



Consolidated Financial Statements

December 31, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
Crescent Resources Corp.

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

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

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

The audited financial statements at December 31, 2008 and for the year then ended were examined by another auditor who expressed an opinion without reservation on those statements in their report dated April 23, 2009.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 28, 2010



CRESCENT RESOURCES CORP.
Consolidated Balance Sheets

	December 31	
	2009	2008
ASSETS		
Current assets		
Cash	\$ 90,787	\$ 270,008
Receivables	11,711	23,943
	102,498	293,951
Equipment (note 4)	3,221	6,270
Mineral interests (note 5)	1,294,942	-
	\$ 1,400,661	\$ 300,221
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 246,805	\$ 67,593
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	18,410,308	17,290,600
Contributed surplus (note 6)	921,595	806,705
Obligation to issue common shares (note 6)	110,000	-
Deficit	(18,288,047)	(17,864,677)
	1,153,856	232,628
	\$ 1,400,661	\$ 300,221

Nature of operations and going concern (note 1)
 Commitments (note 9)
 Contingency (note 10)
 Subsequent events (note 13)

Approved by the Board of Directors:

“Michael Hopley”

Michael Hopley, Director

“Eric Edwards”

Eric Edwards, Director

The accompanying notes form an integral part of these consolidated financial statements

CRESCENT RESOURCES CORP.
Consolidated Statements of Loss, Comprehensive Loss and Deficit

	Years ended December 31	
	2009	2008
General expenses		
Amortization	\$ 3,049	\$ 3,049
Consulting fees	177,213	339,492
Director fees	9,000	9,000
Foreign exchange gain	(2,907)	(9,709)
Legal and audit fees	29,279	135,165
Office and general	13,023	13,778
Regulatory and filing fees	18,139	16,465
Rent	47,114	43,852
Shareholder relations	11,103	14,716
Stock-based compensation (note 6)	114,890	5,294
Travel	3,766	1,359
Loss before other items	<u>(423,669)</u>	<u>(572,461)</u>
Other items		
Interest income	299	9,081
Write-down of equipment	-	(919)
Write-down of mineral interests (note 5)	-	(6,395,172)
	<u>299</u>	<u>(6,387,010)</u>
Loss and comprehensive loss for the year	<u>(423,370)</u>	<u>(6,959,471)</u>
Deficit, beginning of year	<u>(17,864,677)</u>	<u>(10,905,206)</u>
Deficit, end of year	<u>\$ (18,288,047)</u>	<u>\$ (17,864,677)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.23)</u>
Weighted average number of shares outstanding	<u>32,295,714</u>	<u>30,520,340</u>

The accompanying notes form an integral part of these consolidated financial statements

CRESCENT RESOURCES CORP.
Consolidated Statements of Cash Flows

	Years ended December 31	
	2009	2008
Cash provided from (used for):		
Operating activities		
Loss for the year	\$ (423,370)	\$ (6,959,471)
Items not involving cash:		
Amortization - equipment	3,049	3,049
Stock-based compensation	114,890	5,294
Write-down of equipment	-	919
Write-down of mineral interests	-	6,395,172
Changes in non-cash working capital balances:		
Receivables	12,232	1,052
Prepaid expenses	-	11,216
Advances to contractors	-	302,346
Accounts payable and accrued liabilities	70,158	12,692
	<u>(223,041)</u>	<u>(227,731)</u>
Investing activity		
Mineral interests	<u>(452,430)</u>	<u>(612,916)</u>
	<u>(452,430)</u>	<u>(612,916)</u>
Financing activities		
Shares issued	500,000	262,500
Share issue costs	<u>(3,750)</u>	<u>(29,835)</u>
	<u>496,250</u>	<u>232,665</u>
Decrease in cash for the year	(179,221)	(607,982)
Cash, beginning of year	270,008	877,990
Cash, end of year	\$ 90,787	\$ 270,008
Supplementary disclosure with respect to non-cash financing and investing activities:		
Accounts payable and accrued liabilities included in mineral interests	\$ 219,054	\$ -
Fair value of warrants issued for finders' fee	-	13,125
Fair value of shares issued for finders' fee	73,458	-
Fair value of shares issued for mineral properties	550,000	-
Obligation to issue common shares for accounts payable	110,000	-
Amortization included in mineral interests	-	267
Stock based compensation included in mineral interests	-	19,547
Cash paid during the year for:		
Interest	\$ -	\$ -
Income taxes	-	-

