) Mr. Witt shall provide services to the Company in the capacity as the Treasurer/Chief Financial Officer and a director and further provide consulting advise on exploration strategies, management and operational service considerations.

Subsequent to the period on March 23, 2010 Mr. Witt resigned as the Chief Financial Officer/Treasure of the Company. Under the terms of his separation and release agreement with the company dated March 26, 2010, Mr. Witt is entitled to a severance payment of $77,419, and in lieu of the above mentioned stock options previously awarded being cancelled, he was granted 500,000 commons stock options, exercisable for two years at an exercise price of $1.25 per share.

NOTE 9 - DISCONTINUED OPERATIONS

Exco Operating Company, LP - Sale

Subsequent to the period on April 22, 2010, the Company closed the sale of its Haynesville Shale assets in East Holly Field, DeSoto Parish, Louisiana. The assets have been sold to EXCO Operating Company, LP., a wholly owned subsidiary of EXCO Resources for $28,159,604 effective January 1, 2010. The Company has sold its 40% working interest in all rights deeper than the base of the Cotton Valley formation (which has been defined to be 100 feet below the stratigraphic equivalent of the Cotton Valley formation and includes all of the Company's producing wells) in the East Holly Field. The Company continues to own a 100% interest in all rights above this depth and specifically, in the Cotton Valley, Hosston and Upper Bossier sections.

NOTE 9 - DISCONTINUED OPERATIONS (continued)

As at February 28, 2010, certain assets and liabilities disposed of or discharged directly or indirectly in connection with this transaction have been classified as Assets or Liabilities Held for Sale. A summary of the items classified as Assets Held for Sale and Liabilities Held for Sale as at February 28, 2010 is as follows:

ASSETS HELD FOR SALE

Accounts receivable - production	$ 332,401
Deferred finance fees	1,070,941
Oil and Gas properties	6,769,120
TOTAL ASSETS HELD FOR SALE	$ 8,172,462

LIABILITIES HELD FOR SALE

Accounts payable - development costs	$ 108,566
Accounts payable - finance costs	822,605
Promissory note	10,278,485
TOTAL LIABILITIES HELD FOR SALE	$ 11,209,656

For all periods presented, the results of the Company represent the results related to the disposed of wells, related properties and financing activities as discontinued operations. A summary of the components of the results of discontinued operations is as follows:

	Year Ended February 28,	Year Ended February 28,	Inception (May 12, 2006) to February 28,

	2010	2009	2010
REVENUES			
Oil and gas revenue	$ 2,407,600	$ 516,579	$ 2,924,179
GENERAL AND ADMINISTRATIVE EXPENSES			
Operating costs and taxes	667,275	149,323	816,598
Depletion Allowance	1,135,465	12,000	1,147,465
Mineral property costs	-	-	14,510
	1,802,740	161,323	1,978,573
NET OPERATING INCOME	604,860	355,256	945,606
OTHER ITEMS			
Interest expense	(201,159)	-	(201,159)
Finance costs	(438,276)	-	(438,276)

INCOME (LOSS) FROM DISCONTINUED OPERATIONS	$ (34,575)	$ 355,256	$ 306,171

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NOTE 10 - INCOME TAXES

The Company has adopted the FASB ASC 740-10, "Income Taxes". As of February 28, 2010, and February 29, 2009, the Company had net operating loss carry forwards of approximately $4,779,401 and $1,710,414 respectively that may be available to reduce future years' taxable income through 2030. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements, as their realization is determined not likely to occur and accordingly, the Company has recorded a valuation allowance for the deferred tax asset relating to these tax loss carryforwards.

The provision for income taxes consisted of the following components for the years ended February 28, 2010 and February 29, 2009:

	2010	2009
Current:		
Federal	35.0%	35.0%
State	0.0%	0.0%
Deferred:	-	-
Total income tax provision	35.0%	35.0%

Components of net deferred tax assets, including a valuation allowance, are as follows at February 28:

	2010	2009
Deferred tax assets:		
Net operating loss carryforward	$ 4,779,401	$ 1,710,414
Total deferred tax assets	1,672,790	598,645
Less: Valuation Allowance	(1,672,790)	(598,645)
Net Deferred Tax Assets	$ -	$ -

The valuation allowance for deferred tax assets as of February 28, 2010 and February 28, 2009 was $1,671,031 and $598,645, respectively. In assessing the recovery of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversals of future deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. As a result, management determined it was more likely than not the deferred tax assets would be realized as of February 28, 2010 and February 28, 2009.

NOTE 11 - SUBSEQUENT EVENTS

Stock Option Plan

Subsequent to the year end on March 22, 2010 the Board of Directors increased the allowable number of options to be granted from 12,000,000 shares to 15,000,000 shares.

Stock Options

Subsequent to the year end between March 25, 2010 and April 8, 2010, the Company granted a total of 3,950,000 stock options to certain officers, directors and advisory committee members of the Company at exercise prices ranging from $1.15 to $1.47.

Related Parties

Subsequent to the period on March 23, 2010, Mr. Witt resigned as the Chief Financial Officer/Treasurer of the Company. Under the terms of his separation and release agreement with the company dated March 26, 2010, Mr. Witt is entitled to a severance payment of $77,419, and in lieu of cancellation of previously awarded stock options, he has been granted 500,000 common stock options, exercisable for two years at an exercise price of $1.25 per share.

Exco Operating Company, LP - Sale

Subsequent to the period on April 22, 2010, the Company closed the sale of its Haynesville Shale assets in East Holly Field, DeSoto Parish, Louisiana. The assets have been sold to EXCO Operating Company, LP., a wholly owned subsidiary of EXCO Resources for $28,159,604 with an effective date of January 1, 2010. The Company has sold its 40% working interest in all rights deeper than the base of the Cotton Valley formation (which has been defined to be 100 feet below the stratigraphic equivalent of the Cotton Valley formation and includes all of the Company's producing wells) in the East Holly Field. The Company continues to own a 100% interest in all rights above this depth and specifically, in the Cotton Valley, Hosston and Upper Bossier sections.

Merger Agreement and Plan of Merger

Subsequent to the year end on March 22, 2010 the Company and American Exploration Corporation ("AEC") entered into a definitive Merger Agreement and Plan of Merger (the "Merger Agreement") that contemplates a stock-for-stock merger to be effected under the laws of Nevada. Under the terms of the Merger Agreement, the AEC stockholders will receive one share of the Company for every four shares of AEC common stock they own. Currently, there are approximately 59,718,000 shares of AEC common stock outstanding, which would result in the issuance of approximately 14,929,500 shares of the Company's common stock to the former stockholders of AEC which would represent approximately 15.6% of the issued and outstanding common stock of the Company, as the surviving corporation. The merger is be subject to various conditions, including approval of the respective stockholders of each of the Company and AEC, completion of fairness opinions for both parties and completion of due diligence. Both parties have obtained their respective fairness opinions. The due diligence by both parties was completed on May 5, 2010. The proposed merger is still subject to respective stockholders approval (refer to Note 4).

Share Capital

Subsequent to the year end, on May 26, 2010 the Company corrected an administrative oversight regarding the Company's authorized share capital in relationship to the 1.5 for 1 forward split that was effective May 28, 2008, by filing a Certificate of Change with the Nevada Secretary of State. As a result, as of May 26, 2010, the Company's authorized share capital has been increased from 400,000,000 to 600,000,0000 shares of common stock, par value $0.0001 per share. There was no change to the Company's issued and outstanding share capital.

NOTE 12 -CONTINGENCIES

During August 2009, the Company was included in a third party lawsuit by a former director of the Company. The former Director has made certain allegations against the Company, as specifically described in the body of the Company's August 31, 2009 and November 30, 2009 filings on Form 10-Q and February 28, 2010 10-K. Although the Company refutes these allegations and believes it should not be included in this action and that the claims contained within the lawsuit are without merit, it is possible that the Company may be exposed to a loss contingency. However, the amount of such loss, if any, cannot be reasonably estimated at this time and accordingly, no amount has been recorded to date.

A complaint was filed in the second judicial district court in Washoe County, Nevada by Avasha Group, Ltd. ("Avasha") on November 18, 2009 (such complaint as amended November 23, 2009) against the Company and certain other unnamed defendants. Avasha alleges that on or about April 21, 2008, Avasha entered into private placement subscription agreement with the Company to purchase 500,000 units from the Company (with each unit consisting of one share of the Company's common stock and one-half of one stock purchase warrant, together, the "Securities") for a total purchase price of $500,000. Avasha alleges that it paid such purchase price to the Company but the Securities were not delivered to Avasha. Avasha alleges that it is entitled to delivery of such Securities, as adjusted to take into account subsequent stock split(s) by the Company. The Company believes that this claim is without merit and intends to vigorously defend this matter.

NOTE 13 -SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED)

Oil and Natural Gas Reserves

Users of this information should be aware that the process of estimating quantities of "proved" and "proved developed" oil and natural gas reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserve estimates may occur from time to time. Although every reasonable effort is made to ensure reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various reservoirs make these estimates generally less precise than other estimates included in the financial statement disclosures.

Proved reserves represent estimated quantities of natural gas, crude oil and condensate that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions in effect when the estimates were made. Proved developed reserves are proved reserves expected to be recovered through wells and equipment in place and under operating methods used when the estimates were made.

Estimates of proved reserves at February 28, 2010 were prepared by Ryder Scott Company, L.P., the Company's independent consulting petroleum engineers. All proved reserves are located in the United States.

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NOTE 13 -SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED) (continued)

The following table illustrates the Company's estimated net proved reserves, including changes, and proved developed reserves for the periods indicated, as estimated by Ryder Scott Company, L.P. The gas price as of February 28, 2010 is based on the 12-month unweighted average of the first of the month prices of the Henry Hub spot price which equates to $3.51 per Mcf. All prices are adjusted by lease for energy content, transportation fees, and regional price differentials. All prices are held constant in accordance with SEC guidelines. All proved reserves are located in the United States.

	Proved Reserves		
	Oil (MBbls)	Gas (Mmcf)	Equivalent (Mmcfe)
Proved reserves, February 28, 2008	0	1,224	1,224
Extensions and discoveries	0	1,353	1,353
Production	0	(676)	(676)
Proved reserves, February 28, 2009	$0	1,901	1,901

Oil and Gas Operations

The following table sets forth revenue and direct cost information relating to the Company's oil and gas exploration and production activities.

	2010	2009
Gas production revenues	$2,240,574	$516,579
Operating cost: Depreciation, depletion and amortization	(1,135,465)	(12,000)
Lease operating costs	(325,159)	(149,323)
Results of operations	$779,950	$355,256
Amortization rate per boe	$10.09	$0.55

NOTE 13 -SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED) (continued)

Capitalized Costs Relating to Oil and Natural Gas Producing Activities

The following table illustrates the total amount of capitalized costs relating to oil and natural gas producing activities and the total amount of related accumulated depreciation, depletion and amortization.

	February 28		
	2010	**2009**	**2008**
	(In thousands)		
Evaluated oil and natural gas properties	$ 7,916	$ 787	$ 0
Unevaluated oil and natural gas properties	3,534	0	0
	11,450	787	0
Accumulated depletion, depreciation and amortization	(1,147)	(12)	0
	$ 10,303	$ 775	$ 0

Costs Incurred in Oil and Natural Gas Property Acquisition, Exploration and Development Activities

Costs incurred in property acquisition, exploration and development activities were as follows:

	Years Ended February 28,		
	2010	**2009**	**2008**
	(In thousands)		

Property acquisition costs, proved (1)	$ 786	$712	$0
Property acquisition costs, unproved (1)	3,924	0	9
Exploration and extension well costs	0	0	0
Development costs	6,741	75	0
Total costs	$11,451	$787	$9

(1) Development costs and Property acquisition costs for proved and unproved includes $7,904,000 in costs relating to Assets held for sale as of February 28, 2010.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves

The following Standardized Measure of Discounted Future Net Cash Flow information has been developed utilizing ASC 932, *Extractive Activities --Oil and Gas,* (ASC 932) procedures and based on oil and natural gas reserve and production volumes estimated by the Company's engineering staff. It can be used for some comparisons, but should not be the only method used to evaluate the Company or its performance. Further, the information in the following table may not represent realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flow be viewed as representative of the current value of the Company.

NOTE 13 -SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED) (continued)

The Company believes that the following factors should be taken into account when reviewing the following information:

- future costs and selling prices will probably differ from those required to be used in these calculations;

- due to future market conditions and governmental regulations, actual rates of production in future years may vary significantly from the rate of production assumed in the calculations;

- a 10% discount rate may not be reasonable as a measure of the relative risk inherent in realizing future net oil and natural gas revenues; and

- future net revenues may be subject to different rates of income taxation.

Under the Standardized Measure, for the years ended February 28, 2010 and 2009 the future cash inflows were estimated by applying year-end oil and natural gas prices to the estimated future production of year-end proved reserves. Estimates of future income taxes are computed using current statutory income tax rates including consideration for estimated future statutory depletion and tax credits. The resulting net cash flows are reduced to present value amounts by applying a 10% discount factor. Use of a 10% discount rate and year-end prices were required.

The Standardized Measure is as follows:

	Years Ended February 28,		
	2010	**2009**	**2008**
Future cash inflows	$6,285	$4,092	0
Future productions costs	(2,461)	(1,649)	0
Future development costs	(7)	(4)	0
Future income tax expense	0	0	0
Future net cash flows 10% discounts	3,817	2,439	0
10% annual discount for estimated timing of cash flows	(820)	(272)	0

Standardized measure of discounted future net cash flows	$2,997	$2,167	0

Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure

Our principal independent accountant from February 20, 2008 to current date is De Joya Griffith & Company, LLC ("De Joya"). During fiscal years ended February 28, 2010 and 2009, there were no disagreements between us and De Joya, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of De Joya, would have caused De Joya to make reference thereto in its report on our audited financial statements.

Item 9A. Controls And Procedures

Evaluation Of Disclosure Controls And Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our president (also our principal executive officer) and our secretary, treasurer and chief financial officer (also our principal financial and accounting officer) to allow for timely decisions regarding required disclosure.

As of February 28, 2010, we carried out an evaluation, under the supervision and with the participation of our President/Chief Executive Officer and our Chief Financial Officer of the effectiveness of our disclosure controls and procedures. Based on the foregoing, our President/Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of February 28, 2010.

Management's Annual Report On Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, we evaluated the effectiveness of our internal control over financial reporting as of February 28, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework.

Based upon this assessment, we determined that our internal control over financial reporting as of February 28, 2010 was effective.

De Joya Griffith & Company, LLC, Certified Public Accountants, the registered public accounting firm that audited the financial statements included in this annual report, has issued an attestation report regarding our internal control over financial reporting.

Changes In Internal Controls

There have been no changes in our internal control over financial reporting during our fourth fiscal quarter of our fiscal year ended February 28, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers And Corporate Governance

Identification Of Directors And Executive Officers

All of our directors hold office until the next annual general meeting of the shareholders or until their successors are elected and qualified. Our officers are appointed by our board of directors and hold office until their earlier death, retirement, resignation or removal.

Our directors and executive officers, their ages and positions held are as follows:

Name	Age	Position with Company
Michael J. Newport	56	President/Chief Executive Officer
William D. Thomas	58	Secretary/Treasurer, Chief Financial Officer and a Director
Simeon King Horton	58	Director
Angelo Viard	37	Director
Peter G. Wilson	42	Director
Rahim Jivraj	32	Director

Business Experience

The following is a brief account of the education and business experience of each director, executive officer and key employee during at least the past five years, indicating each person's principal occupation during the period, and the name and principal business of the organization by which he or she was employed, and including other directorships held in reporting companies.

Michael J. Newport.

Mr. Newport has been our President/Chief Executive Officer since February 28, 2008. Mr. Newport previously served as our director from February 28, 2008 until December 3, 2009 Mr. Newport has been actively involved in land management for nearly thirty years. He started his career with Amoco in their New Orleans office in May 1979 where he spent two years. Mr. Newport was actively involved in supervising brokers and writing all forms of land contracts for North and South Louisiana, Mississippi, Alabama and Florida. He then became a district landman for Harkins & Company in their Jackson, Mississippi office where he spent four years assembling drilling prospects and all land activities associated with operations in Mississippi, Alabama, Florida and Louisiana. The next four years were spent in

Harkin's Oklahoma City office where he had the same responsibilities for Oklahoma and Arkansas as well as Mississippi, Alabama, Florida and Louisiana. Mr. Newport then joined Greenhill Petroleum in 1989 in Houston, Texas, where he was the land manager for six years in their Permian Basin Region. In addition to land management activities, Mr. Newport was responsible for acquisitions and divestitures. After leaving Greenhill, Mr. Newport has spent the last thirteen years managing brokers for West Texas, South Texas, East Texas, Oklahoma and North Louisiana as well as performing all landman management activities for various operators actively drilling and completing wells in these areas. Mr. Newport has nearly thirty years of experience in all phases of oil and gas land management with expertise in acquisitions, operations, divestitures, agreement preparation, negotiations, CAD mapping and broker supervision.

Mr. Newport received a BBA in Finance in June of 1977, an MBA degree in August of 1978 and also completed hours for a Petroleum Land Management degree in May of 1979, all from the University of Oklahoma.

William D. Thomas.

Mr. Thomas has served as our Chief Financial Officer and Secretary/Treasurer from July 9, 2008 until September 22, 2009 and from March 26, 2010 to the present. In addition, Mr. Thomas has served as a director of our Company since September 22, 2009. Mr. Thomas has over thirty years of experience in the finance and accounting areas for the natural resource sector. Currently, Mr. Thomas is also the Chief Financial Officer, Secretary, Treasurer and a Director of Uranium International Corp. (OTCBB: URNI) and Morgan Creek Energy, Inc. (OTCBB: MCKE), Nevada corporations that trade on the OTC Bulletin Board. Mr. Thomas has held various successive management positions with Kerr McGee Corporation's China operations based in Beijing, China, ending in 2004 with his final position as Director of Business Services. For a brief period after leaving Kerr McGee, Mr. Thomas acted as a self-practitioner in the accounting and finance field. In July 2007 Mr. Thomas took on the role of Chief Financial Officer for two public resource companies; Hana Mining Inc. (TSX-V: HMG) and NWT Uranium Corp (TSX-V: NWT; OTCBB: NWURF). Mr. Thomas resigned from NWT Uranium Corp. and Hana Mining Inc in July, 2008 and March, 2010 respectively.

Mr. Thomas was previously general manager (1999-2002), and finance and administration manager (1996-1999), of Kerr McGee's China operations. While in China, Mr. Thomas was responsible for finance, including Sarbanes Oxley reporting, budgeting, treasury, procurement, taxation, marketing, insurance and business development, including commercial negotiations with the Chinese partner, China National Offshore Oil Co (CNOOC), and other Chinese and joint venture partners. Mr. Thomas focused heavily on supporting exploration and development operations for three operated blocks in Bohai Bay, as well as evaluation and negotiation of new venture blocks in the East China Sea and the South China Sea. He was also responsible for the liaison with CNOOC and other Chinese oil companies, Kerr McGee US management and joint venture partners, where his main focus was to ensure cost effective and timely achievement of various approved work programs and budgets. He was also Chief Representative for Kerr McGee on the Joint Management Committee. Mr. Thomas previously worked as finance director of Kerr McGee's UK operations based in London/Aberdeen (1992-1996), and Kerr McGee's Canadian operations in Calgary, Alberta, Canada (1984-1992), including the predecessor company, Maxus Canada Ltd, which was acquired by Kerr McGee Ltd. Over the course of his career Mr. Thomas has been involved in all aspects of managing accounting, budgeting, human resources, administration, insurance, taxation and other business support aspects surrounding gas properties for Kerr McGee. Mr. Thomas was responsible to ensure compliance with COPAS, SEC, FASB and international accounting regulations. He participated on a team that developed the Oracle accounting system application to the Kerr McGee's worldwide operations. He was most notably involved in that company's initial entry into both China and the UK North Sea start ups of local and expatriate personnel that eventually developed into core areas (over $1 billion in value) for Kerr McGee, including the company's first operated offshore oil fields in China (CFD 1-1) and the UK (Gryphon).

