



**Audited Non-statutory Consolidated Financial Statements
For the year ended 31 December 2010**



Elko Energy Inc.

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For the year ended 31 December 2010

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Elko Energy Inc.

**Directors' Responsibility Statement
For the year ended 31 December 2010**

The directors are responsible for preparing the Annual Report and the non-statutory consolidated financial statements in accordance with applicable law and regulations. This report has been prepared solely to show the results of managements stewardship of the resources entrusted to it.

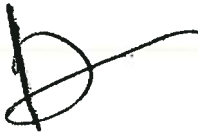
The directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board (IASB). The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

15 July 2011



Peter Moir
President & Chief Executive Officer



Alan Hume
Chief Financial Officer

Elko Energy Inc.

**Independent Auditors' Report to the Directors of Elko Energy Inc
For the year ended 31 December 2010**

We have audited the non-statutory financial statements of Elko Energy Inc ("the company") and its subsidiaries (together "the group") for the year ended 31 December 2010 which comprise the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as issued by the IASB.

This report is made solely to the company's directors in accordance with our engagement letter dated 7th July 2011 and solely for the purpose of showing the results of management's stewardship of the resources entrusted to it. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an independent auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

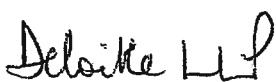
Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the period then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as issued by the IASB;



Deloitte LLP
Chartered Accountants
London, UK
15 July 2011

Elko Energy Inc.

**Consolidated Income Statement
For the year ended 31 December 2010**

	Note	Year ended 31 December 2010 \$	Year ended 31 December 2009 \$
Continuing operations			
Royalty income		4,278	4,881
Exploration expense		(1,055,210)	-
General and administrative expense	5	(1,882,408)	(2,003,825)
Operating loss		(2,933,340)	(1,998,944)
Finance revenue	8	14,007	55,998
Finance cost	8	(620,041)	(1,739)
Gain on disposal of intangible assets	11	1,769,411	-
Loss before tax		(1,769,963)	(1,944,685)
Tax expense		(72,147)	-
Loss for the year from continuing operations		(1,842,110)	(1,944,685)
Discontinued operations			
Loss for the year from discontinued operations, net of tax	9	-	(2,008,255)
Gain on disposal of discontinued operations, net of tax	9	-	931,670
Loss for the year		(1,842,110)	(3,021,270)
Attributable to:			
Equity holders of the parent		(1,842,110)	(2,037,079)
Non-controlling interest		-	(984,191)

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

Elko Energy Inc.

**Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010**

	Year ended 31 December 2010 \$	Year ended 31 December 2009 \$
Loss for the year	(1,842,110)	(3,021,270)
Other comprehensive income/(loss)		
Foreign currency translation adjustments	155,639	104,652
Foreign currency translation on disposal of discontinued operations	-	151,113
Total comprehensive income/(loss)	(1,686,471)	(2,765,505)
Attributable to:		
Equity holders of the parent	(1,686,471)	(1,855,359)
Non-controlling interest	-	(910,146)

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

Elko Energy Inc.

Consolidated Balance Sheet
For the year ended 31 December 2010

	Note	As at 31 December 2010 \$	As at 31 December 2009 \$
Non-current assets			
Property and equipment		2,631	6,647
Intangible exploration and evaluation assets	10	1,708,300	5,462,168
		1,710,931	5,468,815
Current assets			
Other receivables	12	102,238	326,926
Cash and cash equivalents		11,392,291	9,041,892
		11,494,429	9,368,818
Total assets		13,205,460	14,837,633
Current liabilities			
Accounts payable and accrued liabilities	15	451,986	814,801
		451,986	814,801
Total liabilities		451,986	814,801
Net assets		12,753,474	14,022,832
Equity			
Share capital	16	25,813,844	25,813,844
Share based payments reserve		1,312,709	3,364,549
Accumulated other comprehensive income/(loss)		38,826	(116,813)
Deficit		(14,411,905)	(15,038,748)
Equity attributable to equity holders of the parent		12,753,474	14,022,832
Non-controlling interest		-	-
Total equity		12,753,474	14,022,832

The financial statements were approved by the board of directors and authorised for release on 15 July 2011.
Signed on behalf of the Directors.



Alan Hume, Chief Financial Officer

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

Elko Energy Inc.