The accompanying notes form an integral part of these consolidated financial statements

CRESCENT RESOURCES CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2009 and 2008

1. Nature of Operations and Going Concern

Crescent Resources Corp. (the “Company”) was incorporated under the laws of the Province of Ontario and continued under the laws of British Columbia and the Canada Business Corporations Act.

The Company is engaged in the identification, acquisition, exploration and, if warranted, development of mineral resource projects in the United States. The Company is considered to be in the exploration stage as it has not placed any of its mineral properties into production.

The Company has not generated any production revenue since inception and has never paid any dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts spent for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company will periodically have to raise additional funds to continue operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As at December 31, 2009, the Company had an accumulated deficit of \$18,288,047 and working capital deficiency of \$144,307.

Management anticipates that the minimum cash requirements to fund its proposed exploration program and continued operations will exceed the amount of cash on hand at December 31, 2009. Accordingly, the Company does not have sufficient funds to meet planned expenditures over the next twelve months, and will need to seek additional equity financing to meet its planned expenditures. There is no assurance that the Company will be able to raise sufficient cash to fund its future exploration programs and operational expenditures. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

- a) **Principles of consolidation** - These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Crescent Resources USA Inc. and Crescent Resources Mineração Ltda. All significant inter-company transactions and balances have been eliminated upon consolidation.
- b) **Equipment** - Equipment, consisting of furniture and equipment and field equipment, is stated at cost. Amortization is calculated based on the estimated useful life of the assets using the straight line method over five years commencing from the year the assets are put into service.
- c) **Mineral interests** - The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

CRESCENT RESOURCES CORP.
Notes to the Consolidated Financial Statements
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2. Significant Accounting Policies (continued)

- c) **Mineral interests (continued)** - The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the exploration and development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.
- d) **Long-lived assets** - The Company reviews and evaluates its long-lived assets for impairment at each balance sheet date and documents such impairment testing. The tests include an evaluation of the assets and events or changes in circumstances that would indicate that the related carrying amounts may not be recoverable. Mineral properties in the exploration stage are monitored for impairment based on factors such as the Company's continued right to explore the area, exploration reports, assays, technical reports, drill results and the Company's continued plans to fund exploration programs on the property, whether sufficient work has been performed to indicate that the carrying amount of the mineral property cost carried forward as an asset will not be fully recovered, even though a viable mine has been discovered.

The tests for long-lived assets in the exploration, development or producing stage that would have a value beyond proven and probable reserves would be monitored for impairment based on factors such as current market value of the mineral property and results of exploration, future asset utilization, business climate, mineral prices and future undiscounted cash flows expected to result from the use of the related assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated future net undiscounted cash flows expected to be generated by the asset, including evaluating its reserves beyond proven and probable amounts.

The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable either by impairment or by abandonment of the property. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds its fair value.

- e) **Asset retirement obligations** - The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of loss, comprehensive loss and deficit. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognised as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

- f) **Financial instruments** - Standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- a) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings.
- b) Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income until the gain or loss is recognized in income.
- c) Held-for-trading financial instruments are measured at fair value. All changes in fair value are included in net earnings in the year in which they arise.

CRESCENT RESOURCES CORP.
Notes to the Consolidated Financial Statements
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2. Significant Accounting Policies (continued)

f) Financial instruments (continued)

- d) All derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. Changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case gains and losses are recognized in other comprehensive income.

The Company has implemented the following classifications for its financial instruments:

- a) Cash is classified as held-for-trading;
- b) Receivables have been classified as loans and receivables;
- c) Accounts payable and accrued liabilities have been classified as other financial liabilities; and
- d) The Company has no derivative financial instruments.

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performances; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the consolidated balance sheet date, and how the entity manages those risks.