In his early career Mr. Thomas also held senior management positions in the finance divisions of Norcen Energy Ltd., of Calgary, Alberta (1981-1984), Denison Mines Ltd, of Ontario, Canada (1978-1981), and Algoma Steel Corporation, of Sault Ste Marie, Ontario, Canada (1977). He was also a Senior Auditor for the accounting firm, Coopers & Lybrand, in Toronto, Canada (1975-1977).

Mr. Thomas attained his Chartered Accountant (CA) designation from the Canadian Institute of Chartered Accountants in 1977. He holds an Honors Bachelor of Commerce and Finance from the University of Toronto, Ontario, Canada.

The Company's Board of Directors has determined that Mr. Thomas should serve as a director given his over thirty years of experience in the finance and accounting areas for the natural resource sector and his involvement with our Company since July 2008.

Simeon King Horton.

Ms. Horton has been one of our directors since August 18, 2008. Ms. Horton is a Petroleum Geologist with over thirty years' experience, and provides geological consulting services to Mainland from time to time on a per diem basis. Ms. Horton has an extensive background in exploration and development of major oil and gas projects working as a consultant for oil and gas companies.

Ms. Horton worked for Mr. Dudley Hughes, an independent geologist, in Jackson, Mississippi, from 1977 to 1986. During that time, she gained broad experience in the Mississippi/Alabama Salt Basin, Black Warrior Basin in North Mississippi and Northwest Alabama, and South Florida. The main targets of exploration were the Smackover/Norphlet Formations (located in the Salt Basin), the Paleozoics (located in the Black Warrior Basin), and the Sunniland Lime (located in South Florida). Ms. Horton was also exposed to the Perth Basin in Australia. As District Geologist, she was extensively involved in the exploration and development of a very aggressive drilling program and all facets of the industry.

In 1986, Ms. Horton moved to Shreveport, Louisiana where she was a consultant for various oil and gas investors until 1989.

From 1989 to 1996, Ms. Horton worked with Grigsby Petroleum in Shreveport, Louisiana, a company owned by Mr. Jack Grigsby, an independent geologist. Grigsby Petroleum is very active in North Louisiana and East Texas with numerous properties. Among these are Hosston and Cotton Valley production. Ms. Horton was responsible for all the producing properties, the development of the properties, and the drilling of new wells for Grigsby Petroleum.

From 1996 to present, Ms. Horton has been a consulting petroleum geologist. She has been very active in the Hosston/ Cotton Valley trends in North Louisiana and East Texas. She has generated drilling prospects in the area, and has successfully been responsible for the drilling of the Hosston/Cotton Valley in an area where there are sixteen to twenty wells per section.

Simeon King Horton received a Bachelor of Science degree with a Major in Geology and a Minor in Mathematics from the University of Southern Mississippi, Hattiesburg, Mississippi in 1977. She graduated with honors and was selected Outstanding Graduating Senior in Geology for the academic year of 1976-1977. She attended geology field camp thru the Rolla School of Mines, University of Missouri, which was conducted in the state of Utah.

Ms. Horton is an active member of the American Association of Petroleum Geologist and the Shreveport Geological Society, Shreveport, Louisiana.

The Company's Board of Directors has determined that Ms. Horton should serve as a director given her over thirty years of experience as a petroleum geologist and her involvement with our Company since August 2008.

Angelo Viard.

Mr. Viard has been one of our directors since September 29, 2008. During the past twelve years, Mr. Viard has been involved in providing companies with advisory services including, but not limited to, managerial, investment strategy, finance, information technology, compliance, accounting, business development, mergers and acquisitions, and capital fund raising. In a wide range of industry sectors across the United States, South America and Europe. Currently, Mr. Viard is the Chairman/CEO for Basin Petroleum, Inc and VCS Mining, Inc. He is also the President of VCS Group, Inc., which is currently engaged by us as a consultant. From approximately June 2007 through October 2008, Mr. Viard was the president/chief executive officer of VCS Group, Inc. Mr. Viard's functions include full budgeting responsibilities, management of budgets and planning, creation of policies and administrative procedures to restructure business processes and audit processes, authoring multi-company employee manuals, design work order tracking and billing interface systems for accounting, and updating business plans, accounting structures and organizational changes to maximize business growth. From approximately August 2006 through June 2007, Mr. Viard was the IT operations manager for Bare Essentials where he was responsible for developing, coordinating multiple related projects in alignment with strategic and tactical company goals, served as a primary customer advocate, planned and coordinated long term systems strategy, and managed the day to day operations of the IT department, including LAN/ WAN architecture, telecommunications and hardware/software support. From approximately August 2005 through August 2006, Mr. Viard was a senior IT audit consultant for PriceWaterhouse Coopers LLP where he was responsible for determining the audit documentation, strategy and plan. From approximately December 2004 through August 2005, Mr. Viard was the chief executive officer and founder of Technology Mondial Inc., which was a start-up company specializing in broadband wireless technology in Cost Rica and management and development of wireless connection planning for Latin America. Mr. Viard was also previously employed with OpenTV Inc, where he was manager of information system and technology, Thomas Weisel Partners LLC where he was an information technology brokerage services manager, BancBoston Robertson Stephens & Co. where he was a senior system engineer, and Environmental Chemical Corporation where he was a technical analyst.

Mr. Viard is also a Director of Morgan Creek Energy and Geneva Resources, both being Nevada corporations that trade on the OTC Bulletin Board. Mr. Viard holds a master in computer science, a BS in business management and administration, and an A/A in computer business administration and network.

The Company's Board of Directors has determined that Mr. Viard should serve as a director given his business experience and his involvement with our Company since September 2008.

Peter G. Wilson.

Mr. Wilson has served as our Vice President of Business Development (not an executive officer position) and a member of our Board of Directors since December 3, 2009. During the past eighteen years, Mr. Wilson has been involved in senior level management of public companies through his private investment company. His experience spans a wide range of project finance, development and contract negotiations within the mining, energy and real estate industries. Mr. Wilson's business experience includes international assignments in the United Kingdom, Canada, the United States, Switzerland and Norway. Mr. Wilson has worked extensively with overseas investor groups and within the E & P market in Louisiana, Texas and Oklahoma. From approximately October 2008 to present, Mr. Wilson has lead the finance and exploration team as the President/Chief Executive Officer of Morgan Creek Energy Corp., a

publicly listed company on the OTC Bulletin Board. From April 2007 through October 2009, Mr. Wilson was the president and a director of Hana Mining Ltd., a publicly TSX-V listed exploration company seeking to develop a copper-silver resource in Botswana, Africa. Additionally, during 2005 and 2006, he served as the president and chief executive officer of Sun Oil and Gas Corp., and from 1997 to 2005, Mr. Wilson was a director and vice president of Petroreal Oil Corp., a small oil producer engaged in energy asset purchases. From 1993 to 1999, Mr. Wilson was the vice president of Samoth Equity Corporation (now Sterling Center Corp.), a real estate lender, where he began his involvement with capital markets and finance.

The Company's Board of Directors has determined that Mr. Wilson should serve as a director given his senior level management experience with public companies, particularly at petroleum companies.

Rahim Jivraj.

Mr. Jivraj has served on our Board of Directors since April 15, 2010. Mr. Jirvaj has been an entrepreneur for over ten years, in venture capital for eight years, and has assisted various private and public entities as a corporate advisor on matters related to finance, development and investor relations. Mr. Jivraj previously served as the President and a Director of the Company from September 2007 to February 2008.

Mr. Jivraj was associated with two boutique venture capital and merchant banking firms based in Vancouver, Canada before leaving to pursue independent ventures in 2008. From March 2007 to November 2008, he founded and became the CEO and a Director of Spring & Mercer Capital Corporation, a public company listed under the TSX Venture Exchange's Capital Pool Company Program, which enables seasoned directors and officers to form and list a "Capital Pool Company" whose primary objective was to seek and acquire a business suitable for continued listing of the company on the Exchange. Mr. Jivraj has also served on the Boards of Directors of Afrasia Mineral Fields Inc. (from November 2005 to December 2006) and Hastings Resources Corp. (from October 2007 to May 2008), both public companies listed on the TSX Venture Exchange. On April 16, 2010, Mr. Jivraj was appointed as the President, Chief Executive Officer and a Director of Uranium International Corp. (OTCBB: URNI), a public company quoted on the OTC Bulletin Board.

The Company's Board of Directors has determined that Mr. Jivraj should serve as a director given his experience in assisting private and public entities with finance, development and investor relations as well as his experience serving on boards of directors of other public companies.

Family Relationships

There are no family relationships among our directors or officers.

Involvement In Certain Legal Proceedings

To the best of our knowledge and belief, none of our directors or executive officers have been involved in any of the following events during the past ten years that is material to an evaluation of the ability of such person to serve as an executive officer or director of our Company:

1. a petition under the Federal bankruptcy laws or any state insolvency law was filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;

2. such person was convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

3. such person was the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:

(i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;

(ii) engaging in any type of business practice; or

(iii) engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;

4. such person was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in paragraph 3(i) above, or to be associated with persons engaged in any such activity;

5. such person was found by a court of competent jurisdiction in a civil action or by the Commission to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated;

6. such person was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;

7. such person was the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:

(i) any Federal or State securities or commodities law or regulation;

(ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or

(iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

8. such person was the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the United States *Commodity Exchange Act*), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

The Company is not aware of any material legal proceedings in which any of the following persons is a party adverse to the Company or has a material interest adverse to the Company: (a) any current director, officer, or affiliate of the Company, or any owner of record or beneficial owner of more than five percent of any class of voting securities of the Company; (b) any person proposed for appointment or election as a director or officer of our Company; or (c) any associate of any such person.

Compliance with Section 16(A) of the Exchange Act

Section 16(a) of the Exchange Act requires our directors and officers, and the persons who beneficially own more than ten percent of our common stock, to file reports of ownership and changes in ownership with the SEC. Copies of all filed reports are required to be furnished to us pursuant to Rule 16a-3 promulgated under the Exchange Act. Based solely on the reports received by us and on the representations of the reporting persons, we believe that these persons have complied with all applicable filing requirements during the fiscal year ended February 28, 2010.

Code of Ethics

We have adopted a Code of Conduct that applies to all of our executive officers and directors, including our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. Our Code of Conduct is filed as an Exhibit to this Annual Report.

Committees Of The Board Of Directors

Audit Committee

As of the date of this Annual Report, Messrs. Viard, , Mr. Wilson and Mr. Thomas have been appointed as members to our Audit Committee. Messrs Viard and Wilson are "independent" within the meaning of Rule 10A-3 under the Exchange Act and all are in addition financial experts. The Audit Committee operates under a written audit committee charter adopted by the Board of Directors on February 4, 2009 and revised on May 19, 2010.

Compensation Committee

As of the date of this Annual Report, Ms. Horton and Mr. Viard have been appointed as members to our Compensation Committee. The Compensation Committee operates under a written charter adopted by the Board of Directors pursuant to a written consent resolutions signed by all the members of the Board of Directors on February 4, 2009 and revised on May 19, 2010.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Overview Of Compensation Process

The Compensation Committee of our Board of Directors is responsible for setting the compensation of our executive officers, overseeing the Board's evaluation of the performance of our executive officers and administering our equity-based incentive plans, 401(k) plan and deferred compensation plan, among other things. The Compensation Committee undertakes these responsibilities pursuant to a written charter adopted by the Compensation Committee and the Board of Directors, which will be reviewed at least annually by the Compensation Committee.

The Compensation Committee is composed solely of "non-employee directors" as defined in Rule 16b-3 of the rules promulgated under the Exchange Act, "outside directors" for purposes of regulations promulgated pursuant to Section 162(m) of the Internal Revenue Code ("IRC"), and "independent directors" as defined in Section 303A of the New York Stock Exchange ("NYSE") corporate governance listing standards, in each case as determined by the Board

of Directors. Our Board of Directors recommends Compensation Committee membership based on such knowledge, experience and skills that it deems appropriate in order to adequately perform the responsibilities of the Compensation Committee.

The Compensation Committee annually reviews executive compensation and our compensation policies to ensure that the Chief Executive Officer and the other executive officers are rewarded appropriately for their contributions to us and that the overall compensation strategy supports the objectives and values of our organization, as well as stockholder interests. The Compensation Committee will conduct this review and compensation determination through a comprehensive process involving a series of meetings typically occurring in the first quarter of each year.

Compensation Philosophy

The fundamental objective of our executive compensation policies is to attract, retain and motivate executive leadership for us that will execute our business strategy, uphold our values and deliver results and long-term value to our stockholders. Accordingly, the Compensation Committee seeks to develop compensation strategies and programs that will attract, retain and motivate highly qualified and high-performing executives through compensation that is:

(i) **Performance Based:** a significant component of compensation should be determined based on whether or not we meet certain performance criteria that in the view of our Board of Directors are indicative of our success;

(ii) **Stockholder Based:** equity incentives should be used to align the interests of our executive officers with those of our stockholders;

(iii) **Fair:** compensation should take into account compensation among similarly situated companies, our success relative to peer companies and our overall pay scale.

The Compensation Committee's compensation philosophy for an executive officer emphasizes an overall analysis of the executive's performance for the year, projected role and responsibilities, required impact on execution of our strategy, external pay practices, total cash and total direct compensation positioning, and other factors the Compensation Committee deems appropriate. The Compensation Committee's philosophy also considers employee retention, vulnerability to recruitment by other companies and the difficulty and costs associated with replacing executive talent. Based on these objectives, compensation programs for similarly situated companies and the philosophies of the Compensation Committee, the Compensation Committee has determined that we should provide our executive officers compensation packages composed of the following elements: (i) base salary, which reflects individual performance and is designed primarily to be competitive with salary levels at comparably sized companies; and (ii) long-term stock-based incentive awards which strengthen the mutuality of interests between executive officers and our stockholders.

Summary Compensation Table

The following table sets forth the compensation paid during our fiscal years ended February 28, 2010 and 2009 to any individual who served as our principal executive officer or principal financial officer during our fiscal year ended February 28, 2010 (the "Named Executive Officers"). We have no other executive officers other than our principal executive officer and our principle financial officer.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($) [1]	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Michael Newport, President/CEO[2]	2010	$160,000	$-0-	$-0-	$-0-	$-0-	$-0-	$-0-	$160,000
	2009	$95,000	$-0-	$-0-	$1,651,500	-	-	$-0-	$1,746,500
William Thomas, Treasurer, Secretary and CFO[3]	2010	$17,372	$-0-	$-0-	$-0-	$-0-	$-0-	$-0-	$17,372
	2009	$10,400	$-0-	$-0-	$1,995,000	$-0-	$-0-	$-0-	$2,005,400
Mark Witt, former Secretary, Treasurer and CFO[4]	2010	$56,667	$-0-	$-0-	0	$-0-	$-0-	$-0-	$56,667
	2009	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

1. This amount represents the fair value of these Stock Options at the date of grant which was estimated using the Black-Scholes option pricing model.
2. Mr. Newport was appointed as our President/Chief Executive Officer on February 28, 2008.
3. Mr. Thomas has served as our Chief Financial Officer and Secretary/Treasurer from July 9, 2008 until September 22, 2009 and from March 26, 2010 to the present.
4. Mr. Witt served as our Chief Financial Officer and Secretary/Treasurer from September 22, 2009 until March 26, 2010.

Grants of Plan-Based Awards Table

There were no options awards to our Named Executive Officers during our fiscal year ended February 28, 2010.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information as at February 28, 2010 relating to outstanding equity awards held by the Named Executive Officers as of that date.

	Option Awards					Stock Awards			
Name	Number of Securities Underly-ing Unexer-cised Options	Number of Securities Underlying Unexercised Options Unexer-	Equity Incentive Plan Awards: Number of Securities	Option Exercise Price ($)	Option Expir-ation Date	Number of Shares or Units of Stock that have not	Market Value of Shares or Units of Stock that have Not	Equity Incentive Plan Awards: Number of Unearned	Equity Incentive Plan Awards: Market or Payout

	Exer-cisable (#)	cisable (#)	Underl-ying Unexer-cised Unearned Options (#)			been vested ($)	Vested ($)	Shares, Units or other Rights that have not Vested (#)	Value of Unearned Shares, Units or other Rights that have not Vested (#)
	1,800,000	-0-	-0-	$0.58	4/7/2018	-0-	-0-	-0-	-0-
Michael Newport	300,000	-0-	-0-	$1.50	2/4/2019	-0-	-0-	-0-	-0-
	-0-	1,500,000	-0-	(1)	9/22/2019	-0-	-0-	-0-	-0-
William Thomas	1,500,000	-0-	-0-	1.50	7/9/2018	-0-	-0-	-0-	-0-
Mark Witt*	-0-	3,000,000*	-0-	(2)	9/22/2019	-0-	-0-	-0-	-0-

Notes:

1. These stock options shall vest in incremental periods as reflected below (each hereinafter the "Vesting Date"). The exercise price at each Vesting Date shall be the lesser of: (a) the thirty day weighted average price of the Company's shares of common stock prior to each of the respective Vesting Date; or (b) the issue price as established by the Board of Directors of the Company's shares of common stock at each of the equity fundings referenced below in (i). The Vesting Date of the Stock Options is as follows: (i) 500,000 Stock Options when the Company has successfully completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities") or other Senior exchange as the case may be; (ii) 500,000 Stock Options at the one year anniversary date of the Trading Date (the "First Trading Anniversary Date"); and (iii) 500,000 Stock Options at the second year anniversary date of the Trading Date (the "Second Trading Anniversary Date").

2. These stock options shall vest in incremental periods as reflected below (each hereinafter the "Vesting Date"). The exercise price at each Vesting Date shall be the lesser of: (a) the thirty day weighted average price of the Company's shares of common stock prior to each of the respective Vesting Date; or (b) the issue price as established by the Board of Directors of the Company's shares of common stock at each of the equity fundings referenced below in (i). The Vesting Date of the Stock Options is as follows: (i) 1,500,000 Stock Options shall vest on the date the Company closes equity funding(s) aggregating $10,000,000; (ii) 500,000 Stock Options shall vest when the Company has successfully completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities") or comparable major exchange; (iii) 500,000 Stock Options shall vest at the one year anniversary date of the Trading Date (the "First Trading Anniversary Date"); and (iv) 500,000 Stock Options shall vest at the two year anniversary date of the Trading Date.

* As of the date of this Annual Report, the 3,000,000 stock options granted to Mark Witt have been cancelled and replaced by issuance of 500,000 stock options with an effective date of March 23, 2010 with a two year term and an exercise price of $1.25 per share.

Option Exercises and Stock Vested

During our fiscal year ended February 28, 2010, there were no exercises of stock options, SARs or similar instruments, or vesting of any stock by any of our Named Executive Officers.

Pension Benefits

We do not provide pension benefits.

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

We do not have any nonqualified contribution or other nonqualified deferred compensation plans.

Potential Payments upon Termination or Change-in-Control

Mark N. Witt resigned as the Chief Financial Officer/Treasurer of the Company effective as of March 23, 2010. Under the terms of his separation and release agreement with the Company dated March 26, 2010, Mr. Witt is entitled to a severance payment of $77,419, payable within 10 business days, as well as 500,000 common stock options, exercisable for two years at an exercise price of $1.25 per share.

We have no other agreement or arrangement with any of our Named Executive Officers that provides for payment upon termination or change-in-control.

Compensation of Directors

The following table sets forth information relating to compensation paid to our directors during fiscal year ended February 28, 2010:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
William D. Thomas[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Simeon King Horton[2]	$51,246	-0-	-0-	-0-	-0-	-0-	$51,246
Angelo Viard [3]	$54,362	-0-	-0-	-0-	-0-	-0-	$54,362
Peter G. Wilson	-0-	-0-	0	-0-	-0-	-0-	-0-
Michael J. Newport[4]	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Robert Fedun[5]	-0-	-0-	0	-0-	-0-	-0-	-0-
Ernest Sorochan[6]	-0-	-0-	0	-0-	-0-	-0-	-0-
J. Jack Cox [7]	-0-	-0-	$574,000	-0-	-0-	-0-	$574,000
Charles A. Morrison [8]	-0-	-0-	$574,000	-0-	-0-	-0-	$574,000
Mark Witt [9]	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Johnathan A. Moore [10]	-0-	-0-	-0-	-0-	-0-	-0-	-0-

Notes:

1. Mr. Thomas has served as a Director since September 22, 2009. He also serves as a Named Executive Officer. Information regarding compensation paid to him is included in the Summary Compensation Table above.