**Consolidated Statement of Changes in Equity
For the year ended 31 December 2010**

	Share capital \$	Share based payments reserve \$	Accumulated Other Comprehensive (Loss) Income \$	Deficit \$	Non- controlling interest \$	Total \$
Balance 31 December 2008	25,813,844	2,471,837	(372,578)	(13,001,669)	121,109	15,032,543
Comprehensive income/(loss)	-	-	255,765	(2,037,079)	(984,191)	(2,765,505)
Disposal of discontinued operations	-	-	-	-	863,082	863,082
Effect of share based payments	-	892,712	-	-	-	892,712
Balance 31 December 2009	25,813,844	3,364,549	(116,813)	(15,038,748)	-	14,022,832
Comprehensive income/(loss)	-	-	155,639	(1,842,110)	-	(1,686,471)
Effect of share based payments	-	417,113	-	-	-	417,113
Reversal of expired/retracted share based payments	-	(2,468,953)	-	2,468,953	-	-
Balance 31 December 2010	25,813,844	1,312,709	38,826	(14,441,905)	-	12,753,474

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

Elko Energy Inc.

**Consolidated Cash Flow Statement
For the year ended 31 December 2010**

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Operating activities			
Loss from continued operations		(1,842,110)	(1,944,685)
Adjustments for:			
Foreign exchange gain		620,041	(51,039)
Share based payments expense	17	417,113	892,712
Depreciation		3,824	-
Interest revenue		(14,007)	(25,235)
Amortisation		2,377	-
Gain on disposal of intangible assets		(1,769,411)	-
Cash flow used in discontinued operations		-	(515,593)
(Increase)/Decrease in receivables		224,688	(78,226)
Increase/(Decrease) in payables		(117,814)	(240,987)
Increase/(Decrease) in discontinued operations		-	553,904
Net cash used in operating activities		(2,475,299)	(1,383,914)
Investing activities			
Acquisition of intangible exploration and evaluation assets		(781,089)	(3,004,920)
Proceeds from disposal of capitalised intangible exploration and evaluation assets	11	5,698,790	-
Cashflow provided from discontinuing operations		-	424,325
Net cash used in investing activities		4,917,701	(2,580,595)
Financing activities			
Interest income		14,007	25,235
Cashflow used in discontinued operations		-	(466,758)
Net cash used in financing activities		14,007	(441,523)
Net decrease in cash and cash equivalents		2,456,409	(4,431,267)
Net (decrease)/increase in cash and cash equivalents from discontinued operations		-	4,123
Cash and cash equivalents at beginning of year		9,041,892	13,413,274
Effect of foreign exchange rate changes from holding foreign currencies		(106,010)	55,762
Cash and cash equivalents at end of year		11,392,291	9,041,892

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

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

1. Corporate information

Elko Energy Inc. ("Elko", the "Company" or the "Group") was incorporated on 7 March 2005 under the laws of the province of Ontario, Canada. The registered office of the Company is Suite 2700, 130 Adelaide Street West, Toronto, Ontario, Canada M5H 3P5. Its principal business activities are that of petroleum and natural gas exploration, appraisal and development in Europe.

2. Significant accounting policies

Basis of presentation

The consolidated non-statutory financial statements (the "Financial Statements") have been prepared by and are the responsibility of the Company's management as noted in the Directors' responsibility statement. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") using historical cost and are presented in US dollars, the functional currency of the parent company, Elko Energy Inc.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

The Company is in the process of exploring and appraising its petroleum and natural gas properties in Denmark with a view to establish the economically recoverable reserves potential. The Company believes it has sufficient cash to fund its commitments for at least the next twelve months however, future operations of the Company depend on the existence of economically recoverable reserves, the ability of the Company to obtain financing necessary to retain and/or obtain the right to explore and develop, and/or having joint venture partners to complete exploration and the development of the properties, attaining future profitable production, or alternatively, on proceeds from disposal that are sufficient to continue its operations.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as at 31 December each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interests consist of the amount of those interests at the date of the business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations are recognised at their fair value at the acquisition date.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

2. Significant accounting policies (continued)

Business combinations

Goodwill arising on an acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income (loss) statement as "negative goodwill on acquisition".

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Impairment losses recognised in relation to goodwill are not subsequently reversed for subsequent increases in its recoverable amount.

Foreign currencies

Transactions entered into by the Company in a currency other than the currency of the primary economic environment in which it operates (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income (loss) statement.

On consolidation, the results of foreign operations are translated into the presentation currency of the group at rates approximating to those ruling when the transactions took place. All assets and liabilities of foreign operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date with translation gain (losses) recognised in other comprehensive income (loss).

Exchange differences recognised in the income (loss) statement of the Group entities' separate financial statements on the translation of monetary items forming part of the Group's net investment in the foreign operation are reclassified to the foreign exchange reserve on consolidation.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income (loss) statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

2. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The Company recognizes a deferred tax liability for all taxable temporary differences for investments in subsidiaries and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income (loss) statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Oil and natural gas exploration, evaluation and development expenditures

Pre-license costs

Expenditures incurred prior to the acquisition of a license and the costs of other exploration activities which are not specifically directed to an identified structure are written off in the period.