The Company also discloses financial instruments and non-financial derivatives classified from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

- g) **Comprehensive income** - Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

This standard requires the presentation of comprehensive income and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity. The presentation of "accumulated other comprehensive loss" in the shareholders' equity section of the consolidated balance sheet is not required because the closing balance is \$nil for the years presented.

- h) **Foreign currency translation** - The functional currency of the Company is the Canadian dollar. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; revenue and expense items are translated at rates approximating those on the transaction dates. The net foreign currency gain or loss is included in the statement of loss, comprehensive loss and deficit.

The accounts of subsidiaries, which are integrated operations, are translated using the temporal method. Under this method, monetary items are translated at the year-end exchange rates. Non-monetary items are translated using historical rates of exchange. Revenue and expense are translated at the rates of exchange prevailing on the dates such items are recognized in earnings. Exchange gains and losses are included in the statement of loss, comprehensive loss and deficit.

- i) **Stock-based compensation** - The Company accounts for the granting of stock options and direct awards of stock to employees and non-employees using the fair value method whereby all awards to employees and non-employees will be recorded at fair value on the date of grant and expensed over the period of vesting. The Company estimates the fair value of each stock option at the date of grant using the Black-Scholes option pricing model. Any consideration paid by the option holders to purchase shares is credited to capital stock.

CRESCENT RESOURCES CORP.
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2. Significant Accounting Policies (continued)

j) **Loss per share** - The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

k) **Income taxes** - Future income taxes are recorded using the asset and liability method whereby future 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 bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset would be recovered, it provides a valuation allowance against the excess.

l) **Management estimates** - The preparation of financial statements in accordance GAAP in Canada 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 reporting period. Areas requiring the use of management estimates relate to the impairment for mineral interests, the assumptions in determining the fair value of stock-based compensation and future income tax valuation allowances. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. Actual results could differ from these estimates.

m) **Comparative figures** - Certain comparative figures have been reclassified to conform with the current year's presentation. On the cash flow statement, comparative operating activities increased and investing activities decreased by \$612,916 to reflect mineral interest expenditures and a corresponding write-off.

Newly adopted standards

Goodwill and intangible assets - Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") standard, Section 3064 "Goodwill and Intangible Assets" which will replace the existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". It establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Amendment to financial instruments – disclosures - CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

See Note 3 for relevant disclosures.

CRESCENT RESOURCES CORP.
Notes to the Consolidated Financial Statements
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2. Significant Accounting Policies (continued)

Future Canadian accounting standards

International financial reporting standards (“IFRS”) - The Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. Under IFRS, there is significantly more disclosure required. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be addressed. The impact of these new standards on the Company’s financial statements is currently being evaluated by management.

Business combinations, non-controlling interest and consolidated financial statements - In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of financial statements. Section 1601 is applicable for the Company’s interim and annual financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities - In January 2009, the CICA issued EIC 173, “*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*”. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities. EIC 173 will be applicable for the Company’s interim and annual financial statement for its fiscal year beginning January 1, 2010 and management is currently assessing its impact on the Company’s interim and annual financial statements for fiscal 2010.

3. Financial Instruments and Risk Management

Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Company’s financial instruments consist of cash, receivables and accounts payable and accrued liabilities.

The fair value of cash is measured on the balance sheet using level 1 of the fair value hierarchy. The fair values of receivables, and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit Risk

The Company’s only exposure to credit risk is on its bank accounts. Bank accounts are with high credit quality financial institutions.

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company’s holdings of cash. The Company’s cash is invested in business accounts which are available on demand.

CRESCENT RESOURCES CORP.
Notes to the Consolidated Financial Statements
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3. Financial Instruments and Risk Management (continued)

Interest Rate Risk

The only significant market risk exposure to which the Company is exposed is interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

Exchange Risk

The Company expects to continue to raise equity predominantly in Canadian dollars. The Company is also conducting business in the USA. As such, it is subject to risk due to fluctuations in the exchange rates between the US and Canadian dollars. The Company does not enter into derivative financial instruments to mitigate its exposure to foreign currency risk. The effect of a one percent change in the foreign exchange rate on the cash held in foreign currencies at December 31, 2009 would be approximately \$30.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