2. We paid to Ms. King Horton an aggregate of $51,246 for providing geological consulting services to the Company.

3. We paid VCS an aggregate $54,362 under the terms of our agreement with VCS. Mr. Viard is the sole director, officer and shareholder of VCS.

4. Mr. Newport served as a Director from February 8, 2008 to December 3, 2009. He also serves as a Named Executive Officer. Information regarding compensation paid to him is included in the Summary Compensation Table above.

5. Mr. Fedun resigned as a Director on October 9, 2009.

6. Mr. Sorochan resigned as a Director on October 9, 2009.

7. . J. Jack Cox served as a Director from August 11, 2009 to December 3, 2009.

8. Charles Morrison served as a Director from August 11, 2009 to December 3, 2009.

9. Mr. Witt served as a director from September 22, 2009 to December 3, 2009. He also served as a Named Executive Officer during our fiscal year ended February 28, 2010. Information regarding compensation paid to him is included in the Summary Compensation Table above.

10. Johnathan A. Moore served as a Director from December 3, 2009 to March 3, 2010.

Employment And Consulting Agreements

Effective September 22, 2009, the Board of Directors authorized the execution of a two-year executive service agreement with Michael J. Newport, the current President/Chief Executive Officer and a director of the Company (the "Executive Service Agreement"). In accordance with the terms and provisions of the Executive Service Agreement: (i) the Company shall continue to pay Mr. Newport a monthly salary of $15,000; (ii) the Company shall grant an aggregate of 1,500,000 stock options (the "Stock Options") to Mr. Newport under its 2008 Stock Option Plan, as amended (the "Stock Option Plan"). The Stock Options shall expire ten (10) years from the Effective Date and shall vest in incremental periods as reflected below (each hereinafter the "Vesting Date"). The exercise price at each Vesting Date shall be the lesser of: (a) the thirty day weighted average price of the Company's shares of common stock prior to each of the respective Vesting Date; or (b) the issue price as established by the Board of Directors of the Company's shares of common stock at each of the equity fundings referenced below in (i). The Vesting Date of the Stock Options is as follows: (a) 500,000 Stock Options when the Company has completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities") or comparable exchange; (b) 500,000 Stock Options at the one year anniversary date of the Trading Date (the "First Trading Anniversary Date"); and (c) 500,000 Stock Options at the second year anniversary date of the Trading Date (the "Second Trading Anniversary Date"); and (iii) Mr. Newport shall continue to provide services to the Company in the capacity as the President/Chief Executive Officer and a director and further provide consulting advise on exploration strategies, management and operational service considerations.

We do not have a written contractual arrangement with our Treasurer/Chief Financial Officer, William Thomas; however, we pay him a month to month salary of $11,000.

Simeon King Horton provides geological consulting services to our Company. We do not have a written agreement with her; she works as a consultant and bills at the rate of $1000/day plus expenses.

Item 12. Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters

As of the date of this Annual Report, the following table sets forth certain information with respect to the beneficial ownership of our common stock by each stockholder known by us to be the beneficial owner of more than 5% of our common stock and by each of our current directors and executive officers. Each person has sole voting and investment

power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated. As of the date of this Annual Report, there are 80,969,502 shares of common stock issued and outstanding.

Name And Address Of Beneficial Owner	Amount And Nature Of Beneficial Ownership(1)	Percentage Of Beneficial Ownership(1)
Michael J. Newport 21 Waterway Avenue, Suite 300 The Woodlands, Texas 77380	2,789,992(2)	3.4%
William D. Thomas 21 Waterway Avenue, Suite 300 The Woodlands, Texas 77380	1,590,000(3)	1.9%
Simeon King Horton 21 Waterway Avenue, Suite 300 The Woodlands, Texas 77380	1,100,000(4)	1.3%
Angelo Viard 21 Waterway Avenue, Suite 300 The Woodlands, Texas 77380	500,000(5)	*
Peter G. Wilson 21 Waterway Avenue, Suite 300 The Woodlands, Texas 77380	1,600,000(6)	1.9
Rahim Jivraj 21 Waterway Avenue, Suite 300 The Woodlands, Texas 77380	500,000(7)	*
All executive officers and directors as a group (6 persons)	8,079,992(8)	9.2%
Beneficial Shareholders Greater Than 10%		
Parklane Investments Inc. 1 Alexander Road Kintersville, PA 18930	16,470,000	20.3%

Notes:

* Less than one percent.

1. Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding as of the date of this Annual Report. As of the date of this Annual Report, there are 80,969,502 shares issued and outstanding.

2. This figure includes: (i) 689,992 shares of common stock; (ii) 1,800,000 Stock Options to purchase 1,800,000 shares of our common stock at an exercise price of $0.58 per share expiring on April 7, 2018; and (iii) 300,000 Stock Options to purchase 300,000 shares of our common stock at an exercise price of $1.50 per share expiring on February 4, 2019.

3. This figure includes 90,000 shares of common stock and 1,500,000 Stock Options to purchase 1,500,000 shares of our common stock at an exercise price of $1.50 per share expiring on July 9, 2018.

4. This figure includes: (i) 800,000 Stock Options to purchase 800,000 shares of our common stock at an exercise price of $1.50 per share expiring on July 18, 2018; and (ii) 300,000 Stock Option to purchase 300,000 shares of our common stock at an exercise price of $1.50 per share expiring on February 4, 2019.

5. This figure includes 500,000 Stock Options to purchase 500,000 shares of our common stock at an exercise price of $1.50 per share expiring November 18, 2018.

6. This figure includes 600,000 shares of common stock and 1,000,000 Stock Options to purchase 1,000,000 shares of our common stock at an exercise price of $1.55 per share expiring on April 8, 2020.

7. This figure includes 500,000 Stock Options to purchase 500,000 shares of our common stock at an exercise price of $1.55 per share expiring on April 8, 2020.

8. This figure includes: (i) 1,379,992 shares of common stock and (ii) 6,700,000 Stock Options to purchase 6,700,000 shares of our common stock.

Changes In Control

We are unaware of any contract, or other arrangement or provision, the operation of which may at a subsequent date result in a change of control of our company.

Item 13. Certain Relationships And Related Transactions And Director Independence

Except for the transactions described below, we have not had any transactions since the beginning of our fiscal year ended February 28, 2010, nor do we have any currently proposed transactions, in which we were or are to be a participant and the amount exceeds $120,000, and in which any of our directors, officers or principal stockholders, or any associate or affiliate of the foregoing, had or will have any material interest, direct or indirect.

Newport Executive Service Agreement

Effective September 22, 2009, the Board of Directors authorized the execution of a two-year executive service agreement with Michael J. Newport, the President/Chief Executive Officer and a director of the Company (the "Executive Service Agreement"). In accordance with the terms and provisions of the Executive Service Agreement: (i) the Company shall continue to pay Mr. Newport a monthly salary of $15,000; (ii) the Company shall grant an aggregate of 1,500,000 stock options (the "Stock Options") to Mr. Newport under its 2008 Stock Option Plan, as amended (the "Stock Option Plan"), with such terms and provisions of the grant, including exercise price and duration of exercise period, to be determined at the time of grant as follows: (a) 500,000 Stock Options vesting when the Company has completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities"); (b) 500,000 Stock Options vesting at the one year anniversary date of the Trading Date, and (c) 500,000 Stock Options vesting at the second year anniversary date of the Trading Date. The exercise price at each vesting date shall be the lesser of (a) the thirty-day weighted average price of the Company's shares of common stock prior to each of the respective vesting dates and (b) the issue price of the shares of common stock in the equity financings above; and (iii) Mr. Newport shall continue to provide services to the Company in the capacity as the President/Chief Executive

Officer and a director and further provide consulting advise on exploration strategies, management and operational service considerations.

To February 28, 2010 no amounts have vested or been recorded in connection with the options granted in connection with this agreement.

Witt Executive Service Agreement

Effective September 22, 2009, the Board of Directors authorized the execution of a two-year executive service agreement with Mark Witt (the "Executive Service Agreement"). In accordance with the terms and provisions of the Executive Service Agreement: (i) the Company shall pay Mr. Witt a monthly salary of $10,000; (ii) the Company shall grant an aggregate of 3,000,000 stock options (the "Stock Options") to Mr. Witt under its 2008 Stock Option Plan, as amended (the "Stock Option Plan"), with such terms and provisions of the grant, including exercise price and duration of exercise period, to be determined at the time of grant as follows: (a) 1,500,000 Stock Options vesting when the Company has successfully raised equity funding in the amount of $10,000,000 and (b) 500,000 Stock Options vesting when the Company has completed its listing and commences trading of its shares of common stock with a designated trading symbol (the "Trading Date") with the NYSE Amex Equities, formerly known as the American Stock Exchange ("NYSE Amex Equities"); (c) 500,000 Stock Options vesting at the one year anniversary date of the Trading Date, and (d) 500,000 Stock Options vesting at the second year anniversary date of the Trading Date. The exercise price at each vesting date shall be the lesser of (a) the thirty-day weighted average price of the Company's shares of common stock prior to each of the respective vesting dates and (b) the issue price of the shares of common stock in the equity financings above, and (c) Mr. Witt shall provide services to the Company in the capacity as the Treasurer/ Chief Financial Officer and a director and further provide consulting advise on exploration strategies, management and operational service considerations.

Subsequent to the period on March 23, 2010 Mr. Witt resigned as the Chief Financial Officer/Treasure of the Company. Under the terms of his separation and release agreement with the company dated March 26, 2010, Mr. Witt is entitled to a severance payment of $77,419, and in lieu of the above mentioned stock options previously awarded being cancelled, he was granted 500,000 commons stock options, exercisable for two years at an exercise price of $1.25 per share.provide consulting advise on exploration strategies, management and operational service considerations.

Viard Consulting Services

Effective October 2, 2008, our Board of Directors authorized the engagement of Viard Consulting Services, now known as VCS Group Inc. ("VCS Group") in accordance with the terms and provisions set forth in that certain letter agreement dated February 11, 2009 (the "Agreement"). We engaged VCS Group to render services and related reports to use in order to ensure compliance with Section 404 of the Sarbanes-Oxley Act of 2002. In accordance with the terms and provisions of the Agreement, VCS Group shall perform certain services including, but not limited to, the following: (i) re-assess our existing controls and business cycles and conduct a risk assessment on each cycle for our fiscal year for audit attestation; (ii) conduct a full review of the management governance process; (iii) assemble a project team to conduct evaluations; (iv) define significant processes, materiality and fraud; (v) document and evaluate internal controls at the entity-wide level; (vi) assist management in development of policies and procedures; (vii) identify deficiencies; (viii) develop and execute independent testing procedures and (ix) summarize findings and report to Board of Directors and management. In furtherance of the terms and provisions of the Agreement, we agreed to pay VCS Group an hourly rate of $155. During our fiscal year ended February 28, 2010, we paid VCS Group an aggregate of $54,362 for fees and

associated expenses (2009 - $56,724). One of our directors, Angelo Viard, is the sole officer, director and shareholder of VCS Group and receives compensation indirectly through VCS Group.

Review, Approval or Ratification of Transactions with Related Persons

Our Audit Committee is charged with reviewing and approving all related party transactions and reviewing and making recommendations to the board of directors, or approving any contracts or other transactions with any of our current or former executive officers.

Item 14. Principal Accounting Fees And Services

De Joya Griffith & Company, LLC serve as our independent registered public accounting firm and audited our financial statements for the fiscal years ended February 28, 2010 and 2009. Aggregate fees for professional services rendered to us by our auditors are set forth below:

	Year Ended February 28, 2010	Year Ended February 28, 2009
Audit Fees	$ 48,700	$ 45,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	$ 48,700	$ 45,000

Audit Fees.

Aggregate fees for professional services in connection with the audit of our annual financial statements and the quarterly reviews of our financial statements included in our quarterly reports.

Audit-Related Fees.

Our auditors provided audit-related services to us in connection with the review of other regulatory filings.

Tax Fees.

Our auditors did not provide tax preparation services.

All Other Fees.

Our auditors did not provide any other services to us other than those described above.

Pre-Approval of Services by the Independent Auditor

The Audit Committee is responsible for the pre-approval of audit and permitted non-audit services to be performed by the Company's independent auditor, De Joya Griffith & Company, LLC. The Audit Committee will, on an annual basis, consider and, if appropriate, approve the provision of audit and non-audit services by De Joya Griffith & Company, LLC. Thereafter, the Audit Committee will, as necessary, consider and, if appropriate, approve the provision of additional audit and non-audit services by De Joya Griffith & Company, LLC which are not encompassed by the Audit Committee's annual pre-approval and are not prohibited by law. The Audit Committee has approved all of the audit and permitted non-audit services performed by De Joya Griffith & Company, LLC in the year ended February 28, 2010.

Item 15. Exhibits And Financial Schedules

The following exhibits are filed as part of this Annual Report.

Exhibit No.	Document
2.1	Merger Agreement and Plan of Merger between Mainland Resources, Inc. and American Exploration Corporation dated March 22, 2010 (1)
3.1	Articles of Incorporation (2)
3.2	Certificate of Amendment, filed with Nevada Secretary of State March 11, 2008 *
3.3	Certificate of Amendment, filed with Nevada Secretary of State July 7, 2009 (3)
3.4	Certificate of Change filed with Nevada Secretary of State May 26, 2010 (4)
3.4	Bylaws (2)

10.1	Property Agreement between Mainland Resources Inc. and Vijesh Harakh dated July 1, 2006 (2)
10.2	Trust Agreement between Mainland Resources Inc. and Vijesh Harakh dated July 1, 2006. (2)
10.3	Option Agreement between Kingsley Resources Inc. And Mainland Resources Inc. dated February 27, 2008 (5)
10.4	Letter Agreement dated July 14, 2008 between Mainland Resources Inc. and Petrohawk Energy Corporation(6)
10.5	Assignment, Conveyance and Bill of Sale between Mainland Resources Inc. and Petrohawk Energy Corporation dated August 4, 2008(7)
10.6	Agreement dated August 4, 2008 between Mainland Resources Inc. and Petrohawk Energy Corporation (3)
10.7	Option Agreement between Mainland Resources Inc. and Westrock Land Corp. dated September 4, 2008. (3)
10.8	Agreement between Mainland Resources Inc. and VCS Group Inc. dated February 11, 2009. (3)
10.9	Senior Secured Bridge Loan by and among Mainland Resources Inc., Guggenheim Corporate Funding LLC, and the Lenders Signatory thereto, dated August 10, 2009.(8)
10.10	Executive Service Agreement between Mainland Resource, Inc. and Michael J. Newport, dated September 22, 2009.(9)
10.11	Executive Service Agreement between Mainland Resource, Inc. and Mark N. Witt, dated September 22, 2009.(10)
10.12	Senior Secured Advancing Line of Credit Agreement dated October 16, 2009 by and among Mainland Resources Inc., Guggenheim Corporate Funding LLC, and the financial institutions from time to time party thereto.(11)

10.13	Promissory Note dated October 16, 2009 between Mainland Resources Inc. and Guggenheim Corporate Funding LLC.[11]
10.14	Deed of Trust, Security Agreement, Financing Statement and Assignment of Production between Mainland Resources Inc. and Guggenheim Corporate Funding LLC dated October 13, 2009.[11]
10.15	Purchase Agreement by and between Mainland Resources, Inc. and EXCO Operating Company, LP, dated March 12, 2010.[12]

Exhibit No.	**Document**
10.16	Option Agreement between Mainland Resources, Inc. and Westrock Land Corp., dated June 22, 2009, as amended September 28, 2009.*
10.17	Letter Agreement between Mainland Resources, Inc. and American Exploration Corp., dated October 1, 2009.*
10.18	Operating Agreement between Mainland Resources, Inc. and American Exploration Corp., dated October 1, 2009.*
14.1	Code of Conduct*
23.1	Consent of Ryder Scott Company , L.P., independent petroleum Consultants. *
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.*
32.1	Certification of Chief Executive Officer and Chief Financial *

99.1	Report from Ryder Scott Company, L.P.*

Notes:

* Filed herewith

1. Incorporated by reference from Form 8-K filed with the SEC on March 23, 2010.

2. Incorporated by reference from Form SB-2 filed with the SEC on April 11, 2007.

3. Incorporated by reference from Form 10-K/A filed with the SEC on March 16, 2010.

4. Incorporated by reference from Form 8-K filed with the SEC on May 26, 2010.

5. Incorporated by reference from Form 8-K filed with the SEC on March 4, 2008.

6. Incorporated by reference from Form 8-K filed with the SEC on July 18, 2008.

7. Incorporated by reference from Form 8-K filed with the SEC on August 8, 2008.

8. Incorporated by reference from Form 8-K filed with the SEC on August 12, 2009.

9. Incorporated by reference from Form 8-K filed with the SEC on October 2, 2009.

10. Incorporated by reference from Form 8-K filed with the SEC on October 5, 2009.

11. Incorporated by reference from Form 8-K filed with the SEC on October 23, 2009.

12. Incorporated by reference from Form 8-K filed with the SEC on March 19, 2010.

MAINLAND RESOURCES INC.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAINLAND RESOURCES INC.

Dated: June 1, 2010

By: *"Michael J. Newport"*
Michael J. Newport, President/Chief Executive Officer

Dated: June 1, 2010

By: *"William D. Thomas"*
William D. Thomas, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: June 1, 2010

By: *"Rahim Jivraj"*
Rahim Jivraj
Director

Dated: June 1, 2010

By: *"Simeon King Horton"*
Simeon King Horton
Director

Dated: June 1, 2010

By: *"Angelo Viard"*
Angelo Viard
Director

Dated: June 1, 2010

By: *"William D. Thomas"*
William D. Thomas
Director

Dated: June 1, 2010

By: *"Peter G. Wilson"*
Peter G. Wilson
Director

Exhibit 3.2

ROSS MILLER
Secretary of State
204 North Carson Street, Ste 1
Carson City, Nevada 89701-4299
(775) 684 5708
Website: secretaryofstate.biz

Filed in the office of	Document Number
Ross Miller Secretary of State State of Nevada	20080166347-67
	Filing Date and Time 03/11/2008 12:50 PM
	Entity Number E0358282006-3

Certificate of Amendment
(PURSUANT TO NRS 78.385 AND 78.390)

USE BLACK INK ONLY - DO NOT HIGHLIGHT

ABOVE SPACE IS FOR OFFICE USE ONLY

Certificate of Amendment to Articles of Incorporation
For Nevada Profit Corporations
(Pursuant to NRS 78.385 and 78.390 - After Issuance of Stock)

1. Name of corporation:

Mainland Resources, Inc.

2. The articles have been amended as follows (provide article numbers, if available):

Section 3. The number of authorized shares shall be 200,000,000 shares of common stock, par value $0.0001.

3. The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater proportion of the voting power as may be required in the case of a vote by classes or series, or as may be required by the provisions of the articles of incorporation have voted in favor of the amendment is: Not required per Section 78.207

4. Effective date of filing (optional):

(must not be later than 90 days after the certificate is filed)

5. Officer Signature (Required): X

If any proposed amendment would alter or change any preference or any relative or other right given to any class or series of outstanding shares, then the amendment must be approved by the vote, in addition to the affirmative vote otherwise required, of the holders of shares representing a majority of the voting power of each class or series affected by the amendment regardless of limitations or restrictions on the voting power thereof.

IMPORTANT: Failure to include any of the above information and submit the proper fees may cause this filing to be rejected.