Intangible exploration and evaluation assets ("E&E")

The Company follows the successful efforts method of accounting for its petroleum and natural gas operations having regard to the requirements of IFRS 6 – Exploration for and Evaluation of Mineral Resources. Exploration and evaluation costs are initially capitalised in well, field or general exploration costs centres as appropriate, pending determination. Such exploration and evaluation costs include license acquisition costs, geological and geophysical costs, cost of drilling exploration and appraisal wells, and an appropriate share of overheads. Expenditures incurred before the Company has obtained the legal rights to explore a specific area are expensed in the year that they are incurred.

Capitalised exploration and evaluation expenditures are assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 – Exploration for and Evaluation of Mineral Reserves. In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the year.

Capitalised costs are written off on completion of a well unless the results indicate that there is a reasonable prospect of commercial reserves. After appraisal, if commercial reserves are found, then the net capitalised costs incurred in discovering the field are transferred into a single cost centre. If further appraisal does not lead to the discovery of commercial reserves, all of these costs are written off. Any subsequent development costs, including the costs of any dry development wells, are capitalised in the field cost centre.

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

2. Significant accounting policies (continued)

Oil and natural gas exploration, evaluation and development expenditures (continued)

Intangible exploration and evaluation assets ("E&E") (continued)

Subsequent to the appraisal of a field, expenditures incurred in establishing commercial reserves may be carried forward only as long as there is a clear indication to develop the field. Unless further appraisal of a prospect is firmly planned or underway, expenditure incurred on exploration and appraisal activities are normally carried forward pending determination for a maximum of three years following completion of drilling in an offshore or frontier environment where major development costs may need to be incurred or for a maximum of two years in other areas.

On the disposal of intangible exploration and evaluation assets, the capitalised expenditures are offset with the proceeds and any difference is taken to the P&L as a gain or loss on disposal of intangible exploration and evaluation assets.

Petroleum and natural gas properties

The Company classifies exploration and appraisal expenditures in the consolidated financial statements as intangible exploration and evaluation assets. When the existence of commercial reserves is established, the directly related exploration and appraisal expenditures are reclassified in the financial statements to the tangible asset, petroleum and natural gas properties. Subsequent field development costs are classified as petroleum and natural gas properties.

Depletion of petroleum and natural gas properties

Depletion is provided for units of production over the life of the proven reserves of a field taking into account the expected future costs to extract all such reserves.

Property and equipment

Property and equipment other than oil and gas assets are recorded at cost, net of accumulated depreciation and impairment. Depreciation is provided on all such tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a declining balance basis over its expected useful life. At 31 December 2010 and 2009, the amount of other property and equipment was insignificant.

Impairment of property and equipment and petroleum and natural gas properties

At each balance sheet date, the Company reviews the carrying amounts of its property and equipment and petroleum and natural gas properties to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

2. Significant accounting policies (continued)

Impairment of property and equipment and petroleum and natural gas properties (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income (loss) immediately.

Joint interests

The Company conducts its petroleum and natural gas exploration and production activities through joint ventures.

Jointly controlled operations

A jointly controlled operation involves the use of assets and other resources of the Company and other venturers rather than the establishment of a corporation, partnership or other entity. The Company recognizes in its financial statements the assets that it controls, the liabilities that it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

A jointly controlled asset involves joint control and joint ownership by the Company and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity. The Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Receivables

Other and trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated unrecoverable amounts are recognised in the income (loss) statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

2. Significant accounting policies (continued)

Decommissioning

Provisions for decommissioning costs are recognised in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. Provisions are recorded at the present value of the expenditures expected to be required to settle the Company's future obligations.

Provisions are reviewed at each balance sheet date to reflect the current best estimate of the present value of the expenditures expected to settle the obligation. The unwinding of the discount is reflected as a finance cost. A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, and included as part of the cost of the relevant development and production asset. Depletion on this asset is calculated under the unit of production method based on proven reserves.

At 31 December 2010, the Company had no obligations for the retirement and abandonment of its European petroleum and natural gas properties as the Company's activities to date include only geological and geophysical analysis and no drilling. At 31 December 2009, the Company's decommissioning obligations were included in non-current liabilities of discontinued operations relating to Dragon.

Share based payments

The Company issues equity-settled share based payments to certain directors and officers and service providers. Equity-settled share based payments to directors and officers are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Share based payments for goods and services are measured at the estimated fair value of the acquired goods and services.

Revenue recognition

Interest revenue

Interest revenues are accrued at the stated interest rate of the short-term investments based upon the passage of time.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probably that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

3. New IFRS accounting standards and interpretations not yet adopted

The following new IFRS accounting standard not yet adopted is expected to have a significant impact on the Group:

IFRS 9 *Financial Instruments – Classification and Measurement* is the first phase of the IASB's three stage project to replace IAS 39. The first phase issued in November 2009 deals with the classification and measurement of financial assets. In October 2010 the requirements for classifying and measuring financial liabilities were added to IFRS 9. The standard applies for annual periods beginning on or after 1 January 2013. Early application is permitted, although IFRS 9 has not yet been endorsed for use in the European Union. Once adopted, all financial assets and liabilities within the scope of IFRS 9 will be accounted for in accordance with the standard.