4. Equipment

	December 31, 2009		
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,846	\$ 2,665	\$ 2,181
Field equipment	10,400	9,360	1,040
	<u>\$ 15,246</u>	<u>\$ 12,025</u>	<u>\$ 3,221</u>

	December 31, 2008		
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,846	\$ 1,696	\$ 3,150
Field equipment	10,400	7,280	3,120
	<u>\$ 15,246</u>	<u>\$ 8,976</u>	<u>\$ 6,270</u>

CRESCENT RESOURCES CORP.
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5. Mineral Interests

	Acquisition costs	Exploration costs	For the year ended December 31, 2009	For the year ended December 31, 2008
United States (Rattlesnake Hills prospect)				
Claim and holding costs	\$ 926,791	\$ -	\$ 926,791	\$ -
Data management and imaging	-	26,770	26,770	-
Geological consulting	-	290,441	290,441	-
Travel and accommodation	-	50,940	50,940	-
Current costs	926,791	368,151	1,294,942	-
Balance, beginning of year	-	-	-	-
Balance, end of year	926,791	368,151	1,294,942	-
Brazil (Matupa prospect)				
Current costs	-	-	-	2,134
Balance, beginning of year	-	-	-	1,570,206
Write-down of mineral interests	-	-	-	(1,572,340)
Balance, end of year	-	-	-	-
Paraguay (Oviedo prospect)				
Current costs	-	-	-	554,955
Balance, beginning of year	-	-	-	4,219,230
Write-down of mineral interests	-	-	-	(4,774,185)
Balance, end of year	-	-	-	-
Australia (Carnarvon-Basin prospect)				
Current costs	-	-	-	48,647
Balance, beginning of year	-	-	-	-
Write-down of mineral interests	-	-	-	(48,647)
Balance, end of year	-	-	-	-
Mineral interests summary:				
Current costs	926,791	368,151	1,294,942	605,736
Balance, beginning of year	-	-	-	5,789,436
Write-down of mineral interests	-	-	-	(6,395,172)
Balance, end of year	\$ 926,791	\$ 368,151	\$ 1,294,942	\$ -

Rattlesnake Hills Project, United States

Effective September 16, 2009 the Company entered into a binding letter agreement in relation to mining claims known as the Rattlesnake Hills North properties located in Wyoming, USA (the "Properties").

The Company can acquire an initial 80% interest in the Properties by completing the following:

- pay US\$85,000 (Cdn \$90,670 paid) on signing the agreement as reimbursement of previously paid property payments; and
- issue a total of 5,000,000 of the Company's common shares (2,500,000 issued at a value of \$550,000) by the 18-month anniversary of the agreement.

CRESCENT RESOURCES CORP.
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5. Mineral Interests (continued)

The Company issued 333,900 common shares valued at \$73,458 to finders in connection with this acquisition and is obligated to issue an additional 187,750 common shares as a finder's fee upon the Company acquiring its 80% interest.

The Company can purchase the remaining 20% of the Properties from the owners at a price based on the value established by a bankable feasibility study completed by a third-party engineering company.

The owners will retain a 2% net smelter returns royalty on the Properties. This royalty can be reduced to 1% by the Company paying the owners US\$1,000,000.

The Company entered into an agreement with a geological services company to manage and provide the planned exploration work on the Rattlesnake Hills project for fees of US\$21,000 per month for an 18-month period.

The Company added to its land position by staking additional claims.

Matupa gold project, Brazil

In 2008, market conditions and the Company's inability to finance the underlying property payments forced the Company to provide the vendor with notice and the agreement on the Matupa gold project was terminated. The Company wrote-off \$1,572,340 in fiscal 2008.

Oviedo uranium property, Paraguay

In 2008, market conditions for uranium and the slow pace of exploration conducted by the Company made it very unlikely that the Company would conduct additional exploration on the Oviedo uranium property in the near term if it were able to negotiate improved agreement terms with the underlying property owner. The Company considered the value of the mineral interest to be impaired due to the uncertainty regarding negotiating improved agreement terms and the Company's ability to fund ongoing significant exploration on the property and as a result the Company wrote-off \$4,774,185 in fiscal 2008.