This form must be accompanied by appropriate fees

Nevada Secretary of State AM Profit 2007
Revised on: 3/6/2007

Exhibit 10.16

OPTION AGREEMENT
(Option to Acquire Oil and Gas Leases in Jefferson County, Mississippi)

Mainland Resources, Inc.
20333 State Highway 249, Suite 200
Houston, Texas 77070

And

Westrock Land Corp.
5050 Quorum Drive
Suite 700
Dallas, Texas 75254

It is understood that Mainland Resources, Inc., and/or its affiliates, (hereinafter referred to as "Mainland") wish to acquire up to 8,000 net acres in mineral oil and gas leases in the lands located in Jefferson County, in the State of Mississippi, (hereinafter referred to as the "Acquired Properties") from Westrock Land Corp., (hereinafter referred to as "Westrock"). It is the intent that this Option Agreement (the "Agreement") shall be binding on both parties to the extent set forth herein.

Mainland has utilized information provided by Westrock for purposes of entering in to this Agreement. This is Option Agreement is based on the representation that it owns all rights to all depths (which shall include the Bossier/Haynesville Shale Formation) pursuant to the oil and gas leases (totaling up to 8,000 net acres with a 75% net revenue interest).

Mainland and Westrock have agreed to the following:

1. **Payment**. Mainland agrees to pay Westrock USD$400.00 per net mineral acre. Payment due and payable upon completion of due diligence by Mainland and appropriate assignments being prepared and executed on the oil and gas leases.

2. **Option Period**. Westrock grants Mainland until August 31, 2009 to complete its due diligence.

3. **Assignment**. Westrock, at Closing, shall convey the Acquired Properties to Mainland by a mutually acceptable assignment and bill of sale, which shall include a special warranty of title, defending against any person claiming by, through or under Westrock, but not otherwise.

4. **Liens and Encumbrances.** The Acquired Properties shall be transferred from Westrock to Mainland free and clear of all liens, mortgages, rights or reassignment, reversionary rights, calls on production, preferential rights, consents to assign, taxes (other than those for the current year), obligations (including delinquent operating expenses), claims, suits, or any other encumbrances.

5. **Effective Date, Closing.** The effective date of the conveyance of the Acquired Properties shall be at 4:00 P.M. local time on the Closing Date (the "Effective Date"). The parties will use their best efforts to close no later than August 31, 2009.

6. **Confirming Due Diligence.** Mainland will conduct confirming due diligence ("Due Diligence") which shall include, but not limited to the following:

   A. Confirmation of the marketability of title (including verification of HBP leases being in full force and effect). If, in the reasonable opinion of Mainland, Westrock does not own marketable title to at least a 75% net revenue interest in up to 8,000 net acres which are included in the Acquired Properties, Mainland, at its direction may terminate this Option Agreement and neither party shall have any further obligations to the other hereunder.

   B. Review of all lease agreements (including lease expirations, surface access restrictions and drilling commitments, if any), unit agreements, and other contracts applicable to the Acquired Properties. Mainland's obligations hereunder shall be subject to its reasonable approval of the lease agreements and other material agreements affecting the Acquired Properties.

   C. Other acts of Due Diligence appropriate to the transaction as mutually agreed between the parties.

7. **Cooperation and Exclusivity.** Mainland and Westrock will cooperate in good faith and proceed expeditiously in the preparation of all documents necessary to consummate the transaction contemplated hereby. Westrock agrees that after execution of this Option Agreement, and for soi long as it is in effect, it will not directly or indirectly solicit or entertain any other offer to acquire the Acquire Properties or enter into any negotiations or agreement that provides for the acquisition of the Acquired Properties.

8. **Access to Data.** Westrock agrees to provide Mainland reasonable access in Westrock's office to the books and records of Westrock pertaining to the Acquired Properties promptly after execution of this Option Agreement.

9. **Confidentiality.** It is understood and agreed that this Option Agreement and its substance shall remain confidential by and between Westrock and Mainland and shall not be disclosed to any third parties. other than those persons who have a confidential relations with Westrock or Mainland, all of who shall agree to be bound by this confidentiality obligation. Any public announcement of the proposed transaction by either party shall be approved in advance by the other party.

10. **Counterparts.** This Option Agreement may be executed in any number of counterparts each of which will be deemed to be an original but all of which shall be deemed one and the same document.

11 **Governing Law.** This Option Agreement shall be governed by and construed and enforced in accordance with the laws of the state of Texas.

12. **Expenses.** Each party will pay its own expenses and costs incidental to the negotiation and completion of the transaction, including legal and accounting fees.

Both parties agree to the terms and provisions set forth is this Option Agreement;

AGREED TO AND ACCEPTED THIS 22ND DAY OF JUNE, 2009

MAINLAND RESOURCES, INC.

By: _____

Michael Newport, President

WESTROCK LAND CORP.

By: _____

Gary Powers, President

September 28, 2009

Westrock Land Corp.
5050 Quorum Drive
Suite 700
Dallas, TX 75254

RE: Option Agreement
Dated June 22, 2009

Reference is hereby made to that certain Option Agreement dated 6/22/09 and amendment to that certain Agreement dated 9/16/09 by and between Mainland Resources, Inc. and Westrock Land Corp. covering the Buena Vista Prospect in Jefferson County, Mississippi. The Amendment Agreement dated 9/16/09 is hereby terminated and the Option Agreement dated 6/22/09 is hereby amended to provide for the following:

The Option Agreement is hereby amended to provide that the funds due to pay the bonus amounts required pursuant to the lease/option agreements taken by Westrock will hereby be deducted from the amount wired to Westrock. The funds will be wired to Mainland and Mainland will take the leases required pursuant to the Option Agreements in Mainland's name and will pay for the bonus amounts from the funds wired to Mainland with checks drawn on Mainland. The total bonus amount estimated to pay the bonus required by the lease/options is a total of $166,460.45. The leases will be taken in Mainland's name because the options will have been previously assigned by Westrock to Mainland. Mainland will assign a 1% overriding royalty in and to these leases to Westrock pursuant to the previously executed Option Agreement and amendment thereto clarifying the overriding royalty interest.

Except as herein amended all other terms of the Option Agreement and Amendment Letter Agreement shall remain. In the event you are agreeable to the Option Agreement as herein amended please sign in the space provided below and return one copy to the undersigned.

Agreed to and accepted this 28th day of September, 2009.

Mainland Resources Inc.

By: _____
Michael J. Newport, President

Agreed to and accepted this 28 day of Sept, 2009

Westrock Land Corp.

By: _____
Gary Powers, President

SEP.28.2009 15:58 RECEIVED FROM : 1403342 #2118-001

Exhibit 10.17

October 1, 2009

Mr. Steve Harding
President
American Exploration Corp.
Suite 700
407 2nd Street SW
Calgary, Alberta T2P2Y3
Canada

Re: Buena Vista Area
Letter Agreement Relating to Development of Acreage
Jefferson County, MS

Dear Mr. Harding

Mainland Resources, Inc.(hereinafter referred to as "Mainland"), is pleased to provide you this "Letter Agreement" setting forth our understanding of a joint development project between American Exploration Corp. and or its affiliates ("American") and Mainland. It is our intent that this Letter Agreement shall be binding on both parties to the extent set forth herein.

The Letter Agreement will cover the Buena Vista Area which is further defined as Sections 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,19,20,21,22,23,24,37 T10R2W and Sections 3,4,5,6,7,43 T9N-R2W all in Jefferson County, Mississippi.

Mainland and American have agreed to the following:

1. Mainland will commit approximately 8200+/- acres in the Buena Vista Area at a net revenue as defined by the agreements between Bruxoil/Westrock , Westrock/Mainland and the Westrock/ Mainland dated 6/22/09 and amendments subject thereto dated 8/25/09, 9/16/09, 9/24/09, 9/28/09 and 10/7/09. The acreage will be committed to the joint development project upon the closing of the acreage being purchased from Westrock in accordance with the Agreement and amendment agreements thereto.
2. This Agreement when executed by both parties will replace that certain Letter Agreement dated 9/25/09 between American and Mainland.
3. American will commit 5000 acres in the Buena Vista area at a net revenue as defined by the Agreements between Bruxoil/Westrock Agreement and the Westrock/American Agreements.
4. Mainland will be named as Operator of the Buena Vista Project area.
5. Mainland will propose the Initial Well to American on or before 60 days before the anticipated days before the anticipated spudding of the well. Mainland will submit an AFE summarizing the estimated costs to drill and complete the well. The well will be proposed to drill to at least a depth of 22,000 feet or a depth sufficient to test the Haynesville Shale formation. The initial Well Location, drilling depth and designated Unit will be determined by Mainland.

6. American will have a period of 30 days in which to submit their share of the funds required to drill and complete the initial proposed well. In the event Guggenheim elects to participate for their proportionate 10% of Mainland's Working Interest covering the 8200+/- acres the Working Interest in the initial well to completion in the event American pays for 20.00%, the Working Interest will be as follows:

   Mainland- 72.00%, Guggenheim- 8.00%, American Exploration- 20.00%

   The working interest in the initial well after completion and in the remainder of the acreage in the event American pays for their 20.00%:

   Mainland- 45.90%, Guggenheim- 5.100%, American- 49.00%

7. In the event American does not submit the funds to Mainland within the thirty (30) day period as outlined in 6. above, the Working Interest in the initial well to completion will be as follows:

   Mainland- 90.00%, Guggenheim- 10%

   The Working Interest in the Initial Well after completion and in the remainder of the Lands if American does not pay for their interest:

   Mainland- 72.00%, Guggenheim- 8.00%, American- 20.00%

8. In the event Guggenheim does not elect to participate for their proportionate 10% of Mainland's interest then Mainland will acquire Guggenheim's interest in all cases in paragraph 7, above.
9. Mainland must spud the proposed initial well within 30 days of the proposed Spud date as outlined in paragraph 5 above for this to be enforced.
10. In the event American does not participate in the first proposed well in a Designated unit after the initial proposed well they will forfeit all their right title and interest in that Designated Unit.
11. Mainland and American agree to provide any and all data acquired by either Party in the Buena Vista Area. It is understood and agreed that this Letter Agreement and its substance shall remain confidential by and between Mainland and American, all of whom agree to be bound by this confidentiality obligation. Any public announcement by American must be approved by Mainland in advance of the announcement.
12. This Letter Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas. The Parties hereby consent to the jurisdiction and venue of the courts of Harris County, Texas.

Sincerely yours,

Michael J. Newport
President/CEO

Agreed to and Accepted this 13th day of OCTOBER, 2009.

American Exploration Corp.

By: _____
Steve Harding, President/CEO

Exhibit 10.18

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

October 1 , 2009 .
DAY YEAR

OPERATOR MAINLAND RESOURCES, INC.

CONTRACT AREA _____

_____

_____

COUNTY ~~OR PARISH~~ OF Jefferson STATE OF Mississippi

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Midland Resources, Inc. _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☑ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

~~☐ B. Exhibit "B", Form of Lease.~~

☑ C. Exhibit "C", Accounting Procedure.

☑ D. Exhibit "D", Insurance.

☑ E. Exhibit "E", Gas Balancing Agreement.

☑ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

~~☐ G. Exhibit "G", Tax Partnership.~~

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. ~~Oil and Gas Interests:~~

~~If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.~~

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of _____See Below*_____ which shall be borne as hereinafter set forth.

*all jointly borne royalties, overriding royalties and burdens payable from the production proceeds.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

~~Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:~~

~~☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

ARTICLE IV
continued

☐ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Operator ~~Each party~~ shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases ~~or oil and gas interests contributed by such party~~. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing. Cost incurred in securing governmental orders, including fees paid to outside attorneys or consultants will be charged to the parties in the same manner.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and ~~(2) the title has been approved by the examining attorney~~ or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

~~1. Failure of Title. Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~ reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests and,

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or well previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, thereafter accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,

(c) Any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest ~~lost for the privilege of participating~~ in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, ~~other than those set forth in Articles IV.B.1. and IV.B.2. above~~, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

MAINLAND RESOURCES, INC. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of one (1) ~~two (2)~~ or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of ~~two (2)~~ one (1) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of ~~two (2)~~ one (1) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of August, 2010. Operator shall commence the drilling of a well for oil and gas at the following location:

and shall thereafter continue the drilling of the well with due diligence to

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator ~~shall~~ may make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.* *Notwithstanding the foregoing, an election by a consenting party under this paragraph to acquire its proportionate share of such Non-Participating Party's interest requires such party to tender to the Operator its proportionate share of the estimated cost attributable to such Non-Consenting Parties interest.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense.v If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, **provided, however the Non Consenting Parties that participated in the drilling, reworking, recompleting, deepening or sidetracking of the well shall remain liable for and shall pay their proportionate share of the cost of plugging and abandoning of the well and the restoration of the surface insofar as these costs were not increased by the subsequent operations of the Consenting Parties.

ARTICLE VI
continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, recompleting, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 200% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) 500 % of that portion of the costs and expenses of drilling, reworking, recompleting, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 500 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

In the case of any reworking, recompleting, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, recompleting, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, recompleting and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unrecovered costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

ARTICLE VI
continued

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operations, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall (Have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

ARTICLE VI
continued

required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

In the event one or more parties fails to take in kind or market its proportionate share of gas production or one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "I", or is a separate agreement.

D. Access to Contract Area and Information:

Each participating party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other participating parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells*

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

*Failure to timely respond to any notice to plug and abandon a well or zone shall be deemed consent to the proposed plugging and abandonment.

ARTICLE VI
continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

~~☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.~~

☑ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand Dollars ($ $25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty-Five Thousand Dollars ($ $25,000.00) but less than the amount first set forth above in this paragraph.

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reductions. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. ~~If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".~~ Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production ~~other than the royalties retained in any lease made under the terms of this Article.~~ The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII
continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or each contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Maintenance of Uniform Interests:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**F. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~ Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company or to any company in which any one party owns a majority of the stock.

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such elections as may be permitted or required by such laws. In making the foregoing elections, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifty Thousand Dollars ($ 50,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☑ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal, or otherwise.

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within _____ days from the date of abandonment of said well.

~~It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.~~

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of Texas shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

SEE ATTACHED FOR ARTICLE XV PROVISIONS

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, (year) 2009.

_____, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, deletions, or modifications, other than those in Articles XV and the inserts that are included between the form lines or at the end of certain paragraphs, have been made to the form.

OPERATOR

MAINLAND RESOURCES, INC.

_____ By _____
Michael J. Newport / President/CEO

NON-OPERATORS

AMERICAN EXPLORATION CORP.

_____ 12/5 BY _____
Steve Hagner/ President

GUGGENHEIM CORPORATE FUNDING, IV

William Hagner, Managing Director BY _____
2/4/2010

ARTICLE XV.

The following terms, conditions and provisions are hereby added to this Operating Agreement. In the event there is a conflict between the attached Operating Agreement, the following shall control.

A. **CHANGE OF OPERATOR:** The provisions of Article V.B. relating to action by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership shall be deemed to mean the vote of a single Non- Operator, if there is only one (1) Non-Operator.

Should a vote be required to establish the operator of any production or governmental unit within the AMI, the Non- operators agree to support Mainland Resources, Inc., as Operator for the purposes of establishing the unit operator.

B. **OPERATORS LIEN-SECURITY INTEREST:** Subject to the provisions of Article VII,B., of this Operating Agreement, each party grants to the other parties to this Agreement a lien upon all rights, titles and interests of each other, whether now existing or hereafter acquired, in and to (i) the oil., gas and minerals in, on, and under the Contract Area. and (ii) any oil, gas and mineral leases covering the Contract Area or any portion thereof. In addition, each party grants to the other parties to the Agreement a security interest in and to all of such party's rights, titles, interests, claims, general intangibles, proceeds, and products thereof, whether now existing or hereafter acquired, in and to (i) all oil, gas. and oilier minerals produced from the Contract Area when produced; (ii) all accounts receivable accruing or arising as a result of the sale of such oil, gas and other minerals: (iii) all cash or other proceeds from the sale of such oil, gas or other minerals once produced: and (iv) all oil and gas wells and other surface and subsurface equipment and facilities of any kind or character located on the Contract Area and the cash or other proceeds realized from the sale thereof (collectively, the "Personal Property Collateral. This Operating Agreement (including a carbon, photographic or other reproduction hereof) shall constitute a non standard financing statement under the terms of the Uniform Commercial Code of the state in which the Contract Area is located, and, as such, may be filed for record in the real estate records of the county or counties in which to Contract Area is located.

C. **UNIT WELL PARTICIPATION:** Should any party to elect not to participate in the first well drilled within any designated unit in the Contract Area the non-participating party shall forfeit its rights to participate in all subsequent wells in that unit and relinquish its leasehold ownership to the participating parties. The non-participating party shall proportionately assign its interest in the leases within the unit to the participating parties free of any Subsequently Created Interests and without any warranty of title except as to claims by, through and under assignor.

D. **OBLIGATORY WELL PROVISIONS:** A well or other operation commenced within ninety (90) days prior to the date any lease committed hereto (or portion thereof) would expire in the absence of such operation and a well or other operation which must be drilled or conducted to "earn" or maintain a lease committed hereto or to earn certain rights under any acreage contribution agreement shall constitute an "Obligatory Operation". Notwithstanding the other provisions hereof and particularly Article VI,B., if the proposed operation is an Obligatory Operation, a party not participating in such operation shall assign to the parties participating in such operation all of its interest in the leases which would be lost, or not earned, if such operation is not conducted. If less than all of a lease would be lost, then such assignment to be limited to the areas, interests, depths or other portions which would be thus lost. Such assignment shall be made upon the commencement of operations for such sell and shall be free and clear of all "subsequently created interest" as defined in Article III,D., but otherwise without warranty of title, either express or implied. The provisions of Article VI,B., shall, however continue to apply to the interest of the panics in the well drilled as an Obligatory Operation to the extent such panics' interest in the Contract Area are not derived from leases or portions of leases which would be lost if such Obligatory Operation were not conducted. The interests of the parties as set out in Exhibit "A" shall be adjusted to reflect any change in interests in the Contract Area resulting from the assignments required by this paragraph.

E. **FILINGS:** Operator will file or cause to be tiled all statements, certifications, operational notices, reports or applications (collectively referenced as "Filings") required to be filed by local. State. Federal or Indian agencies, or authorities having jurisdiction over operations. Operator may employ counsel and technical experts to the extent Operator in its sole discretion considers the same appropriate to prosecute Filings. Costs incurred by Operator will be charged to the joint account. Each non-operator shall provide to Operator or Operator's designee on a timely basis all information necessary to Operator to make such filings.

F. **ADVANCE BILLING:** In addition to the rights granted to Operator pursuant to Article VII,C., Operator shall have the right from time to time, at Operator's option, to request and receive in advance from Non-Operators full payment of their respective proportionate shares of the estimated cost to be incurred in connection with any operation proposed hereunder that is reasonably estimated to require an expenditure to the joint account of an amount in excess of One Hundred Thousand Dollars ($100,000.00) as reflected in the authority for expenditure provided by Operator to Non- Operators in connection with such operation. In the case of a proposal for the drilling of a well, any such advance invoice shall cover only the estimated cost to drill the well to its total depth (including the horizontal portion of any horizontal drilling operation), to conduct open-hole tests therein prior to a completion attempt, and to plug and abandon the same as a dry hole. As to other costs, such advance notice will cover those expenses which are anticipated to be incurred during the next succeeding month in accordance with Article VII,C, hereof. Upon the request of Operator, each Non-Operator who has elected to participate in a proposed operation as noted above shall pay to Operator its proportionate share of such estimated costs within ten (10) days of its receipt of an invoice for same or within five (5) days of its receipt of an invoice if a rig is on location with costs being incurred. Proper adjustment between such advances and the actual expenses incurred shall be made upon the completion of the relevant operations to the end that each party shall bear and pay its proportionate share of the actual expenses

incurred, and no more.