The following new or amended IFRS accounting standards and interpretations not yet adopted are not expected to have a significant impact on the Group:

The amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement* allows entities to recognise as an asset some voluntary prepayments for minimum funding contributions, previously disallowed under IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment is to be applied retrospectively from the earliest comparative period presented and is effective for annual periods beginning on or after 1 January 2011.

IAS 24 (Revised) *Related Party Disclosures* clarifies and simplifies the definition of a related party and removes certain requirements for government-related entities. The revised standard is effective for annual periods beginning on or after 1 January 2011.

The amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment is to be applied retrospectively from the earliest comparative period presented and is effective for annual periods beginning on or after 1 February 2010.

The amendment to IFRS 7 *Financial Instruments: Disclosures* concerns the disclosure requirements in relation to transferred financial assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

Annual Improvements to IFRSs 2010 amends a number of standards including changes in presentation, recognition and measurement plus terminology and editorial changes. The 2010 amendments are effective for annual periods beginning on or after 1 January 2011, subject to adoption by the European Union.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments for the creditor. The interpretation is to be applied retrospectively from the earliest comparative period presented and is effective for annual periods beginning on or after 1 July 2010.

Amendments to IFRS 1 on *Additional Exemptions for First-time Adopters* (effective 1 July 2010).

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historic experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangible and tangible assets

The assessment of intangible exploration and evaluation assets and petroleum and natural gas properties for any indications of impairment involves judgement. If an indication of impairment, as defined in IFRS 6 in relation to exploration and evaluation assets, exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use. The calculation of recoverable amount requires an estimation of the value in use of the cash-generating units to which the exploration and evaluation assets and petroleum and natural gas properties are allocated. In assessing value in use, the estimated future cash flows are discounted to their present value generally using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. By their nature, the estimated amount and timing of future cash flows is inherently uncertain.

Tax provisions

Assessing the outcome of uncertain tax provisions requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on the Company's interpretation of the tax laws in various jurisdictions in which it operates. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company recognizes the future net benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability requires the Company to make significant estimates related to expectations of future taxable income that are inherently uncertain.

Share based payments

The estimation of costs related to equity-settled share based compensation plans requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes model. By their nature these assumptions are inherently uncertain.

Elko Energy Inc.

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

5. General and administrative expenses

	2010	2009
	\$	\$
IPO related costs	-	40,921
Legal fees	35,993	34,494
Accounting related fees	303,249	427,728
Advisory fees	-	25,860
Investor relations	6,153	15,641
Salaries and directors fees	768,583	473,830
Rent and office services	114,625	166,766
Travel	86,606	57,512
Share based payments	417,113	892,712
Other	150,086	(131,639)
	1,882,408	2,003,825

6. Auditors' remuneration

	2010	2009
	\$	\$
The analysis of auditors' remuneration is as follows:		
Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts	61,884	97,386
Fees payable to the Company's auditors and their associates for the audit of the subsidiaries of the Group	9,365	27,546
	71,249	124,932
Fees payable to the Company's auditors and its associates for other services:		
- other services relating to taxation	-	97,777
- other services	-	15,877
	-	113,654
	71,249	238,586

Elko Energy Inc.

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

7. Staff costs

The average monthly number of employees (including non-executive directors) was:

	2010	2009
	No.	No.
Number of employees	<u>8</u>	<u>8</u>
Their aggregate remuneration comprised:	<u>\$</u>	<u>\$</u>
Salaries and fees	928,266	985,677
Social security	93,461	63,091
Pension benefits	25,262	24,444
Capitalised amounts	(148,231)	(388,551)
Recharge of salaries	(130,175)	(210,831)
	<u>768,583</u>	<u>473,830</u>
Share based payments	<u>417,113</u>	<u>892,712</u>
	<u>1,185,696</u>	<u>1,366,542</u>

Total remuneration for the highest paid Director was \$395,688 (2009: \$300,652).

The remuneration of the directors, who are the key management personnel of the Company, for the 12 month period ended 31 December 2010 is set out below for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2010	2009
	\$	\$
Salaries and fees	<u>713,788</u>	<u>632,406</u>
Share based payments	<u>417,113</u>	<u>892,712</u>
	<u>1,130,901</u>	<u>1,525,118</u>

8. Finance income and cost

	2010	2009
	\$	\$
Interest revenue	14,007	25,235
Foreign exchange gain	<u>-</u>	<u>30,763</u>
Finance income	<u>14,007</u>	<u>55,998</u>
Interest expense	-	(1,739)
Foreign exchange loss	<u>(620,041)</u>	<u>-</u>
Finance cost	<u>(620,041)</u>	<u>(1,739)</u>

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

9. Discontinuing operations

On 27 August 2008, the Board committed to a plan of sale of its producing and non producing assets in its 51% holding of Dragon Energy Inc. Results of the operations of this business segment has therefore been classified as discontinuing operations.