Carnarvon Basin Project, Australia

In 2008, the Company signed a letter agreement with an underlying option to acquire up to a 100% direct and indirect interest, subject to a 2% gross overriding royalty, in certain licenses known as the Carnarvon Basin Project.

In 2008, market conditions contributed to the decision to not proceed with the agreement and the Company would have been unable to raise sufficient funds to meet its financial commitments to the underlying owner should it have entered into a definitive agreement to pursue this opportunity. The Company wrote off \$48,647 in fiscal 2008.

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6. Share Capital

	Number of Shares	Capital Stock	Contributed Surplus
Authorized: An unlimited number of common shares without par value			
Issued and outstanding:			
Balance, December 31, 2007	26,855,597	\$ 16,382,300	\$ 781,864
Private placement (3)	3,758,000	939,500	-
Shares and warrants issued for finder's fee	52,500	13,125	-
Stock-based compensation	-	-	24,841
Share issue costs	-	(44,325)	-
Balance, December 31, 2008	30,666,097	17,290,600	806,705
Shares for mineral interests (2)	2,500,000	550,000	-
Private placement (1)	5,000,000	500,000	-
Shares for finders' fees	333,900	73,458	-
Stock-based compensation	-	-	114,890
Share issue costs	-	(3,750)	-
Balance, December 31, 2009	38,499,997	\$ 18,410,308	\$ 921,595

- (1) On October 15 and October 22, 2009, the Company completed a non-brokered private placement financing in two tranches consisting of 3,600,000 and 1,400,000 units respectively at a price of \$0.10 per unit for gross proceeds of \$500,000. Each unit comprised one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.20 per share until October 15, 2011 or October 22, 2011 respectively. Cash share issue costs were \$3,750.
- (2) On October 15, 2009, the Company issued 2,500,000 shares valued at \$550,000 pursuant to a mineral interest purchase agreement (note 5). The Company issued 333,900 common shares valued at \$73,458 to finders in connection with this acquisition.
- (3) On January 14, 2008, the Company completed a non-brokered private placement financing consisting of 3,758,000 units at a price of \$0.25 per unit for gross proceeds of \$939,500 for which the Company had received share subscriptions of \$677,000 as at December 31, 2007. Each unit comprised one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.35 per share until January 13, 2010. The Company issued 52,500 units valued at \$13,125 to finders in connection with this financing on the same terms as the private placement. Cash share issue costs were \$24,375.

During the year ended December 31, 2009, the Company became obligated to issue common shares pursuant to agreements to settle accounts payable of \$110,000 through the issuance of capital stock. These common shares were issued subsequent to December 31, 2009 (Note 13).

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6. Share Capital (continued)

Share purchase warrants:

The continuity for share purchase warrants is as follows:

Expiry date	Exercise price	Balance, December 31, 2008	Issued	Exercised	Balance, December 31, 2009
January 13, 2010 (1)	\$ 0.35	26,250	-	-	26,250
January 13, 2011 (1)	\$ 0.35	1,879,000	-	-	1,879,000
October 15, 2011	\$ 0.20	-	3,600,000	-	3,600,000
October 22, 2011	\$ 0.20	-	1,400,000	-	1,400,000
		1,905,250	5,000,000	-	6,905,250
Weighted average exercise price		\$ 0.35	\$ 0.20	\$ -	\$ 0.24

- (1) During fiscal 2009, the Company extended the term of 1,879,000 share purchase warrants with an exercise price of \$0.35 by one year to January 13, 2011. The warrants were issued as a part of a private placement and would have otherwise expired on January 13, 2010. No value was attributed to the extension. The 26,250 share purchase warrants issued to finder's were not extended, and expired unexercised on January 13, 2010.

Expiry date	Exercise price	Balance, December 31, 2007	Issued	Exercised	Balance, December 31, 2008
January 13, 2010	\$ 0.35	-	1,905,250	-	1,905,250

Stock options:

The Company has a shareholder approved "rolling" stock option plan (the "Plan") in compliance with the TSX Venture Exchange's policies. Under the Plan the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares at the time of granting. The exercise price of each stock option shall not be less than the market price of the Company's stock at the date of grant. Vesting terms are at the discretion of the directors.