G. **DEFAULT ON PAYMENTS:** If any party to this agreement with an obligation to do so fails to pay its share of any costs due hereunder, including any advance invoices under Article VII.C. or any other provision of this agreement (-defaulted party"), within thirty (30) days of its receipt of such invoice then Operator may place such party in default by delivering to such party a Notice of Default, which shall specify the nature of default and the action which needs to be taken to cure the default. If a defaulted party objects to the defaulted charge or the operation resulting in such charge, the defaulted party may avoid the imposition of the remedies for default contained in this agreement by paying the invoiced amount into an interest earning escrow account at a mutually acceptable bank. The escrow account shall require the signatures of the defaulted party and the Operator in order to release such funds. Such funds shall be released to the party entitled thereto upon the resolution of the issue raised by the defaulted party. Failure to cure the default or deposit the funds into an escrow account as provided hereunder within five (5) days of the delivery of such Notice of Default may, in addition to all other remedies allowed by this Operating Agreement or by law, result in the exercise by Operator of one or more of the remedies provided in this Article. (If the Operator is the defaulting party. the remedies provided hereunder will be provided to the Non-Operators in the same manner as set out below for Operator.)

1. **Access and information:** During the time defaulted party remains in default. Operator 'nay suspend any or all of the rights of the defaulted party granted by this agreement until the default is cured and such defaulted party shall have no further access to the Contract Area or information obtained in connection with operations hereunder and shall not be entitled to vote on any matter hereunder.

2. **Suit for Damages:** Operator may bring suit against the defaulted party to collect the amounts in default together with all consequential damages suffered by the non-defaulting parties as a result of the default, plus accrued interest on such amounts from the date of default until the date of collection at the rate specified in the Accounting Procedures attached hereto.

3. **Non-consent or Relinquishment:** Notwithstanding any previous election to participate, Operator will have the option to deem in writing to all parties hereto that the defaulted party has elected not to participate in the operation to which the unpaid invoice relates. Said written notice to all parties will also deem the defaulted party, in lieu of participation. to be subject to one of the following alternatives:

   If the defaulted invoice covers estimated or actual costs associated with offset or subsequent wells. Operator will have the option to either:

   a) deem the defaulted party subject to the non-consent provision of the governing joint operating agreement or:
   b) the defaulted party will be required to relinquish all of its right, title and interest in the well and all production therefrom, effective upon commencement of such defaulted operation with no compensation to the defaulted party. This provision shall apply only to costs relating to actual "Drilling" of any well and not to situations occurring after the drilling of any well.

   Any interest non-consented or relinquished under this provision shall be divided among non-defaulting parties who pay for the unpaid amount due hereunder. Otherwise, the defaulted party will remain fully responsible for all of its obligation hereunder.

H. **COSTS AND ATTORNEY'S FEES:** In the event any party is required to bring legal proceedings against another party hereto in order to collect any sums due hereunder or to enforce any other right under this agreement, then the prevailing party in such action shall also be entitled to recover all court costs, costs of collection, reasonable attorney's fees and other related costs which costs shall also be secured by the lien provided for herein.

I. **NOTICE:** At least forty-eight (48) hours prior to conducting any testing, coring, logging completing or abandoning operations, Operator shall notify the other parties participating in the costs thereof so that they may have a representative present to witness such tests or operations if they so desire.

J. **CONFLICT OF COVENANTS:** In the event this agreement or any provision hereof or the operation contemplated hereby is found to be inconsistent with or contrary to any laws, rules, regulations, ordinances or orders as set out in Article XIV.A., the latter shall be deemed to control: and this Agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

K. **NON-WAIVER PROVISION:** Nothing herein contained shall grant nor be construed to grant Operator the right nor authority to waive or release any rights, privileges, or obligations which Non-Operators hereunder may have under Federal or State Laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations on tracts offsetting or adjacent to the area covered by this Agreement. For example but without limitation, Operator shall not have the right to waive any rights which Non-Operators may have in reference to the location, operation, or production of well on tracts offsetting or adjacent to the area covered hereby.

L. **AREA OF MUTUAL INTEREST:** The panics hereto hereby create an Area of Mutual Interest (AMI) comprising the following acreage, Sections 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,19,20,21,22,23,24,37, T10N-R2W and Sections 3,4,4,6,7,43,T9N-R2W all in Jefferson Co. Mississippi. This AMI shall remain in force and effect for a period of six (6) years commencing October 1, 2009.

During the term of this AMI if any party hereto (Acquiring Party") acquires any oil and gas lease or any interest therein. any unleased mineral interest or any farmouts or other contracts with respect thereto which affects lands and minerals lying within the AMI ("Acquired Interest') tine Acquiring Party shall promptly advise each of the other panics hereto of such acquisition. In such event, each party shall have the right to acquire its proportionate interest in such Acquired Interest by paying its share of the actual acquisition costs for such

Acquired Interest. Upon obtaining the Acquired Interest, the Acquiring Party shall promptly submit to other parties' copies of all instruments of acquisition including, but not limited to, copies of leases, assignments, farmouts or other contracts affecting the Acquired Interest. The Acquiring Party shall enclose an itemized statement of the actual costs and expenses incurred by Acquiring Party in said acquisition. Each party shall have a period of fifteen (15) days after receipt of such notice to provide the Acquiring Party written notice of its election to acquire its proportionate interest in the Acquired Interest and accompanied by payment therefor. A failure to response to participate in the acquisition of an Acquired Interest within the time frame above shall be deemed an election not to participate in the acquisition. This AMI shall not apply to any interest acquired by act of merger or lands that are part of a larger acquisition whereby the interest located within the AM[is not a significant part of the entirety of the merged or acquired assets.

M. **SEQUENCE OF FURTHER OPERATIONS:** It is agreed that where a well which has been authorized under the terms of this agreement by all parties (or by less than all parties under Article VI,B,I,) has been drilled to the objective depth or the objective formation, whichever is lesser, and the parties participating in the well cannot mutually agree upon the sequence and timing of further operation regarding said well, the following elections shall control in the order enumerated hereafter. (1) An election to do additional logging, coring, or testing; (2) An election to attempt to complete the well at either the objective depth or objective formations: (3) An election to plug back and attempt to complete said well: (4) An election to deepen said well; and (5) An election to sidetrack the well.

It is provided, however, that in the Operator's sole opinion, if at the time said participating parties are considering any of the above elections, the hole is in such a condition that a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for rear of placing the hole in jeopardy or losing the same prior to completing the well in the objective depth or objective formation, such election shall not be given the priority hereinabove set Forth. Instead, the operation which is least likely to jeopardize the well in the opinion of the Operator will be conducted.

N. **MEMORANDUM OF AGREEMENT:** To perfect the lien and security interest provided herein, each Party agrees to execute a memorandum of this operating agreement which shall be recorded by the Operator in each count[r in which lands comprising all or any part of the Contract Area hereunder are situated prior to the commencement of actual drilling operations hereunder. The Operator will prepare the memorandum of this agreement and circulate the same to the Non-Operators for their respective executions and will provide recordation information to the Non-Operators for their records. Said memorandum shall include a reference to the pertinent substantive provisions and/or exhibits to this agreement and/or exhibits to some of which may be attached thereto and recorded with the memorandum.

O. **POST PRODUCTION FACILITIES:** Notwithstanding the provisions of Article VI B. and subject to the expenditure limitations set for the in Article VII D. 3., Operator may in accordance with the notice requirements of Article IV b. propose the acquisition and subsequent installation of postproduction facilities/equipment to service production from the Contract Area. However, if approval of this operation and subsequent expenditure is not obtained from all parties, and the parties owning at least 51% in interest in the Contract Area have approved of such operation and expenditure. and the expenditure is less than $100,000, the parties who have failed to respond to such proposal or who have responded in the negative shall nevertheless be bound thereby and obligated to pay their proportionate pan of such proposed operation as if they had consented to such operation pursuant to the terms hereof.

P. **PUBLIC NOTICES AND CONFIDENTIALITY:** No party shall distribute any information, photographs, public announcements, press releases, or other acts of public disclose concerning the operations, pending or possible operations and activities or results of operations within the Contract Area to the press or other media without the prior approval of all parties hereto. In the event of an emergency or as required by State or Federal Law, the Operator is authorized to furnish such information as required and shall notify the parties of such disclosure as promptly as possible.

Each party hereto agrees that all information obtained in the course of, or as a result of the operations on the Contract Area is proprietary in nature and shall not be sold, traded or otherwise made available to any third panics, except information which all the panics hereto have expressly agreed in writing to release, or which any party is required to release under the terms of its oil and gas leases. Notwithstanding the foregoing, any party hereto may make available to its geologists, engineers, or financial consultants, or attorneys provided such consultant(s) and attorneys agree to execute a confidentiality agreement satisfactory in form to the other panics hereto.

Q. **OTHER AGREEMENTS:** This Operating Agreement is subject to that certain Letter Agreement dated October 1, 2009 between Mainland Resources, Inc., and American Exploration Corp. In the event of a conflict between this Operating Agreement and the Letter Agreement, the Letter Agreement will be the governing document unless specifically amended in writing and subsequently incorporated herein.

EXHIBIT "A"

Attached to and made of part of Joint Operating Agreement dated October 1, 2009, between Mainland Resources, Inc. as Operator and American Exploration Corp. et al, as Non-Operators.

LANDS SUBJECT TO THIS AGREEMENT:

Sections 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,19,20,21,22,23,24,37 T 10N-R2W and Sections 3,4,5,6,7,43 T9N-R2W all in Jefferson County, Mississippi.

PERCENTAGE INTEREST OF THE PARTIES:

Parties	Working Interest in Initial Well to completion if American pays for 20.00%	Working Interest in Initial Well to completion if American does not pay for 20.0%
Mainland Resources, Inc.	72.00%	90.00%
Guggenheim Corporate Funding LLC	8.00%	10.00%
American Exploration Corp.	20.00% *	0.00%*
	100.00%	100.00%

	Working Interest in Initial Well after completion and Remainder of Lands if American Pays for 20.00%	Working Interest in Initial Well after completion and Remainder of Lands if American does not pay for20.0%
Mainland Resources, Inc.	45.900%	72.00%
Guggenheim Corporate Funding LLC	5.100%	8.00%
American Exploration Corp.	49.000%*	20.00%*
	100.000%	100.00%

*Note American Exploration Corp. will bear their proportionate share of that certain Overriding Royalty Interest retained by Guggenheim Corporate Funding LLC as further described in the Mainland Resources, Inc. and Guggenheim Agreement.

ADDRESSES OF THE PARTIES

Operator:

Mainland Resources, Inc.
20333 State Highway 249, Suite 200
Houston, TX 77070

American Exploration Corp
407 2nd Street SW, Suite 700
Calgary, Alberta T2P 2Y3 Canada

Guggenheim Corporate Funding, LLC
Address to be determined

EXHIBIT "C"

Attached to and made a part of Joint Operating Agreement dated October 1, 2009, between Mainland Resources, Inc., and American Exploration Corp. et al, as Non-Operator

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the Parties to this agreement other than the Operator.
"Parties" shall mean Operator and Non-Operators.
"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.
"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.
"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at J.P. Morgan Chase Bank, N.A. Houston, TX on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. **Audits**

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. **Approval By Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

3. **Labor**

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. **Employee Benefits**

Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. **Transportation**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. **Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. **Equipment and Facilities Furnished By Operator**

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed eight_____ percent (8 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. **Damages and Losses to Joint Property**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. **Legal Expense**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payments of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. **Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 6 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(x) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or
(x) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or
(x) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ $10,000.00
(Prorated for less than a full month)

Producing Well Rate $ 950.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

(2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

(1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

(2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

(3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

(4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

~~(1) Operator shall charge the Joint Account at the following rates:~~

~~(a) Development~~

~~_____ Percent (_____%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~

~~(b) Operating~~

~~_____ Percent (_____%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 3 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~

~~(2) Application of Overhead - Percentage Basis shall be as follows:~~

~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property, also preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.~~

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of $ 100,000.00 :

A 4.00 % of first $100,000 or total cost if less, plus

B. 3.00 % of costs in excess of $100,000 but less than $1,000,000, plus

C. 2.00 % of costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. 3.00 % of total costs through $100,000; plus

B 2.00 % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 1.00 % of total costs in excess of $1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line Pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated, between **Mainland Resources, Inc.**, as Operator, and American Exploration Corp. et al as Non-Operator.

INSURANCE

As to all operations hereunder, Operator shall carry for the benefit and protection of the parties hereto Worker's Compensation and Employer's Liability Insurance as required by the laws of the jurisdictions in which the operations are conducted which shall include all claims under the United States Longshoremen's and Harbor Worker's Act, the Jones Act, and Outer Continental Shelf Lands Act (with limits of not less than $100,000 per person, $500,000 per occurrence) covering all employees engaged in the performance of work hereunder. The cost of the foregoing insurance coverage shall be charged to the joint account as provided in Exhibit "C" to said Operating Agreement.

The liability, if any, of the parties hereto in damages for claims growing out of illness or personal injury to or death of third parties or damage to or destruction or loss of property of third parties resulting from operations conducted hereunder shall be borne by the parties hereto in the proportions in which they bore the costs of such operations. Operator shall not be liable to Non-operator for damage to or for loss or destruction of jointly owned property from operations hereunder unless such damage, loss, or destruction arises solely out of willful misconduct or gross negligence of Operator.

The Operator and any other party authorized in writing by it may self insure with respect to its share of liabilities incurred pursuant to operations conducted hereunder. Each other party shall carry its proportionate share of the following insurance in the indicated amounts:

(i) Comprehensive General Liability Insurance, including contractual liability, with a combined single limit per occurrence of not less than $1,000,000 for bodily injury and property damage.

(ii) Comprehensive Automobile Insurance, including hired and non-owned vehicles, with a combined single limit per occurrence of not less than $1,000,000 for bodily injury and property damage.

(iii) Liability Umbrella (excess of underlying insurance coverage mentioned above) with a combined limit per occurrence coverage of not less than $10,000,000.

(iv) Well Control Insurance, including underground blowout, seepage, and pollution, with a combined single limit per occurrence coverage of not less than $10,000,000.

Each party so required to be insured shall provide copies of certificates evidencing the above insurance coverage upon request of any other party. Each party may individually acquire for its own sole benefit such other insurance coverage as it deems necessary; provided, however, that all such insurance coverage and all of the insurance coverage described in the previous paragraphs of this exhibit shall contain a waiver of subrogation in favor of all other parties hereto. Operator shall require each independent contractor and subcontractor to carry and maintain insurance at its own expense in amounts deemed necessary to cover the risks inherent to the work or services to be performed by the contractor or subcontractor.

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated, between MAINLAND RESOURCES, INC.., as Operator and American Exploration Corp. et al , as Non-Operator.

GAS BALANCING AGREEMENT

THIS AGREEMENT is made by and between Operator and Non-Operator as identified in the Operating Agreement dated covering the land and lease(s) described therein as the same may be amended from time to time (the "Operating Agreement").

Each such party, including Operator, being referred herein as a "Party," and all such parties being collectively herein as the "Parties." The Parties recognize that imbalances may occur from time to time between them in their separate disposition of Gas. The Parties hereby agree to handle such Gas imbalances as follows:

ARTICLE I - Definitions

1.01 As used in this Agreement, the terms set forth below shall have the following meanings:

(a) "Balance" is the condition existing when a Party has disposed of a cumulative volume of Gas from a Well which is equal to such Party's Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well.

(b) "Gas" shall mean the total volume of Gas in BTU's available to the Parties to this Agreement at the Measurement Point from a Well remaining after removal of all liquids by primary field separation and the extraction of any liquid hydrocarbons upstream of the Measurement Point, less gas vented. flared, lost, or used in joint operations.

(c) "Make-up Gas" refers to that incremental volume of Gas, which an Underproduced Party is entitled to under this Agreement in order to achieve a Balance.

(d) "Measurement Point" shall mean, unless otherwise agreed to in writing between the Parties, the point at the gas discharge side of the primary field separation facility where a meter for measurement of Gas to be disposed of is installed, unless such separation facilities are not installed, in which event the point shall be the meter at the wellhead of each Well.

(e) "Operator" shall mean the operator designated in the Operating Agreement.

(f) "Overproduced" is the condition existing when a Party has disposed of a greater cumulative volume of Gas from a Well at anytime than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well. Reference to "overproduction" is to such greater volume.

(g) The "Percentage ownership" of each Party is equal to that Party's working interest in a Well as determined under the terms of the Operating Agreement.

(h) "Underproduced" is the condition occurring when a Party has disposed of a lesser cumulative volume of Gas from a Well at any time than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well. Reference to "underproduction" is to such lesser volume.

(i) "Well" means a well drilled on the lands and leases covered by the Operating Agreement and capable of producing Gas. For the purposes hereof, a Well separately produced and measured from more than one zone will be considered a separate Well for each zone.

(j) To "dispose of" Gas or Gas "disposed of" shall mean all methods of disposition of Gas, including taking in kind, delivering in kind to a Lessor, sales to a Party or third party or affiliate, or Gas used by a Party for purposes other than joint operations.

1.02 Terms not defined in this Agreement shall have the meaning commonly ascribed to them in the natural gas sales industry.

ARTICLE II - Scope and Term

2.01 This Agreement establishes a separate gas balancing agreement for each Well.

2.02 This Agreement shall be effective as of the date of first Gas sales by a Party from any Well, or, if sooner, the date of the Operating Agreement. This Agreement shall terminate separately as to each Well when production from such Well permanently ceases and the Gas accounts for such Well are brought into Balance pursuant to this Agreement.

ARTICLE III – Right to Produce and Ownership of Gas

3.01 During any month when a Party does not dispose of its Percentage ownership of Gas, the Parties that dispose of their Percentage Ownership shall be entitled to dispose of all or any portion of such Underproduced Gas. To the extent the Parties desire to dispose of more Underproduced Gas than is available, they shall share in such Gas in the proportion that each such Party's Percentage Ownership bears to the combined Percentage Ownership of all Parties desiring to dispose of such Gas. However, unless otherwise approved by all Parties, no Party shall be entitled to dispose of more than three hundred percent (300%) of its Percentage Ownership of Gas that month.

3.02 Each Party shall own and be entitled to the Gas disposed of by such Party pursuant to this Agreement, and the proceeds thereof, including constituents contained therein that are recovered downstream from the Measurement Point. If a Party is Underproduced with respect to a Well, its underproduction shall be deemed to remain in the reservoir subject to the right of disposal of such Underproduced Gas at a later time.

3.03 Nothing in this Agreement shall require or permit any production from a Well in excess of the maximum efficient rate at which such Well can be produced for, a sustained period of time without resulting in underground waste in the form of reduced ultimate recovery of hydrocarbons.

ARTICLE IV – Make-Up Gas

4.01 Each Underproduced Party in a Well shall have the right to dispose of Make-Up Gas, and each overproduced Party shall have the obligation to furnish Make-Up Gas, as follows:

(a) An Underproduced Party shall provide at least twenty (20) days written notice to the operator of its intent to dispose of Make-Up Gas and specify the period of such make up which, in no event, shall be less than one calendar month. Make-Up Gas shall not be made available to an Underproduced Party until the first day of the month following notice to the operator.

(b) An overproduced Party shall not be required to furnish Make-Up gas unless an Under-produced Party is first disposing of its Percentage Ownership of Gas.

(c) An Overproduced Party shall not be required to provide as Make-Up Gas more than fifteen percent (15%) of its Percentage Ownership of Gas during the month of January, February, March, November, and December. For all other months an Overproduced Party shall not be required to provide as Make-Up Gas more than fifty percent (50%) of its Percentage Ownership of the Gas.

(d) If there is more than one Overproduced Party, the Make-Up Gas will be furnished by the Overproduced Parties in the proportion that each Overproduced Party's Percentage Ownership in a Well bears to the total Percentage Ownership of all overproduced Parties in the Well.

Likewise, if there is more than one Underproduced Party able to dispose of Make-up Gas in a month, each Underproduced Party will share in the Make-up Gas in the proportion which its Percentage ownership in a Well bears to the total Percentage Ownership of all Underproduced Parties in that Well disposing of Make-up Gas that month.

4.02 Nothing herein shall be construed to deny any Party the right from time to time to dispose of its Percentage Ownership of Gas in a Well for the purpose of conducting deliverability tests pursuant to its gas purchase contracts.