On 26 August 2009, Elko Energy Inc. disposed of its 51% interest in Dragon Energy Inc. The purchase price was satisfied by the assignment of an overriding royalty relating to the production revenues of Dragon Energy Inc's current interest in the Kotaneelee field. As the future revenue from the overriding royalty is uncertain and arises from the continuing production of the field over time, the Company recognised a gain \$931,670 on disposition and recognises overriding royalty income as it accrues.

10. Intangible exploration and evaluation assets

	As at 31 December 2010 \$	As at 31 December 2009 \$
License 2-05, Denmark		
At 1 January	1,698,780	1,128,202
Additions	140,721	573,075
Amortisation	(2,377)	(2,497)
Effect of foreign exchange movement	(128,824)	-
At 31 December	1,708,300	1,698,780
Blocks P1, the Netherlands		
At 1 January	1,497,938	502,546
Additions	109,311	995,392
Effect of foreign exchange movement	(88,648)	-
Disposals	(1,518,601)	-
At 31 December	-	1,497,938
Blocks P2, the Netherlands		
At 1 January	2,265,450	745,115
Additions	286,057	1,520,335
Effect of foreign exchange movement	(140,729)	-
Disposals	(2,410,778)	-
At 31 December	-	2,265,450
	1,708,300	5,462,168

The amounts for intangible exploration and evaluation assets represent costs incurred on active oil and gas exploration projects. In accordance with the petroleum and natural gas accounting policies described in Note 2, exploration and evaluation assets are evaluated when circumstances exist that suggest the possibility of impairment, as well as when exploration and evaluation assets are re-classified to the development and producing phase. The outcome of ongoing exploration, and therefore whether the carrying value of assets will ultimately be recovered, is inherently uncertain.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

10. Intangible exploration and evaluation assets (continued)

The assessment of intangible assets for any indications of impairment involves judgment. If an indication of impairment, as defined in IFRS 6 – Exploration for and Evaluation of Mineral Reserves exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds recoverable amount, as prescribed by IAS 36 Impairment. The Company determined that there were no indicators of impairment as at 31 December 2010 or 31 December 2009 for its intangible exploration and evaluation assets.

License 02/05, Denmark

The Company holds an exploration license 02/05 offshore Denmark through its 100% owned Danish subsidiary Elko Energy A/S. The license agreement is for a period of 6 years, extendable under certain circumstances to 10 years, and can be converted to a 30 year production license if economic deposits of hydrocarbons are found.

Awarded on 6 October 2005, the license duration consists of 3 two year periods. The license holder has the option at the end of each period to relinquish the license or to continue into the next license period, with the related work obligations which this entails. In October 2007, the first period was completed, and the Company entered into the second period which was extended by a further six months to allow for the receipt of data not previously available, although the total 6 year period remains the same. The work obligations of the second period had been met as at 31 December 2009.

An additional extension of three months was granted in April 2010 until July 2010 to allow for time to pursue farming out part of the Company's interest in the license. A further six month extension was granted in July 2010 and then another two month extension was granted in January 2011 to await the award of an additional acreage license application which was applied for in September 2010 by the 02/05 license partners. This application was for an adjoining area immediately to the west of the 02/05 license area and this 01/11 License was awarded on 1 February 2011. An additional two year extension to the 02/05 License was granted in March 2011 until January 2013.

On award of the license a one-time fee of 100,000 DKK (US\$16,037) was paid. No further license rentals or acreage fees are payable under present law. In addition, the cost of state supervision is charged according to time spent.

The Danish state currently participates in the license with a full working interest of 20%. There are no obligatory relinquishments foreseen by the Company under the terms of the license. Altinex Oil Denmark A/S (Altinex) entered into a farm in agreement with Elko Energy A/S in May 2010 to become a 47% owner and operator of License 2/05 in Denmark, leaving Elko with a 33% interest. Altinex is part of the Noreco Group (Noreco), being a 100% subsidiary of Norwegian Energy Company ASA. Under the terms of the arrangement, Noreco will pay Elko approximately USD 1 million in cash at completion, for its share of past costs. In the event of detecting hydrocarbons on the first exploration well, Noreco will cover Elko's share of the costs associated with the production testing phase. The effective economic date of the agreement was 1 April 2010 but up to the point that the transaction completed in March 2011 Elko continued to hold 80% of the 02/05 licence. The transaction will be accounted for in 2011.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