The continuity for stock options is as follows:

Expiry date	Exercise price	Balance, December 31, 2008	Granted	Exercised	Expired or Cancelled	Balance, December 31, 2009
August 9, 2010	\$ 0.39	805,000	-	-	-	805,000
September 28, 2010	\$ 0.55	650,000	-	-	-	650,000
May 23, 2011	\$ 0.55	15,000	-	-	-	15,000
February 21, 2012	\$ 0.55	825,000	-	-	-	825,000
September 9, 2012	\$ 0.42	200,000	-	-	-	200,000
January 13, 2013	\$ 0.28	100,000	-	-	-	100,000
September 10, 2014	\$ 0.25	-	470,000	-	-	470,000
October 16, 2014	\$ 0.25	-	100,000	-	-	100,000
		2,595,000	570,000	-	-	3,165,000
Weighted average exercise price		\$ 0.48	\$ 0.25	\$ -	\$ -	\$ 0.44

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6. Share Capital (continued)

At December 31, 2009 all but 37,500 of the outstanding stock options were exercisable, and the weighted average exercise price of the exercisable stock options was \$0.44.

During the year ended December 31, 2009, the Company granted 570,000 stock options with a total fair value of \$124,398 or \$0.22 per option at the time of grant. Stock-based compensation for the vesting portion of the stock options was \$114,890 which was recognized in the statement of loss. The fair value of these option grants was calculated using the Black-Scholes option pricing model with the following assumptions: five year expected life, 143% annualized volatility, zero expected dividend yield and 2.38% risk free interest rate. The 37,500 options that were not vested at December 31, 2009 are subject to revaluation at each balance sheet date.

Expiry date	Exercise price	Balance, December 31, 2007	Granted	Exercised	Expired or Cancelled	Balance, December 31, 2008
August 9, 2010	\$ 0.39	805,000	-	-	-	805,000
September 28, 2010	\$ 0.55	650,000	-	-	-	650,000
May 23, 2011	\$ 0.55	15,000	-	-	-	15,000
November 14, 2011	\$ 0.50	100,000	-	-	(100,000)	-
February 21, 2012	\$ 0.55	900,000	-	-	(75,000)	825,000
September 9, 2012	\$ 0.42	200,000	-	-	-	200,000
January 13, 2013	\$ 0.28	-	200,000	-	(100,000)	100,000
		2,670,000	200,000	-	(275,000)	2,595,000
Weighted average exercise price		\$ 0.49	\$ 0.28	\$ -	\$ 0.43	\$ 0.48

During the year ended December 31, 2008, the Company granted 200,000 stock options and based on the estimated fair value at the grant date, recorded stock-based compensation for the vesting portion of the stock options of \$24,841 of which \$5,294 was recognized in the statement of loss and \$19,547 was included in exploration expenses with the offsetting credits to contributed surplus. The fair value of the option grant was calculated using the Black-Scholes option pricing model with the following assumptions: five year expected life, 87% annualized volatility, zero expected dividend yield and 3.52% risk free interest rate for a \$0.20 per share value of the options granted.

7. Related Parties

Unless disclosed elsewhere, related party transactions are as follows:

	For the years ended	
	December 31, 2009	December 31, 2008
	\$	\$
i) consulting fees to an officer and director	30,000	74,000
ii) consulting fees for public relations to a corporation owned by an officer and director	30,000	85,000
iii) consulting fees for corporate and financial compliance services to a company owned by an officer	66,000	64,500
iv) consulting fees, rent and office costs to a company managed by common directors and officers	63,589	60,505

Included in accounts payable and accrued liabilities are amounts owed to related parties at December 31, 2009 of \$4,347 (2008 - \$1,622). Included in the obligation to issue common shares was \$75,000 (2008 - \$nil) owed to related parties.

All of the above noted transactions have been in the normal course of operations and, in management's opinion, undertaken with the same terms and conditions as transactions with unrelated parties.

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8. Management of Capital

The Company manages its common shares, common share purchase warrants and stock options as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral interests and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company is not subject to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in bank accounts with high credit quality institutions.