ARTICLE V - Balancing of Gas Accounts

5.01 The operator shall have the duty of administering the provisions of this Agreement. The operator shall use its good faith efforts to cause Gas to be delivered as may be required to give effect to the intent that there be a Balance between the Parties in accordance with the provisions hereof. The Operator shall only be liable for its failure to make deliveries of Gas in accordance with the terms of this Agreement if such failure is due to its gross negligence or willful misconduct.

5.02 The Operator shall promptly forward notice to all affected Parties, and each month the operator will furnish each Party a report showing for the prior month the total volume of Gas in Btu's produced from each Well, including the volumes vented, flared, lost, or used in joint operations; the volume of Gas disposed by each Party; each Party's overproduction or underproduction for the month; and the cumulative overproduction or underproduction of each Party in each Well. In the event that production from each well is not separately measured, then the Operator will allocate production to each Well on the basis of periodic tests or such other methods as are commonly used and accepted in the industry. Make-up Gas disposed of by an Underproduced Party shall offset underproduction in the order in which such underproduction accrued, i.e., First in, First out.

5.03 During the term of this Agreement and for a period of two (2) years thereafter, each Party shall retain all data, information and records pertaining to the Gas disposed of by such Party in a Well. Each Party shall have the right to audit the records retained hereunder. Any audit shall be conducted at the expense of the Party or Parties desiring such audit after reasonable notice and during normal business hours in the office of the Party whose records are being audited. No more than one audit of a Party shall be conducted in any twelve (12) month period.

ARTICLE VI - Cash Settlement of Imbalance

6.01 When production from a Well permanently ceases, there shall be a cash settlement between the Parties hereto for any Gas not in Balance. Within sixty (60) days after notice from the Operator that a well has permanently ceased to produce, each Overproduced Party shall pay to the Operator the proceeds received for the overproduction which remains accrued to such Party, less taxes actually paid thereon by such Overproduced Party. The operator shall distribute the total of such amounts so

collected among the Underproduced Parties in the proportion of each such Parties' underproduction. Any past due payments by Overproduced Parties shall bear interest at the prime rate of interest in effect from time to time of Chemical Bank, N.Y., N.Y., plus two percent (2%), from date due until date paid.

6.02 The price of Gas for cash settlement by an Overproduced Party shall be the price actually or constructively received for the overproduction. If a portion of an Overproduced Party's Gas production is disposed of for its own use, the price for such Gas will be the price received for any Gas disposed of by such Party in arm's length transactions. During periods when an Overproduced Party disposed of Gas for its own use and had no gas sales, overproduction will be valued at the weighted average price received simultaneously by all Parties for Gas disposed of in arm's length transactions. If no Party sold Gas when the overproduction occurred then the price shall be the last price received by a Party making sales. A price determined for Gas production not sold by the Overproduced Party shall be deemed to have been constructively received by such Party.

6.03 If any portion of the price which is to be paid to an Underproduced Party is subject to refund by an governmental authority, then the Overproduced Party may withhold the amount subject to refund until that portion of the price is finally approved. If any governmental agency requires an Overproduced Party to refund any portion of a price used to make payment hereunder, then the Underproduced Parties shall reimburse the Overproduced Parties for such refund, including any interest. This Paragraph 6.03 shall survive the termination of this Agreement.

ARTICLE VII - Costs and Ownership of Liquids

All operating costs, expenses and liabilities shall be borne and paid by the Parties in accordance with the provisions of the operating Agreement, regardless of which Parties are disposing of Gas from a Well at any given time. Liquid hydrocarbons of a well separated from the Gas upstream of the Measurement Point shall be owned by all Parties in accordance with their Percentage Ownership in the Well.

APTICLE VIII - Indemnity

Each Party hereby indemnities and agrees to hold the other Parties harmless from all claims, costs and liabilities arising out of the operation of this Agreement and the performance of obligations hereunder by the indemnifying Party.

ARTICLE IX - Payment of Lease Burdens

Each Party shall be responsible for and shall pay or cause to be paid all royalties, production payments and other encumbrances due on the cumulative volume of Gas disposed of by that Party in each month from a Well and shall hold the other Parties free from any liability therefor. The Parties disposing of Gas from a Well shall pay or cause to be paid all production, severance, ad valorem or any other taxes, fees or levies on such production.

ARTICLE X - Binding Effect

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns; provided, that this Agreement may not be assigned without the prior written consent of all other Parties.

ARTICLE XI - Notices

Any notices or other communications required or permitted hereunder shall be in writing and shall be deemed given only when received by the Party to whom the same is directed at the addresses and in the manner then provided under the Operating Agreement.

Addendum to Exhibit "E"

Pipeline capacity/infrastructure secured by any of the partners will be shared on a prorated basis, equal to the revenue interest ownership within the partnership.

Current understanding suggests that the Buena Vista leases have access to gas pipeline capacity to a gathering facility of about 7mmcf/day, before compression, and about 20mmcf/day following the addition of compression. Sales gas production utilizing this pipeline infrastructure will be shared proportionate to NRI of the parties participating in producing wells.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated, between **MAINLAND RESOURCES, INC.**, as Operator, and American Exploration Corp., **et al** as Non-Operator.

EQUAL EMPLOYMENT OPPORTUNITY

During the performance of this agreement, the Operator shall be bound by and comply with all terms and provisions of Section 202 of Executive Order 11246 of September 24, 1965, all of which are incorporated herein by references to the same extent as if fully set out herein, and shall be bound by and comply with the rules, regulations and relevant orders adopted pursuant to such Executive Order.

Operator assures Non-Operator that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that he does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965. Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor, dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operator.

CODE OF CONDUCT

Section One - CODE OF CONDUCT

A director and officer of the Corporation shall, in discharging the office of director and officer of the Corporation:

(a) While pursuing duties as a director and/or officer, act at all times in the best interests of the Corporation acknowledging the interests of the Corporation are paramount to any personal interests;

(b) Exercise diligence, care, prudence and common sense, and keep informed of the policy, business and affairs of the Corporation and the statutes and rules to which the Corporation is subject and by which it is governed;

(c) Deal with fellow directors, officers, employees and third parties of the Corporation openly, honestly and in good faith and make available to and share with fellow directors and officers of the Corporation all information as may be relevant and properly disclosed to ensure the proper conduct and sound operation of the Corporation;

(d) Treat in confidence all matters and information involving the Corporation, the Board, its committees, the employees and customers; not disclose the same where it is not in the public record or domain unless sanctioned by the Board to do so; and refrain from entering into any transaction in which the director makes use of confidential information in order, directly or indirectly, to obtain a benefit or advantage for the director or officer or anyone else, other than the Corporation or a subsidiary thereof;

(e) As a general rule, refer questions from the media to the appropriate Corporation spokesperson;

(f) Exercise diligence in ensuring that the actions and conduct of the business and affairs of the Corporation are carried out in accordance with policies adopted by the Board;

(g) Disclose to the Board any financial or personal interest, direct or indirect, which the director or officer may have, which may conflict with the Corporation or which may otherwise have bearing upon any transaction or business in which the Corporation may have or contemplate having an involvement, whether such interest arises by reason of the personal affairs, employment, office or other association of the director or officer in such circumstances, refrain from participation in or voting upon such transaction or business;

(h) Request such information through the Board from officers and employees of the Corporation as may be necessary to permit the full discharge of the duties of a director or officer to ensure that accurate records, minutes and memoranda are maintained with respect to the conduct and discharge of the business of the Board; and

(i) Be mindful that the stewardship of the Corporation's affairs and business has been entrusted to the Board, to be undertaken and conducted so as to meet the needs of stakeholders collectively.

Section Two - DIRECTOR CONDUCT GUIDELINES

Introduction

The purpose of Director Conduct Guidelines is to provide a set of practical guidelines for director conduct.

Goals and Objectives

As a member of the Board, each director shall:

(a) Fulfill the legal requirements and obligations of a director which includes an understanding of the statutory and fiduciary roles;

(b) Represent the interests of all stakeholders in the governance of the Corporation, ensuring that the best interests of the Corporation are paramount; and

(c) Participate in the review and approval of the Corporation's policies and strategies and in monitoring their implementation.

Duties and Responsibilities

Board Activity

As a member of the Board, each director shall:

(a) Exercise good judgment and act with integrity;

(b) Use his/her abilities, experience and influence constructively;

(c) Be an available resource to management and the Board;

(d) Respect confidentiality;

(e) Advise the CEO when introducing significant and/or previously unknown information or material at a Board meeting;

(f) Understand the difference between governing and managing and not encroach on management's area of responsibility;

(g) Identify potential conflict areas, real or perceived, and ensure they are appropriately identified and reviewed;

(h) When appropriate, communicate with the CEO between Board meetings; and

(i) Evaluate the CEO, the COO, when applicable, and the CFO's performance.

Preparation and Attendance

To enhance the effectiveness of Board and Committee meetings, each director shall:

(a) Prepare for Board and Committee meetings by reading reports and background materials prepared for each meeting;

(b) Attend Board and Committee meetings; and

(c) Have acquired adequate information necessary for decision making.

Communication

Communication is fundamental to Board effectiveness and therefore each director shall:

(a) Participate fully and frankly in the deliberations of the Board;

(a) Encourage free and open discussion of the affairs of the Corporation by the Board and its members;

(c) Ask probing questions, in an appropriate manner and to the point; and

(d) Focus inquiries on issues related to strategy, policy and results rather than issues relating to the day to day management of the Corporation.

Independence

Recognizing that the cohesiveness of the Board is an important element in its effectiveness, each director shall:

(a) Be a positive force with a demonstrated interest in the long-term success of the Corporation; and

(b) Speak and act independently.

Board Interaction

As a member of the Board, each director shall establish an effective, independent and respected presence and a collegial relationship with other Board members.

Committee Work

In order to assist Board committees in being effective and productive each director shall:

(a) Participate on committees and become knowledgeable with the purpose and goals of the committee; and

(b) Understand the process of committee work and the role of management and staff supporting the committee.

Business and Industry Knowledge

Recognizing that decisions can only be made by well informed Board members, each director shall:

(a) Become generally knowledgeable of the Corporation's services and industry;

(b) Maintain an understanding of the regulatory, legislative, business, social and political environments within which the Corporation operates;

(c) Become acquainted with the officers of the Corporation; and

(d) Be an effective representative of the Corporation.

Section Three - CONFLICTS OF INTEREST

Introduction

The purpose of this section is to help the Corporation and each of its direct and indirect subsidiaries, and each of the Corporation's officers and directors, to identify and properly address potential conflicts of interest involving the Corporation.

A conflict of interest arises when private interests interfere, or appear to interfere, in any way, with the interests of the Corporation as a whole. One is to ensure that one clearly identifies and avoids any situation of actual or apparent conflict of interest.

Some conflicts are clear-cut; others are less obvious. For that reason one must fully disclose to a member of the Company management all circumstances that could be construed or perceived as a conflict of interest. Full disclosure enables the Corporation to resolve unclear situations and create an opportunity to dispose of and ethically handle conflicts of interest before any difficulty can arise. To the extent a conflict of interest cannot be avoided in a reasonable fashion, then appropriate procedures must be put in place to minimize the involvement of any conflicted individuals in the relationship or interaction giving rise to the conflict. Failure to make required disclosures or resolve conflicts of interest satisfactorily can result in discipline up to and including termination of employment.

Scope

Although it is impossible to describe every situation that might give rise to a potential conflict of interest, this section addresses the following common situations that may give rise to a conflict of interest:

(a) A director or officer has a personal financial interest, whether direct or indirect, in a transaction or arrangement entered into by the Corporation or in an entity doing business with the Corporation; and/or

(b) A director or officer intends to exploit a corporate opportunity that rightfully belongs to the Corporation.

Policy

Each director and officer shall annually submit to an independent committee of the Board (the "**Independent Committee**"; which could be the Corporation's Corporate Governance Committee from time to time if so determined) a statement which confirms that such person has received a copy of this section, has read and understands this section, is in compliance with the section and has agreed to comply with this section.

Each such person shall also complete, and submit to the Independent Committee, at the same time, a declaration of potential conflicts of interest, of which such person may be aware, in a form provided to such person by the Corporation.

Definitions

- **Interested Person**

  : Any director or officer who has a financial interest (as defined below), or whose related party (as defined below) has a financial interest, or who, or whose related party, is presented a potential corporate opportunity (as defined below).

- **Related Party**

  :

(a) A spouse (other than a spouse who is residing apart under a decree of separate maintenance), a child (including a legally adopted child), a grandchild, a sibling, a parent and a grandparent of the director or officer;

(b) Any person with whom a director or officer is living or who is claimed as an exemption on the federal tax return of the director or officer for the then most recently completed calendar year;

Any entity (whether non-profit or for-profit): (i) which is directly or indirectly owned or controlled, individually or collectively, by the director or officer and/or by persons described in (a) and/or (b) above; or (ii) of which the director or officer or a person described in (a) and/or (b) above is an officer, director, advisory board member, trustee, partner or employee.

(c) For this purpose, "**owned**" includes controlling or holding, directly or indirectly, 20 percent or more of the voting or economic interests in the entity if it is not a public company, or five percent or more of the voting or economic interests in the entity if it is a public company, in either case as a stockholder, partner or member; and "**controlled**" means having the right to appoint any of the director, trustee or other positions on the governing body of the entity; and

(d) A partner, stockholder or professional or management-level employee of a law firm, accounting firm or other service partnership or corporation of which the director or officer or a person described in (a) or (b) above is a partner, stockholder or employee.

Financial Interest

- : A director or officer has a financial interest if such person or, to the knowledge of such person, a related party of such person has, directly or indirectly, whether through any business, investment or family relationship, any of the following:

(a) A significant investment (as defined below), existing or potential, in any entity; or

(b) A compensation arrangement or right, existing or potential, with any entity or individual with which the Corporation has, or is negotiating, a material (as defined below) transaction or arrangement.

Compensation includes direct and indirect remuneration, as well as gifts or favors, that are substantial in nature (i.e. with a value of $10,000 or more). Favors include the right to purchase stock in other companies. No payment of compensation for services rendered, on a one-time basis, at a rate or a charge substantially similar to the rate or charge then generally quoted or offered by any director for substantially similar services, shall be deemed to constitute compensation for purposes of this sub-section, so long as it is not in excess of $60,000. In addition, no payment or reimbursement of expenses or costs incurred in providing any services, to the extent the amount of such payment or reimbursement is reasonable in the circumstances, shall be deemed to constitute compensation for purposes of this sub-section.

The existence of a financial interest is not, in all cases, a conflict of interest. Under (b) above, a person who has a financial interest will be deemed to have a conflict of interest only if the Board or appropriate committee determines that such financial interest creates a conflict of interest.

Significant Investment

- : A significant investment in a company, whether private or public, for which the beneficial ownership, whether direct or indirect through any other person or entity, of the securities of such company represents five percent or more of the voting power of such company's outstanding securities (i.e. the aggregate votes to which its outstanding securities are entitled). For purposes of such ownership calculation, the investment of such director or officer, and any investment of which such director or officer is aware, of each of his or her related parties, shall be aggregated.

Material

- : A transaction or arrangement with another organization, whether for-profit or non-profit, is material if it involves, or is reasonably likely to involve, aggregate payments to, or aggregate payments by the Corporation, in any fiscal year of the recipient or the paying party ending on or after December 31, 2001, exceeding the greater of (a) $200,000 and (b) an amount equal to five percent of the consolidated gross revenues of the recipient or the paying party, respectively, for that fiscal year.

Corporate Opportunity

- : A corporate opportunity is a business opportunity that a director or officer or, to his or her knowledge, a related party of such person, intends to pursue, whether through investment or participation in the business, and that the Corporation might reasonably be interested in pursuing, which (a) has a direct or close relationship to a business or line of business in which the Corporation is engaged, or (b) with respect to which the Corporation has publicly announced it intends to engage, the director or senior officer is aware that the Corporation has determined it intends to engage or is in the process of considering whether it will engage. However, the possible exploitation by a director or officer, or any of their related parties, of a corporate opportunity is not, in all cases, a conflict of interest. A potential corporate opportunity will be deemed to lead to a conflict of interest only if

the Board or appropriate committee decides that such corporate opportunity creates a conflict of interest.

Officers

- : The President, CEO, COO, CFO, each Executive Vice President, each officer senior to any Senior Vice President and each Senior Vice President of the Corporation.

Procedures

Duty to Disclose

In connection with any actual or possible conflict of interest, including any corporate opportunity, an interested person must disclose to the appropriate committee or person, promptly after first becoming aware of such actual or potential conflict of interest, as applicable, the existence of:

(a) His or her existing or potential financial interest and any related party's existing or potential financial interest and all material facts with respect to such financial interest; or

(b) Any potential corporate opportunity in which he or she, or any related party, is or would be a participant (whether as an officer, director, employee, consultant, stockholder, lender, lessee or otherwise) or his or her, or any related party's, investment is or would be in excess of $50,000, and all material facts with respect to such investment, participation and corporate opportunity.

In the case of any such actual or possible conflict of interest where the interested person is an officer (other than the CEO) who is senior to any Senior Vice President of the Corporation, or any related party of such a officer, if such actual or possible conflict of interest:

(a) Involves such a corporate opportunity, such disclosure shall be made to the Executive Management Committee (as herein defined), which shall have authority to determine whether the Corporation should pursue such potential corporate opportunity; or

(b) Involves only a financial interest, such disclosure shall be made to the Independent Committee, which shall have the authority to determine whether such financial interest creates a conflict of interest.

The "**Executive Management Committee**" (comprised of the at least two of the Company's senior management personnel; inclusive the CEO, COO and CFO) shall report, in writing, to the Independent Committee each determination it makes with respect to a potential corporate opportunity. The Executive Management Committee may, from time-to-time, delegate its responsibilities under this section to a sub-committee, to be composed of three members, at least two of which are members of the Executive Management Committee and the other of which is an officer.

In the case of any such actual or possible conflict of interest where the interested person is a Senior Vice President or any related party of a Senior Vice President, such disclosure shall be made to the Executive Vice President to whom such Senior Vice President reports, who, in consultation with the Chief Compliance Officer, shall have the authority to determine whether:

(a) Any corporate opportunity should remain available for the Corporation to pursue; and

(b) Any financial interest creates a conflict of interest.

In the case of any actual or possible conflict of interest or corporate opportunity where the interested person is the CEO or a director, such disclosure shall be made to the Independent Committee, which shall have the authority to determine whether:

(a) Any corporate opportunity should remain available for the Corporation to pursue, and

(b) Any financial interest creates a conflict of interest.

Any officer or the CEO may, at his or her sole discretion, refer the consideration of any such conflict of interest to the Independent Committee. The Independent Committee may, at its sole discretion, refer the consideration of any such conflict of interest to the Board.

Determining Whether a Conflict of Interest Exists

After disclosure of a financial interest or potential corporate opportunity and all material facts related thereto, and after any discussion with any person or persons, including with the interested person, in which he, she or it may choose to engage, the Executive Management Committee, Independent Committee, responsible Executive Vice President or Board, as the case may be, shall decide if a conflict of interest exists with respect thereto. Any such decision being made by other than the responsible Executive Vice President shall be made by a majority vote of the disinterested members of the Board or committee, as the case may be.

If acceptable to the responsible Executive Vice President, the Board or committee, as applicable, an interested person may make a presentation, with respect to the potential conflict of interest, to such Executive Vice President or at the Board or committee meeting, as the case may be.

In the case of a potential corporate opportunity, the responsible Executive Vice President or the chairperson of the Board or committee, as applicable, may, if appropriate, appoint a disinterested person or committee to investigate whether the transaction or arrangement should remain available for the Corporation to pursue on its own behalf and any such person or committee shall report the results of its investigation to the responsible Executive Vice President or the Board or such committee, as the case may be.

The Executive Management Committee, Independent Committee or the Board, by a majority vote of its disinterested members, or the responsible Executive Vice President (in consultation with the Chief Compliance Officer), as the case may be, shall determine in the case of:

(a) A potential conflict of interest arising from a financial interest, whether the Corporation can obtain, with reasonable efforts, a more advantageous transaction or arrangement (taken as a whole), than the transaction or arrangement at issue with the company in which the financial interest is held, that would not give rise to a conflict of interest, or

(b) A potential corporate opportunity, whether the transaction or arrangement should remain available for the Corporation to pursue on its own behalf.