11. Disposal of intangible exploration and evaluation assets

In September 2010, Elko Energy B.V. and Elko Exploration B.V. entered into an agreement relating to their licenses in Blocks P1 and P2 offshore the Netherlands with Chevron Exploration and Production Netherlands B.V. ("Chevron"). In consideration for their total interests in the Blocks, Elko will receive an overriding royalty up to 5% of the sales value from Chevron equity gas delivered into the Dutch National Transmission System and Chevron equity condensate delivered onshore. Chevron anticipates drilling the first exploration well on the acreage in 2011. Under the terms of the arrangement, Chevron also paid Euro 4.3 million in cash for its share of past costs. This transaction completed in December 2010 following the satisfaction of all closing conditions and regulatory approvals.

The gain on disposal of intangible assets was calculated as follows:

	\$
Consideration – EUR 4.3 million for past costs	5,698,790
Less: capitalised intangible and exploration assets	<u>(3,929,379)</u>
	<u>1,769,411</u>

Given the early stage of the oil and gas projects concerned, no value was ascribed to the overriding royalty under the Company's accounting policy for exploration and evaluation assets.

12. Other financial assets

Other receivables

	As at 31 December 2010 \$	As at 31 December 2009 \$
Other debtors	51,633	309,817
Prepayments	50,605	17,109
	<u>102,238</u>	<u>326,926</u>

The Company considers that the carrying amount of other receivables approximates their fair value.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

13. Subsidiaries

Details of the Company's subsidiaries as at 31 December 2010 are as follows:

Name	Place of incorporation and operation	Date acquired	Principal activity
Elko Energy International	Cayman Islands	26/07/2007	Holding company
Elko MEA	Cayman Islands	26/07/2007	Holding company
Elko Americas	Cayman Islands	26/07/2007	Holding company
Elko Europe	Cayman Islands	26/07/2007	Holding company
Elko (UK) Limited	UK	02/03/2006	Holding company
Elko Energy Business Services Ltd	UK	01/07/2007	Administration services
Elko Energy A/S	Denmark	13/03/2006	Oil and gas exploration and evaluation
RPK Finance & Holdings BV	The Netherlands	27/12/2007	Holding company
Elko Energy BV	The Netherlands	27/12/2007	Oil and gas exploration and evaluation
Elko Exploration BV	The Netherlands	19/02/2009	Oil and gas exploration and evaluation

All subsidiaries are wholly owned and have been consolidated for the period of ownership.

14. Income taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to net loss before income taxes. The major components of these differences are explained as follows:

	2010 \$	2009 \$
Loss before taxes	1,769,963	1,944,685
Computed income tax recovery at the statutory rates of 31% and 27.89%, respectively		
Computed expected tax provision	(548,690)	(557,305)
Increase (decrease) in income taxes resulting from:		
Tax effect of expenses that are not deductible in determining taxable profit	460,296	-
Difference in foreign tax rates	(56,583)	(261,640)
Share based payment expense	-	257,038
Rate reduction on deferred income taxes	-	308,926
Tax losses for which no benefit is recognised	326,963	478,528
Other	(109,839)	(225,547)
Income tax charge/(recovery)	72,147	-

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's deferred income tax assets and liabilities are as follows:

Nature of temporary differences	2010	2009
	\$	\$
<i>Deductible temporary differences</i>		
Property and equipment	-	(304,945)
Share issue costs and finance fees	75,211	491,150
Cumulative eligible capital	188,115	-
Unrealised foreign exchange loss	14,530	-
Foreign resource expenses	2,908	-
	280,764	186,205
<i>Tax losses</i>		
Non-capital losses	2,787,990	2,511,696
Capital losses	-	692,460
	2,787,990	3,204,156
Unrecognised temporary differences	(3,068,754)	(3,390,361)
Deferred income tax	-	-

As at 31 December 2010, the Company has, subject to assessment by tax authorities, tax pools available in Canada aggregating \$9,013,413 (2009 – \$8,882,630) including \$7,890,362 (2009 - \$6,147,148) in non-capital losses. If unutilized, these losses will expire between 2015 and 2030. The Company has recognised the deferred tax benefit of the non-capital losses being carried forward in a Canadian entity to the extent of its deferred income tax liability. The Company has not recognised a deferred tax asset for the temporary difference in the remaining Canadian entity since it is not probable that the asset will be utilized in the foreseeable future. The Company has not recognised a deferred tax asset for the temporary difference since it is not probable that the asset will be utilized in the foreseeable future.

As at 31 December 2010, the Company had tax pools available in Denmark aggregating \$2,931,370 (2009 – \$2,050,410) including \$2,931,370 (2009 - \$2,050,410) in non-capital losses. The Company has not recognised a deferred tax asset for the temporary difference arising in Denmark as their recovery is uncertain.