The Company does not expect that its current capital resources will be sufficient to carry its exploration plans and operations through its current operating period and the Company will attempt to raise additional capital through an equity transaction.

9. Commitments

During 2004, the Company entered into a finder's fee agreement with an individual to assist the Company in acquiring certain mineral claims in Utah, USA. If successful, the Company will issue 250,000 common shares over a period of three years from the date of acquisition.

On July 20, 2009, the Company entered into a contract with a geological services company to manage and provide planned exploration work on the Rattlesnake Hills project for fees of US\$21,000 per month for an 18-month period.

10. Contingency

On April 16, 2007, the Company entered into an option agreement (the "Option Agreement") with Coronel Oviedo Mining Company SA ("Coronel"), a Paraguay corporation, which sets out the terms of an agreement whereby the Company has an option to earn up to a 70% interest in the Oviedo uranium property (the "Property") in Paraguay.

The Company and Coronel are in a dispute as to whether the Option Agreement has been terminated and whether the Company has outstanding liabilities under the agreement. Coronel's position is that the Option Agreement was terminated in May 2008, but that it was not terminated with the appropriate notice period and therefore the Company is obligated to pay the US\$250,000 cash payment and issue the 1.2 million common shares of the Company that were due on May 16, 2008 and furthermore is obligated to fund a concession payment for the Property due to the Government of Paraguay in the amount of US\$504,000. The Company's position is that the Option Agreement has not been terminated in accordance with its terms and that the US\$504,000 concession payment was not the Company's responsibility under the Option Agreement and furthermore that Coronel's only remedy for non-payment of cash and share payments under the Option Agreement is termination of the agreement. It is not determinable whether legal proceedings will commence. Market conditions have made it unlikely the Company would be in a position to fund and continue exploration on the Property and, during fiscal 2008, the Company took an impairment on the Property to reduce its value to \$nil.

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11. Segmented Disclosure

The Company currently operates in one reportable operating segment, being mineral interest acquisition and exploration. The Company operates in two reportable geographic segments, being Canada and the United States of America. The Company's capital assets in geographical locations are as follows:

	December 31, 2009	December 31, 2008
Capital Assets:		
Canada	\$ 3,221	\$ 6,270
United States of America	<u>1,294,942</u>	-
	<u>\$ 1,298,163</u>	<u>\$ 6,270</u>

12. Income Taxes

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	For the years ended	
	December 31, 2009	December 31, 2008
Loss before income taxes	\$ 423,370	\$ 6,959,471
Income tax recovery at statutory rate	\$ 127,011	\$ 2,157,436
Items not deductible for tax	(31,904)	(61,409)
Effect of foreign tax rate	-	(79,432)
Unrecognized items for tax purposes	<u>(95,107)</u>	<u>(2,016,595)</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2009 and 2008 are presented below:

	December 31, 2009	December 31, 2008
Future income tax assets		
Financing costs	\$ 6,000	\$ 9,912
Equipment	3,000	2,131
Mineral interests	1,179,000	1,854,023
Non-capital loss carry-forwards	<u>678,000</u>	<u>680,585</u>
Total gross future income tax assets	<u>1,866,000</u>	2,546,651
Valuation allowance	<u>(1,866,000)</u>	<u>(2,546,651)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

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12. Income Taxes (continued)

The Company has not recognized any future income tax assets. The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely than not that sufficient taxable income will be realized during the carry forward periods to utilize all future tax assets. The Company has non-capital losses of approximately \$2,710,000 for income tax purposes which may be carried forward and offset against future taxable income in Canada. These losses expire through to 2029. The Company also has certain allowances in respect to resource development and exploration costs of approximately \$6,010,000 which, subject to certain restrictions, are available to be offset against future taxable income.

13. Subsequent events

Subsequent to December 31, 2009:

- a) 26,250 share purchase warrants expired, unexercised;
- b) the Company issued 611,110 common shares to settle the obligation to issue common shares of \$110,000;
and
- c) the Company granted 685,000 stock options at an exercise price of \$0.20 and a term of 5 years pursuant to the Plan.