If a more advantageous transaction or arrangement may not be obtained, with reasonable efforts, under circumstances that would not give rise to a conflict of interest, the Executive Management Committee, the Independent Committee or the Board, by a majority vote of its disinterested members, or the responsible Executive Vice President, as the case may be, shall determine whether the transaction or arrangement is in the Corporation's best interest and for its own benefit and whether the transaction is fair and reasonable to the Corporation, and the interested person shall make his, her or its decision as to whether to enter into the transaction or arrangement in conformity with such determination.

The Independent Committee, with the assistance of management of the Corporation, shall put in place such procedures as will enable the Corporation to determine whether a person who becomes subject to this section, as a result of promotion or being hired by the Corporation or being nominated for election as a director of the Corporation, may be in violation of this policy as a result of becoming subject to this policy. Such procedures shall include obtaining from such person, in connection with the hiring, promotion process or nomination process, a statement and disclosure.

Investments by Officers

Officers may invest in third-party entities as part of their personal investment strategy. However, investments in:

(a) Entities that, as a material part of their business, compete with any material part of the Corporation's business; or

(b) The Corporation's own portfolio companies, may create a conflict of interest or the appearance of a conflict.

To avoid any such conflicts of interest, officers (either individually or with any related party or parties) shall not, without the approval of the CEO (and the disclosure of the potential investment to the Independent Committee), and the CEO shall not, without the approval of the Independent Committee, directly or indirectly:

(a) Invest in the securities of any company in which the Corporation itself has made an investment;

(b) Make any investment in excess of $50,000 in a potential corporate opportunity; or

(c) Make any investment (determined at the time it is made), whether direct or indirect through any other person or entity, in any competitor of the Corporation described in the previous paragraph, in excess of $50,000.

The Independent Committee shall review all such investments by the CEO and each officer. Each officer shall annually disclose in writing, during the second month of the Corporation's fiscal year, such investments to the Independent Committee and the CEO, and the CEO shall annually disclose, during the same month, such investments to the Independent Committee.

Granting Employees Interests in the Corporation

From time-to-time, the Corporation may grant employees:

(a) Equity positions, including options, warrants, restricted shares and the like, in companies in which the Corporation has invested; or

(b) A carried interest in the Corporation's venture fund portfolio or portfolios.

All such grants must be approved by the CEO. Each such grant to the CEO must be reviewed and approved by the Independent Committee before such grant is made.

Further, the Board, through its Compensation Committee, sets and reviews the compensation of the CEO and reviews and approves the compensation of certain of its other highly compensated

officers. Since any grant of the type described above is considered compensation, each such grant must be reviewed and approved by the Compensation Committee before such grant is made.

Service on Boards of Directors

No officer may serve on the board of directors or advisory board, or their equivalent, of any company, other than any non-profit entity, without the approval of the CEO and the Executive Management Committee. The CEO may not serve on such a board, and no officer may serve on the board of any public company, without the approval of the Independent Committee.

No officer may serve on the board of directors or advisory board, or their equivalent, of any non-profit entity without first giving the CEO and the Executive Management Committee written notice of his or her intention to do so. The CEO may not serve on such a board without first giving the Independent Committee written notice of his or her intention to do so. The CEO and the Executive Management Committee or the Independent Committee, as the case may be, shall determine whether such service has caused, or is likely to cause, any potential conflict of interest so that appropriate and timely action, as necessary, can be taken.

In addition, each member of the Board shall annually disclose in writing to the Independent Committee all of his or her board of directors, advisory board or equivalent positions in other companies (private and public, including non-profit entities). Each Board member shall also disclose in writing to the Independent Committee any such proposed position with a public company before it becomes effective. Each Board member shall also disclose in writing to the Independent Committee any position with a non-public entity promptly following his or her appointment to such entity. The Independent Committee shall inform the Board of any potential conflicts of interest with respect to any such position so that appropriate and timely action, as necessary, can be taken.

Employment or Engagement in any Other Business

Any employment agreement with the Corporation may appropriately prohibit an employee's employment or engagement in any capacity in any other business without the prior permission

of the Corporation. This provision broadly addresses potential conflicts of interest. Specific examples include, but are not limited to:

(a) Acting as an employee, director or officer of or a consultant to, a competitor or potential competitor of the Corporation, regardless of the nature of the employment or consulting relationship;

(b) Holding a substantial interest in a business which is a customer, competitor or supplier of the Corporation or which otherwise does business with the Corporation;

(c) The purchase of merchandise or services for the Corporation from, or placement of other business with, a corporation directly or beneficially owned or controlled by an employee, director or officer of the Corporation, his or her spouse, relative, in-law or co-habitant; and

(d) Serving as a proprietor, general partner, officer or director of any business (except charitable organizations or family businesses that in no way compete with the Corporation or do business with the Corporation) without first obtaining written consent of the CEO of the Corporation. (Non-employee directors of the Corporation are excluded from this prohibition.).

Violations of the Conflicts of Interest Policy

If any officer or director has reasonable cause to believe it is likely that any other director or officer has failed to disclose any actual or possible conflict of interest required to be disclosed

under this policy, he or she shall inform the Independent Committee or the Board of the basis for such belief. The Board or the Independent Committee shall afford any director or officer who is alleged to have failed to disclose timely any actual or possible conflict of interest required to be disclosed under this policy (whether his or hers, that of any of his or her related parties, or that of another officer or director or any of their related parties), of which he or she was aware, an opportunity to explain such alleged failure. If, after hearing the response of such person and making such further investigation as may be warranted in the circumstances, the Board or Independent Committee determines that the person has in fact failed to disclose timely such an actual or possible conflict of interest, it shall take appropriate disciplinary action, up to and including termination of the person's employment, and corrective action.

Any other violation of this policy by any person subject to this policy, including engaging in any transaction or arrangement or corporate opportunity without requisite approval under this policy, will subject such person to appropriate disciplinary action, up to and including termination of his or her employment.

Compensation Committee

A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services (other than directors fees payable to each director) is precluded from voting on matters pertaining to that member's compensation; provided, however, that the Compensation Committee shall have the authority to determine the annual compensation, including any option grants, of each member of the Board for services performed as a member of the Board or a member or chairman of one of the Board committees.

Accepting or Giving Gifts

You must avoid activities or relationships that conflict with the Corporation's interests or adversely affect the Corporation's reputations. The types of activities and relationships you must avoid include, but are not limited to:

(a) Accepting or soliciting a gift, favor, or service that is intended to, or might appear to, influence the employee's decision-making or professional conduct; or

(b) Giving or offering to give any gift, gratuity, favor, entertainment, reward, "bribe" or "kickback" or any other thing of value that might influence or appear to influence the judgment or conduct of the recipient in the performance of his or her job. This includes transactions with government personnel, customers and suppliers.

You may give or receive unsolicited gifts or entertainment only in cases where the gifts or entertainment are of nominal value, are customary to the industry, will not violate any laws and will not influence or appear to influence the recipient's judgment or conduct at his or her employer's business.

Section Four - WHISTLEBLOWER POLICY

The Corporation's whistleblower policy and procedures have been updated and are consistent with the Sarbanes-Oxley Act of 2002 - Section 404- concerning procedures for making complaints about accounting and auditing directly to the Audit Committee. The procedures facilitate access for employees and related parties to reach the Audit Committee.

Introduction

This section establishes the standards and procedures to ensure that accounting and audit related complaints handling complies with management and the Audit Committee's objectives.

Scope

The section applies to all domestic and international offices and subsidiaries of the Corporation.

Procedure

Responsibilities of Audit Committee With Respect to Specified Complaints

(a) The Audit Committee shall receive, retain, investigate and act on complaints and concerns of employees regarding questionable accounting, internal accounting controls and auditing matters, including those regarding the circumvention or attempted circumvention of internal accounting controls or that would otherwise constitute a violation of the Company's accounting policies (an "**Accounting Allegation**").

(b) At the discretion of the Audit Committee, responsibilities of the Audit Committee created by these procedures may be delegated to any member of the Audit Committee or to a subcommittee of the Audit Committee.

Procedures for Receiving Accounting Allegations

Any Accounting Allegation that is made directly to management, whether openly, confidentially or anonymously, shall be promptly reported to the Audit Committee.

Each Accounting Allegation forwarded to the Audit Committee by management and each Accounting Allegation that is made directly to the Audit Committee, whether openly, confidentially or anonymously, shall be reviewed by the Audit Committee, who may, in their discretion, consult with any member of management or employee whom they believe would have appropriate expertise or information to assist the Audit Committee. The Audit Committee shall determine whether the Audit Committee or management should investigate the Accounting Allegation, taking into account the considerations set forth below.

(a) If the Audit Committee determines that management should investigate the Accounting Allegation, the Audit Committee will notify the Corporation's General Counsel in writing of that conclusion. Management shall thereafter promptly investigate the Accounting Allegation and shall report the results of its investigation, in writing, to the Audit Committee. Management shall be free in its discretion to engage outside auditors, counsel or other experts to assist in the investigation and in the analysis of results.

(b) If the Audit Committee determines that it should investigate the Accounting Allegation, the Audit Committee shall promptly determine what professional assistance, if any, it needs in order to conduct the investigation. The Audit Committee shall be free in its discretion to engage outside auditors, counsel or other experts to assist in the investigation and in the analysis of results.

Considerations Relative to Whether the Audit Committee or Management Should Investigate an Accounting Allegation

(c) : In determining whether management or the Audit Committee should investigate an Accounting Allegation, the Audit Committee shall consider, among any other factors that are appropriate under the circumstances, the following:

(i) Who is the alleged wrongdoer? If an officer or other high management official is alleged to have engaged in wrongdoing, that factor alone may militate in favor of the Audit Committee conducting the investigation.

(ii) How serious is the alleged wrongdoing? The more serious the alleged wrongdoing, the more appropriate that the Audit Committee should undertake the investigation. If the alleged wrongdoing would constitute a crime involving the integrity of the financial statements of the Company, that factor alone may militate in favor of the Audit Committee conducting the investigation.

(iii) How credible is the allegation of wrongdoing? The more credible the allegation, the more appropriate that the Audit Committee should undertake the investigation. In assessing credibility, the Audit Committee should consider all facts surrounding the allegation, including but not limited to whether similar allegations have been made in the press or by analysts.

Records

The Audit Committee shall retain for a period of seven years all records relating to any Accounting Allegation and to the investigation of any such Accounting Allegation.

Procedures for Making Complaints and Effect

In addition to any other avenue available to an employee, any employee may report to the Audit Committee openly, confidentially or anonymously any Accounting Allegation. Accounting Allegations can be made orally or anonymously in writing to the Corporation or to any director or officer of the Board.

Consistent with the policies of the Company, the Audit Committee shall not retaliate, and shall not tolerate any retaliation by management or any other person or group, directly or indirectly, against anyone who, in good faith, makes an Accounting Allegation or provides assistance to the Audit

Committee, management or any other person or group, including any governmental, regulatory or law enforcement body, investigating an Accounting Allegation. The Audit Committee shall not reveal the identity of any person who makes a good faith Accounting Allegation and who asks that his or her identity as the person who made such Accounting Allegation remain confidential and shall not make any effort, or tolerate any effort made by any other person or group, to ascertain the identity of any person who makes a good faith Accounting Allegation anonymously.

Any employee, officer, stockholder or third party who has a concern about the Corporation's business conduct or any possible violations of law, or of this Code of Conduct, or about its accounting, internal accounting controls or financial or auditing matters may communicate that concern directly to the Chairman of the Board of the Corporation or Chairman of the Audit Committee of the Board.

Such communication may be confidential. You may also contact these persons to report any issues, complaints or concerns about potential breaches in ethics, compliance requirements or Corporation policy.

Contact information:

◆ William D. Thomas
Chairman of the Board
◆ (Address) 21 Waterway Avenue, Suite
300, The Woodlands, Texas
Tel: ◆ 281-362-2860
E-mail:

billthomas@mainlandresources.com

◆ Angelo Viard
Board member and Chair of the Audit Committee
◆ (Address) 21 Waterway Avenue, Suite 300, The Woodlands, Texas
Tel: ◆ 281-362-2860
Email: angelo@vcsmining.com

All such concerns will be forwarded to one or more appropriate individuals, inside or outside of the Corporation, for their review. The status of all outstanding concerns addressed to the Chairman of the Board or the Chairman of the Audit Committee will be reported to the Audit Committee periodically. The non-employee directors of the Audit Committee may direct specialized support, including the retention of outside advisors or counsel with payment by the Corporation, for any concern addressed to them.

Section Five - OTHER MATTERS FOR CONSIDERATION BY ALL

General

While there cannot be a specific rule for every situation that a person encounters, this Code of Conduct provides certain principles for the business conduct of the Corporation's directors, officers and employees. In addition to this Code of Conduct, directors, officers and employees are expected to be familiar with and comply with the Corporation's other policies and procedures, as well as adhere to the highest ethical standards in all business dealings.A violation of the law or this Code of Conduct is a serious matter. A director, officer or employee that violates a law, government regulation or this Code of Conduct will face appropriate disciplinary action, which may include demotion or immediate termination of employment for cause.

The provisions of this Code of Conduct may be amended or waived only by the Corporation's Board.

Criteria for Ethical Decision Making

Before embarking on any course of action, you need to ask yourself these questions:

(a) Is the life, health or safety of anyone or the environment endangered by the action?;

(b) Is it legal?;

(c) Does it feel fair and honest?;

(d) Does it compromise trust or integrity?; and

(e) Could I justify it to the public?.

You are required to promptly discuss any questions or concerns you may have about this Code of Conduct or the correctness of any past, present or anticipated conduct with a member of the executive team or a Human Resources Manager.

Ethical Business Practices

Each employee is to be accountable to adhere to and advocate high standards of honest and ethical conduct as outlined in this Code of Conduct.

Fair Dealings

Deal fairly and honestly with the Corporation's collaborators, suppliers, competitors, other employees and anyone else with whom you have contact in the course of performing your job is critical. You should not take unfair advantage of anyone through manipulation, concealment, misappropriate or abuse of confidential information, falsification, misrepresentation of material facts or any other unfair dealing practice.

The Corporation requires that all contracts, agreements and other documents correctly set forth the terms of the underlying business arrangement and that any such documents are reviewed and approved through established Corporation policy and procedures.

Corporate Opportunities and the Duty of Loyalty

You have a duty of loyalty to the Corporation, which includes a duty to advance the Corporation's legitimate interests when the opportunity to do so arises. Accordingly, you may not use your position or the Corporation's name, property, information or good will for personal gain or for the gain of others. You are further prohibited from taking advantage of a personal opportunity that is discovered through the use of corporate property, information or your position with the Corporation.

Fraud, Theft or Dishonesty

You will not commit any acts of fraud, theft, dishonesty, embezzlement, misappropriation or falsification in connection with the performance of your duties for the Corporation. The Corporation reports any suspicion of fraud or theft to the applicable law enforcement agency.

Compliance with Laws, Regulations and Rules

You will at all times obey and comply with all federal, provincial, state and local laws, regulations and ordinances of the countries in which we operate, including but not limited to:

(a) Health and safety laws concerning the workplace;

(b) Civil rights laws concerning harassment and job discrimination;

(c) Employment laws concerning payment of minimum wage, overtime requirements, child labor and general working conditions;

(d) Immigration related laws concerning the hiring of legally documented workers;

(e) Laws concerning racketeering and corrupt practices;

(f) Laws concerning the proper maintenance of books, records and internal controls;

(g) Laws, regulations, and accepted industry practices concerning oil and gas exploration, development and commercialization;

(h) Laws prohibiting illegal payments, gifts, bribes or kickbacks to governmental officials, political parties or others;

(i) Privacy laws;

(j) Environmental laws;

(k) Laws prohibiting misappropriation, unauthorized use, reproduction or distribution of any third party's trade secrets, copyrighted information or confidential proprietary information;

(l) Antitrust and other laws prohibiting unfair competition or restraint of trade; and

(m) Any other applicable law or regulation ordinance.

You will not commit or condone an unethical or illegal act nor instruct another employee, consultant, contractor, supplier or representative of the Corporation to do so. You will not authorize or permit any consultant, contractor, distributor or representative of the Corporation to have authority to enter into, incur, make, change, enlarge or modify any contract, liability or agreement, obligation, representations, guarantee, warranty or commitment on behalf of the Corporation or its affiliated companies unless expressly approved by duly authorized representatives of the Corporation in the performance of the services contemplated under their respective agreement.

You are expected to be sufficiently familiar with any laws that apply to our work, to recognize potential breaches and to know when to seek legal advice. If in doubt, you should discuss the matter with a member of the executive team.

Insider Trading and Tipping

Securities laws prohibit the buying and selling of any securities, including Corporation securities, as well as securities of partners, contractors, suppliers and all other corporations, by anyone who possesses material, non-public information relating to the issuer of the securities. Material non-public information is information which, if disclosed, would reasonably be expected to have a significant impact on the market value of such securities or which would be likely to influence an investor's decision to purchase or sell a security.

From time to time the Corporation implements stock trading blackout periods during which time directors, officers and employees are restricted from buying or selling shares. Background information on blackouts will be made available to employees on the Corporation's Intranet site.

Also prohibited is "**tipping**" - the disclosure of material, non-public information to anyone other than in the necessary course of business. Tipping is a violation of the law and may result in civil or criminal liability of the person who passes material non-public information to another person who buys or sells securities while in possession of the information.

The Corporation does not condone, nor assist others in conducting activities which contravene the securities laws.

Accounting and Recordkeeping

Many people associated with the Corporation, not just accountants and controllers, participate in the financial control and reporting processes of the Corporation. If you have ANY responsibility for any aspect of the Corporation's financial activities (including, but not limited to, processing of cash receipts or processing or approval of payments; creation, processing or approval of invoices and credit memos; payroll and benefits decisions; approval of expense reports and any and all other transactions; or the estimation of reserves or other claims or the amount of any accrual of deferral; or the recording of any of the foregoing in the Corporation's ledgers) and/ or the preparation of the Corporation's financial statements or other reports, you must ensure your involvement complies with complete and accurate procedures as per established Corporation practice.

You shall not subvert the Corporation's established systems of internal management and accounting controls, maintain funds or assets for any illegal or improper purposes or make false or misleading statements in any Corporation documents, reports or records. No undisclosed or unrecorded accounts may be established using the Corporation's funds or other assets. All accounting records and the financial reports produced from those records must be kept and presented in accordance with applicable law, must accurately and fairly reflect in reasonable detail the Corporation's assets, liabilities, revenue and expenses, and must be in accordance with generally accepted accounting principles.

Transactions must be supported by accurate and reasonably detailed documentation and recorded in the proper account. Best efforts are to be made to record transactions in the proper accounting time period. To the extent that estimates are necessary, they must be based on your good faith judgment and be supported by appropriate documentation. No payment or the related accounting entry may be approved or made with the intention or understanding that any part of the payment will be used for any purpose other than that described by the document supporting the entry or payment.

If you receive inquiries from the Corporation's independent accountants, you must respond promptly, fully and accurately.

Use of Corporate Property

You are entrusted with the care, management and cost-effective use of the Corporation's property and you will not to make use of these resources for your own personal benefit or purposes or for the personal benefit of anyone else.

You will ensure that all Corporation property assigned to you is maintained in good condition and you should be able to account for such equipment. Any dispositions of Corporation property should be for the benefit of the Corporation and not for personal benefit.

Access to the Corporation's computer systems is restricted where computer systems are defined as any combination of hardware, programs, applications, peripheral devices, personnel and/or associated documentation.

Passwords are to be kept confidential and use of the computer systems is limited to authorized business purposes with the exception of nominal personal use of email and voicemail which does not interfere or conflict with business use.

Proprietary and Confidential Information, Intellectual Property and Inventions

We want our employees to be well informed about our business, our plans for the future, and the successes and challenges we have along the way. In return for this openness, the Corporation places trust in its employees to maintain, absent a court order or other legal requirement, the confidentiality of our proprietary information and those aspects of our business that we have not yet shared with shareholders and the general public.