As at 31 December 2010, the Company had tax pools available in the United Kingdom aggregating \$305,767 (2009 - \$30,444) including \$305,767 (2009 - \$30,144) in non-capital losses. The Company has not recognised a deferred tax asset for the temporary difference arising in the United Kingdom as their recovery is uncertain.

Elko Energy Inc is considered to be a tax resident of Canada and the United Kingdom which may give rise to a tax liability in each jurisdiction with no relief under the related tax treaty. As the Company has incurred losses to date there are no taxes currently payable, however in deferred periods the effect of taxation in multiple jurisdictions may be significant.

Elko Energy Inc.

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

15. Other financial liabilities

Accounts payable and accrued liabilities

	As at 31 December 2010	As at 31 December 2009
	\$	\$
Trade payables	168,786	525,957
Accrued liabilities	211,053	288,844
Current tax payable	72,147	-
	451,986	814,801

The Company considers that the carrying amount of accounts payable and accrued liabilities approximates their fair value.

16. Share capital

This comprises issued and fully paid Class A common voting shares of:

	Number of shares	\$
At 1 January 2009	99,910,049	25,813,844
At 31 December 2009 and 2010	99,910,049	25,813,844

17. Share based payments

Details of the share options outstanding during the year are as follows:

	2010		2009	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Outstanding at beginning of year	4,615,000	0.403	5,270,000	0.380
Granted during the year	4,167,500	0.251	3,020,000	0.334
Forfeited during the year	(180,000)	0.500	-	-
Converted during the year	-	-	(3,675,000)	0.355
Exercised during the year	-	-	-	-
Outstanding at the end of the year	8,602,500	0.301	4,615,000	0.403
Exercisable at the end of the year	8,602,500	0.301	4,615,000	0.403

Elko Energy Inc.

**Notes to the Consolidated Financial Statements
For the year ended 31 December 2010**

17. Share based payments (continued)

Details of the warrants outstanding during the year are as follows:

	2010		2009	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Outstanding at beginning of year	4,925,000	0.50	1,250,000	0.50
Granted during the year	-	-	3,675,000	0.50
Expired during the year	<u>(4,925,000)</u>	<u>0.50</u>	<u>-</u>	<u>-</u>
Outstanding at the end of the year	<u>-</u>	<u>-</u>	<u>4,925,000</u>	<u>0.50</u>
Exercisable at the end of the year	-	-	4,925,000	0.50

The Company uses the Black-Scholes option pricing model to estimate the fair value of options and warrants. Share based payments expense of \$417,113 was recognised in 2010 (2009 - \$892,712).

On 15 July 2010, 3,100,000 options were granted to certain officers of the Company with an exercise price of CDN \$0.20 and 880,000 options were granted with an exercise price of CDN \$0.40. These options expire on 15 July 2015 if they remain unexercised and were fully vested at grant date.

On 30 September 2010, 187,500 options granted to certain officers of the Company with an exercise price of CDN \$0.40. These options expire on 30 September 2015 if they remain unexercised and were fully vested at grant date.

The inputs to the Black-Scholes model are as follows:

	15/07/2010	15/07/2010	30/09/2010
Date	15/07/2010	15/07/2010	30/09/2010
No. share options issued	3,100,000	880,000	187,500
Share price	CAD \$0.15	CAD \$0.15	CAD \$0.15
Strike price	CAD \$0.20	CAD \$0.40	CAD \$0.40
Expected volatility	100%	100%	100%
Expected life	5 years	5 years	5 years
Risk free rate	2.57%	2.57%	1.99%
Expected dividends yield	0%	0%	0%

The options outstanding at 31 December 2010 had a weighted average exercise price of \$0.301, and a weighted average remaining contractual life of 3.6 years. There were no warrants outstanding at 31 December 2010. All share-based payments are recognised as an expense in the income statement over the vesting period of the options.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

18. Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Risk exposures

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objective, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these Financial Statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

18. Financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's policy is to ensure that its investments are liquid, held in high quality financial institutions and not to invest in asset backed commercial paper products.

As the Company has not entered into any hedging arrangements, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. In order to meet the Company's future license commitments, the Company may farm out of certain working interests, obtain debt or issue equity instruments. The Company uses authorisations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its existing working capital and arrangements with joint venture partners. The Company's financial liabilities comprise of accounts payable and accruals which have expected maturities of less than one year resulting in their current classification on the balance sheet.

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Notes to the Consolidated Financial Statements For the year ended 31 December 2010

Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company and its subsidiaries are exposed to foreign exchange rate risk, as the Company's business is carried out in Canadian dollars ("CDN"), US dollars ("US"), Great Britain pounds ("GBP"), Euro ("EUR"), and Danish kroner ("DKK"). The Company and its subsidiaries are also exposed as they maintain CDN, USD, GBP, EUR and DKK denominated bank accounts but use the USD as its presentation currency as of 1 January 2008. Changes in the applicable exchange rate between CDN, USD, GBP, EUR and DKK may result in a material effect on the foreign exchange gain or loss. The Company and its subsidiaries do not use derivative instruments to reduce its exposure to foreign currency risk.