You are to take all reasonable measures to protect the confidentiality of non-public information about the Corporation obtained or created in connection with your activities and to prevent the unauthorized disclosure of such information unless required by applicable law or regulation of legal or regulatory process. You must use proprietary information only for the Corporation's legitimate business purposes, and not for your personal benefit or the personal benefit of anyone else.

To provide the Corporation with reasonable protection against disclosure of trade secrets and confidential information, all employees may bee required to sign an employment agreement prior to their start with the Corporation that includes clauses addressing confidential information, invention assignment and a prior invention declaration. These clauses state in part that the Corporation retains exclusive ownership of all inventions and discoveries arising out of employment and any information pertaining to the business or research activities of the Corporation.

Proprietary and confidential information is any information about the Corporation that has not been disclosed to the public and includes, without limitation:

(a) The Corporation's ideas, discoveries, inventions, formulae, algorithms, techniques, processes, know how, trade secrets, research, laboratory notes, data, analysis, assays, designs, methods, flow charts, drawings, specifications, plans, prototypes, apparatus, devices, specimens, manufacturing and production processes;

(b) Regulatory filings and correspondences;

(c) Software;

(d) Information concerning actual or projected sales, earnings or operating results or business transactions;

(e) Customer and supplier lists, relationship with consultants, contracts, business plans and marketing strategies; and

(f) Personnel information.

It is each employee's responsibility to know what is confidential or proprietary and ensure that they use it only in the performance of duties with the Corporation. If unsure, consider the information to be confidential until you obtain clarification.

Reporting and Compliance Procedures

Every employee, officer and director has the responsibility to ask questions, seek guidance, report suspected violation and express concern regarding compliance with this Code of Conduct, including but not limited to questionable accounting, internal accounting control or auditing matters.

Any employee, officer or director who knows or believes that any other employee or representative of the Corporation has engaged or is engaging in Corporation-related conduct that violates applicable law or this Code of Conduct has the responsibility to report such information.

You should first talk to any member of the executive team or a Human Resources manager.

If you are not comfortable reporting to the above, it is not feasible, or such reporting has resulted in unsatisfactory results, you are to report such suspected violations to an independent member of the Board's Audit Committee as set out below.

Failure to comply with the standards outlined in this Code of Conduct will result in disciplinary action including, but not limited to, reprimands, warnings, probation or suspension without pay, demotions, reductions in salary, discharge and restitution. Certain violations of this Code of

Conduct may require the Corporation to refer the matter to the appropriate governmental or regulatory authorities for investigation or persecution. Moreover, any supervisor who directs or approves of any conduct in violation of this Code of Conduct, or who has knowledge of such conduct and does not immediately report it, also will be subject to disciplinary action, up to and including discharge.

Waivers and Amendments

While some of the policies contained in this Code of Conduct must be strictly adhered to and no exception can be allowed, in other cases exception may be possible. Any executive officer or director who seeks an exception to any of these policies should contact the Chairman of the Board of Directors. Any waiver of this Code of Conduct for executive officers and directors or any change to this Code of Conduct that applies to executive officers or directors may be made only by the Board and will be disclosed as required by law or stock market regulations.

Any other employee or officer who believes that an exception to any of these policies is appropriate in his or her case should first contact his or her immediate supervisor. If the supervisor agrees that an exception is appropriate, the approval of the Chief Executive Officer must be obtained. The Chief Executive Office shall be responsible for maintaining a complete record of all requests for exceptions to any of these policies and the disposition of such requests.

Administration and Distribution

The Corporation's Board and Audit Committee have established the standards of business conduct contained in this Code of Conduct and oversees compliance with this Code of Conduct.

This Code of Conduct shall be distributed to each new employee, officer and director of the Corporation upon commencement of his or her employment or other relationship with the Corporation. It will also be made available via the Corporation's Intranet site.

Strict adherence to this Code of Conduct is vital. Managers are responsible for ensuring that employees are aware of and understand the provisions of the Code of Conduct. For clarification

or guidance on any point in the Code of Conduct, please consult a member of the executive team or a Human Resources Manager.

Exhibit 23.1

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

TBPE REGISTERED ENGINEERING FIRM F-1580
1100 LOUISIANA SUITE 3800 HOUSTON, TEXAS 77002-5218

FAX (713) 651-0849
TELEPHONE (713) 651-9191

CONSENT OF RYDER SCOTT COMPANY, L.P.

As independent oil and gas consultants, Ryder Scott Company, L.P. hereby consents to all references to our firm's name and the inclusion of our report dated May 11, 2010 of the Estimated Future Reserves and Income Attributable to Certain Leasehold Interests as of February 28, 2010 of Mainland Resources Inc. (the "Reserve Report") as an exhibit to the Annual Report on Form 10-K for fiscal year ended February 28, 2010 initially filed with the Securities and Exchange Commission on or about June 1, 2010.

"Ryder Scott Company, L.P."

Ryder Scott Company, L.P.
TBPE Firm License No. F-1580

Houston, Texas
June 1, 2010

1200, 530 8TH AVENUE, S.W. CALGARY, ALBERTA T2P 3S8 TEL (403) 262-2799 FAX (403) 262-2790
621 17TH STREET, SUITE 1550 DENVER, COLORADO 80293-1501 TEL (303) 623-9147 FAX (303) 623-4258

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)

I, Michael J. Newport, certify that:

1. I have reviewed this Form 10-K for Mainland Resources Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

"Michael J. Newport"

Date: June 1, 2010

Name: Michael J. Newport
Title: President, Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)

I, William D. Thomas, certify that:

1. I have reviewed this Form 10-K for Mainland Resources Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

"William D. Thomas"

Date: June 1, 2010

Name: William D. Thomas
Title: Chief Financial Officer, Principal Accounting Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Michael J. Newport, the Chief Executive Officer and William D. Thomas, Chief Financial Officer of Mainland Resources Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge, the Annual Report on Form 10-K of Mainland Resources Inc., for fiscal year ended February 28, 2010, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Mainland Resources Inc .

Date: June 1, 2010

"Michael J. Newport"

Michael J. Newport
President, Chief Executive Officer

"William D. Thomas"

William D. Thomas
Chief Financial Officer, Principal Accounting Officer, Treasurer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to Silica Resources Corporation and will be retained by Mainland Resources Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.1

MAINLAND RESOURCES, INC.

Estimated

Future Reserves and Income

Attributable to Certain

Leasehold Interests

SEC Parameters

As of

February 28, 2010

_____

Joseph E. Blankenship, P.E.

TBPE License No. 62093
Senior Vice President

RYDER SCOTT COMPANY, L.P.

TBPE Firm License No. F-1580

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

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TELEPHONE (713) 651-9191

TBPE REGISTERED ENGINEERING FIRM F-1580
1100 LOUISIANA SUITE 3800 HOUSTON, TEXAS 77002-5218

May 11, 2010

Mainland Resources, Inc.
21 Waterway Avenue, Suite 300
The Woodlands, TX 77380

Gentlemen:

At your request, Ryder Scott Company (Ryder Scott) has prepared an estimate of the proved reserves, future production, and income attributable to certain leasehold interests of Mainland Resources, Inc. (Mainland) as of February 28, 2010. The subject properties are the Griffith 11-1 well and the Dehan et al. 15H-1 well, located in the Holly field, Desoto Parish, Louisiana. The reserves and income data were estimated based on the definitions and disclosure guidelines of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations). Our third party study was prepared for public disclosure by Mainland Resources, Inc. in filings made with the SEC in accordance with the disclosure requirements set forth in the SEC regulations. The results of our third party study, completed on May 7, 2010, are presented herein. The

properties reviewed by Ryder Scott represent 100 percent of the total net proved gas reserves of Mainland.

The estimated reserves and future net income amounts presented in this report, as of February 28, 2010 are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements as required by the SEC regulations. Actual future prices may vary significantly from the prices required by SEC regulations; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

SEC PARAMETERS

Estimated Net Reserves and Income Data
Certain Leasehold Interests of
Mainland Resources, Inc.
As of February 28, 2010

	Total Proved Developed Producing
Net Remaining Reserves	
Gas - MMCF	1,901
Income Data	
Future Gross Revenue	$6,285,156
Deductions	2,468,452
Future Net Income (FNI)	$3,816,704

Discounted FNI @ 10%	$2,997,249

1200, 530 8TH AVENUE, S.W.CALGARY, ALBERTA T2P 3S8 TEL (403) 262-2799 FAX (403) 262-2790
621 17TH STREET, SUITE 1550 DENVER, COLORADO 80293-1501 TEL (303) 623-9147 FAX (303) 623-4258

All gas volumes are reported on an "as sold" basis expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of Louisiana, which are 60 degrees Fahrenheit and 15.025 psi.

The future gross revenue is after the deduction of production taxes. The deductions incorporate the normal direct costs of operating the wells, ad valorem taxes, gathering and treating fees and certain abandonment costs net of salvage. The future net income is before the deduction of state and federal income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income. Gas hydrocarbon reserves account for 100 percent of total future gross revenue from proved reserves.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows.

Discounted Future Net Income
As of February 28, 2010

Discount Rate Percent	Total Proved
12	$2,874,709
15	$2,709,437

20	$2,474,645
25	$2,279,734

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

Reserves Included in This Report

The proved reserves included herein conform to the definition as set forth in the Securities and Exchange Commission's Regulations Part 210.4-10(a). An abridged version of the SEC reserves definitions from 210.4-10(a) entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

The various reserve status categories are defined under the attachment entitled "Petroleum Reserves Definitions" in this report.

No attempt was made to quantify or otherwise account for any accumulated gas production imbalances that may exist. The gas volumes included herein do not attribute gas consumed in operations as reserves.

Reserves are those estimated remaining quantities of petroleum which are anticipated to be economically producible, as of a given date, from known accumulations under defined conditions. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. At Mainland's request, this report addresses only the proved reserves attributable to the properties evaluated herein.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward. The reserves included herein were estimated using deterministic methods.

Reserves estimates will generally be revised as additional geologic or engineering data become available or as economic conditions change. Moreover, estimates of reserves may increase or decrease as a result of future operations, effects of regulation by governmental agencies or economic risks. As a result, the estimates of oil and gas reserves have an intrinsic uncertainty. The reserves included in this report are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and if recovered, the revenues therefrom, and the actual costs related thereto, could be more or less than the estimated amounts.

The reserves reported herein are limited to the period prior to expiration of current contracts providing the legal rights to produce or a revenue interest in such production unless evidence indicates that contract renewal is reasonably certain. Furthermore, properties may be subjected to significantly varying contractual fiscal terms that affect the net revenue to Mainland for the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts. Therefore, when applicable, Ryder Scott reviewed the fiscal terms of such contracts and discussed with Mainland the net economic benefit attributed to such operations for the determination of the net hydrocarbon volumes and income thereof. Ryder Scott has not conducted an exhaustive audit or verification of such contractual information. Neither our review of such contractual information nor our acceptance of Mainland's representations regarding such contractual information should be construed as a legal opinion on this matter.

Mainland's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include matters relating to land tenure, drilling, production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of reserves actually recovered and amounts of income actually received to differ significantly from the estimated quantities.

The estimates of reserves presented herein were based upon a detailed study of the properties in which Mainland owns an interest; however, we have not made any field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liabilities to restore and clean up damages, if any, caused by past operating practices.

Estimates of Reserves

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by the Securities and Exchange Commission's Regulations Part 210.4-10(a). The process of estimating the quantities of recoverable oil and gas reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods, (2) volumetric-based methods and (3) analogy. These methods may be used singularly or in combination by the reserve evaluator in the process of estimating the quantities of reserves. The reserve evaluator must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated and the stage of development or producing maturity of the property.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. If the reserve quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity of the reserves is addressed by the reserve category assigned by the evaluator. Therefore, it is the categorization of reserve quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported. All quantities of reserves within the same reserve category have the same level of uncertainty under the SEC definitions.

Estimates of reserves quantities and their associated reserve categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserve categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or economic risks as previously noted herein.

The reserves for the two properties included herein were estimated by a combination of performance methods and analogy. These performance methods included, but were not limited to, decline trend analysis which utilized extrapolations of historical production and pressure data available through March, 2010. The data utilized in this analysis were supplied to Ryder Scott by Mainland or obtained from public data sources and were considered sufficient for the purpose thereof.

The reserves are based on primary recovery. The reserves are unconventional in nature; they are being produced from the Haynesville Shale. The wells are both single lateral horizontal type.

To estimate economically recoverable oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future production rates. Under the SEC regulations 210.4-10(a)(22)(v) and (26), proved reserves must be anticipated to be economically producible from a given date forward based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined. While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may increase or decrease from those under existing economic conditions, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation.

Mainland has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future production and income, we have relied upon data furnished by Mainland with respect to property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and/or processing fees, ad valorem and production taxes, recompletion and development costs, abandonment costs after salvage, product prices based on the SEC regulations, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by Mainland. We consider the factual data used in this report

appropriate and sufficient for the purpose of preparing the estimates of reserves and future net revenues herein.

Future Production Rates

Our forecasts of future production rates are based on historical performance from wells currently on production. If no production decline trend had been established, future production rates were held constant until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend had been established, this trend was used as the basis for estimating future production rates.

The future production rates from wells currently on production may be more or less than estimated because of changes in market demand or allowables set by regulatory bodies.

Hydrocarbon Prices

As previously stated, the hydrocarbon prices used herein are based on SEC price parameters using the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described. Product prices which were actually used for each property reflect adjustment for gravity, quality, local conditions, and/or distance from market.

The effects of derivative instruments designated as price hedges of oil and gas quantities were not considered or included in this report.

Costs

Operating costs for the leases and wells in this report are based on the operating expense reports of Mainland and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. The operating costs for these non-operated properties include the COPAS overhead costs that are allocated directly to the leases and wells under terms of operating agreements. Gathering and treating costs are included under other deductions in the cash flows. No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the leases or wells.

The estimated net cost of abandonment after salvage was included for these properties. The estimates of the net abandonment costs furnished by Mainland were accepted without independent verification.

Current costs were held constant throughout the life of the properties.

Standards of Independence and Professional Qualification

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over seventy years. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry-related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to Mainland. Neither we nor any of our employees have any interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The results of this study, presented herein, are based on technical analysis conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical person primarily responsible for overseeing the evaluation of the reserves information discussed in this report, are included as an attachment to this letter.

Terms of Usage

The results of our third party study, presented in report form herein, were prepared in accordance with the disclosure requirements set forth in the SEC regulations and intended for public disclosure as an

exhibit in filings made with the SEC by Mainland. We will be providing our written consent to Mainland for the references to our name as well as to the references to our third party report in the filings made by Mainland with the SEC. Our consent for such use will be included as a separate exhibit to the filings made with the SEC by Mainland.

We have provided Mainland Resources, Inc. with a digital version of the original signed copy of this report letter. In the event there are any differences between the digital version included in filings made by Mainland Resources, Inc. and the original signed report letter, the original signed report letter shall control and supersede the digital version.

The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very truly yours,

RYDER SCOTT COMPANY, L.P.

TBPE Firm Registration No. F-1580

Joseph E. Blankenship, P.E.
TBPE License No. 62093
Senior Vice President

JEB/sm

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Mr. Joseph E. Blankenship was the primary technical person responsible for overseeing the estimation and evaluation process with respect to the preparation of this report.

Mr. Blankenship, an employee of Ryder Scott Company L.P. (Ryder Scott) since 1982, is a Senior Vice President and also serves as chief technical advisor for unconventional reserves evaluation. Mr. Blankenship is responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Blankenship served in a number of engineering positions with Exxon Company USA. For more information regarding Mr. Blankenship's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Experience/Employees.

Mr. Blankenship earned a Bachelor of Science degree in Mechanical Engineering from the University of Alabama in 1977. He is a member of the Honorary Engineering Society Pi Tau Sigma and is a registered Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers (SPE) and the Society of Petroleum Evaluation Engineers (SPEE). He has served as Chairman of the SPE Newsletter Committee and has been invited by the SPEE to lecture on the subject of Coal Seam evaluation.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Blankenship fulfills. As part of his 2009 continuing education hours, Mr. Blankenship attended an internally presented 17 hours of formalized training as well as Ryder Scott's day long 2009 Reserves Conference, and a presentation by Dr. John Lee, on the new SEC regulations relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Blankenship attended an additional 2 hours of formalized in-house training as well as 15 hours of formalized external training during 2009 covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants. Mr. Blankenship was class instructor in Ryder Scott's 2009 in-house course on unconventional reserves evaluation.

Based on his educational background, professional training and more than 32 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Blankenship has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

PETROLEUM RESERVES DEFINITIONS

As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

PREAMBLE

On January 14, 2009, the United States Securities and Exchange Commission (SEC) published the "Modernization of Oil and Gas Reporting; Final Rule" in the Federal Register of National Archives and Records Administration (NARA). The "Modernization of Oil and Gas Reporting; Final Rule" includes revisions and additions to the definition section in Rule 4-10 of Regulation S-X, revisions and additions to the oil and gas reporting requirements in Regulation S-K, and amends and codifies Industry Guide 2 in Regulation S-K. The "Modernization of Oil and Gas Reporting; Final Rule", including all references to Regulation S-X and Regulation S-K, shall be referred to herein collectively as the "SEC Regulations". The SEC Regulations take effect for all filings made with the United States Securities and Exchange Commission as of December 31, 2009, or after January 1, 2010. Reference should be made to the full text under Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) for the complete definitions, as the following definitions, descriptions and explanations rely wholly or in part on excerpts from the original document (direct passages excerpted from the aforementioned SEC document are denoted in italics herein).

Reserves are those estimated remaining quantities of petroleum which are anticipated to be economically producible, as of a given date, from known accumulations under defined conditions. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Under the SEC Regulations as of December 31, 2009, or after January 1, 2010, a company may optionally disclose estimated quantities of probable or possible oil and gas reserves in documents publicly filed with the Commission. The SEC Regulations continue to prohibit disclosure of estimates of oil and gas resources other than reserves and any estimated values of such resources in any document publicly filed with the Commission unless such information is required to be disclosed in the document by foreign or state law as noted in Section 229.1202 Instruction to Item 1202.

Reserves estimates will generally be revised as additional geologic or engineering data become available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the

reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, natural gas cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves may be attributed to either conventional or unconventional petroleum accumulations. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale.

Reserves do not include quantities of petroleum being held in inventory.

Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves categories.

RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X Section 210.4-10(a)(26) defines reserves as follows:

Reserves.

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Note to paragraph (a)(26):

Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

PROVED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X Section 210.4-10(a)(22) defines proved oil and gas reserves as follows:

Proved oil and gas reserves.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible--from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations--prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and

(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

PROVED RESERVES (SEC DEFINITIONS) CONTINUED

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

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RESERVES STATUS DEFINITIONS AND GUIDELINES

As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

and

PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)

Sponsored and Approved by:
SOCIETY OF PETROLEUM ENGINEERS (SPE),
WORLD PETROLEUM COUNCIL (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)

Reserves status categories define the development and producing status of wells and reservoirs. Reference should be made to Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) and the SPE-PRMS as the following reserves status definitions are based on excerpts from the original documents (direct passages excerpted from the aforementioned SEC and SPE-PRMS documents are denoted in italics herein).

DEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X Section 210.4-10(a)(6) defines developed oil and gas reserves as follows:

Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Developed Producing (SPE-PRMS Definitions)

While not a requirement for disclosure under the SEC regulations, developed oil and gas reserves may be further sub-classified according to the guidance contained in the SPE-PRMS as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing

Developed Non-Producing Reserves include shut-in and behind-pipe reserves.

Shut-In

Shut-in Reserves are expected to be recovered from:

(1) completion intervals which are open at the time of the estimate but which have not yet started producing;

(2) wells which were shut-in for market conditions or pipeline connections; or

(3) wells not capable of production for mechanical reasons.

Behind-Pipe

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

UNDEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X Section 210.4-10(a)(31) defines undeveloped oil and gas reserves as follows:

Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.