At 31 December 2010, the Company's foreign currency monetary assets and liabilities were the following:

	Assets	Liabilities
	\$	\$
Canadian dollars	15,964	9,024
Great Britain pounds	2,279,244	53,752
Euro	1,847,600	59,855
Danish kroner	85,354	126,262

18. Financial instruments (continued)

At 31 December 2009, the Company's foreign currency monetary assets and liabilities were the following:

	Assets	Liabilities
	\$	\$
Canadian dollars	12,507	4,410
Great Britain pounds	60,804	350,409
Euro	667,195	249,720
Danish kroner	175,739	79,981

Based on the financial instruments held at 31 December 2010, had the US Dollar weakened or strengthened by 10% against these foreign currencies with all other variables constant, the Company's loss or gain respectively before income taxes on continued operations would have been \$397,503 (2009 - \$23,318) higher/lower as a result of foreign exchange gains/losses on the translation of non-US dollar denominated financial instruments as detailed above.

Commodity risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Oil and gas prices are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between CDN, USD, EUR and DKK as outlined above. Should the Company choose to mitigate commodity price risk through the use of financial derivatives and physical delivery fixed price sales contracts, all such contracts would require approval of the Board of Directors. There were no commodity price risk contracts outstanding at 31 December 2010 or at 31 December 2009.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable interest rate on its cash and cash equivalents. Based on the Company's cash and cash equivalents held at 31 December 2010, a 1% increase/decrease in the rate of interest, all other variables held constant, the Company's loss before taxes from continued operations would have been would have been higher/lower by \$114,161 (2009 - \$90,419).

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

19. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Company's ultimate controlling party is Xtract Energy plc, which has common directors or officers with the Company. Xtract Energy plc has provided consulting services to the Company, in addition to other corporate entities which also have common directors with the Company. These expenditures are measured at their fair value being the amount of consideration realised and agreed to by the parties are summarised as follows:

	2010	2009
	\$	\$
General and administrative expense	230,079	84,694

Included in accounts payable and accrued liabilities is \$45,732 (2009 - \$4,378) in amounts due to related parties arising from these transactions.

The Company also provided consulting services to Xtract Energy. This income is measured at its fair value being the amount of consideration realised and agreed to by the parties and is summarised as follows:

	2010	2009
	\$	\$
General and administrative expense	266,199	44,911
Management fees	20,957	2,852
	287,156	47,763

Included in accounts receivable is \$5,981 (2009 - \$2,070) in amounts due from related parties arising from these transactions.

The remuneration of the key management personnel of the Company is detailed in Note 7.

20. Events after the balance sheet date

On 27 January 2011, the 02/05 Danish license group was awarded a new license 01/11 covering 1,900 square km, immediately to the west of the original 02/05 license. The Company holds a 33% interest in this license. The 02/05 license group has relinquished 3,645 square km of the original 02/05 license. The balance of 1,745 square km of the original 02/05 license area combined with the new license totals 3,645 square km. The new license 01/11 requires that an exploration well is drilled no later than 24 months after issuance of the license. Drilling is planned for the second half of 2011 at an estimated cost of \$22 million. Following the completion of the Noreco transaction, the Group's share of this planned expenditure is \$7.25 million.

On 18 March 2011, the Company was granted a two year extension until January 2013 for the revised 02/05 License, which corresponds to the Phase 1 deadline of the 01/11 License.

On 23 March 2011, all approvals and conditions pertaining to the 02/05 License farm-in agreement between the Company and Noreco were satisfied and the agreement was completed. Further details of transaction are included in Note 10.

Elko Energy Inc.

Notes to the Consolidated Financial Statements For the year ended 31 December 2010

On 4th May 2011, Elko Energy Inc announced, following the earlier release relating to the 02/05 Danish Licence group on 1 February 2011, that the 01/11 partners expect the Luna well drilling programme to commence mid August and be about 1 month in duration.

In the same announcement Elko Energy Inc announced as an update to operations in the Netherlands that Chevron intends to drill the first well on the P2 licence since acquisition, in the fourth quarter of 2011

On 21st June 2011 Xtract Energy Plc announced that it has offered to acquire all of the issued and outstanding common stock in Elko that it does not already own, for new ordinary shares in Xtract on the basis of seven Xtract shares for every Elko share. The transaction will result in Xtract issuing 350,245,343 new ordinary shares to the holders of Elko common stock. In addition Elko has warrants and options outstanding representing, in total 8,277,500 which will be converted into rights over Xtract shares on similar terms.