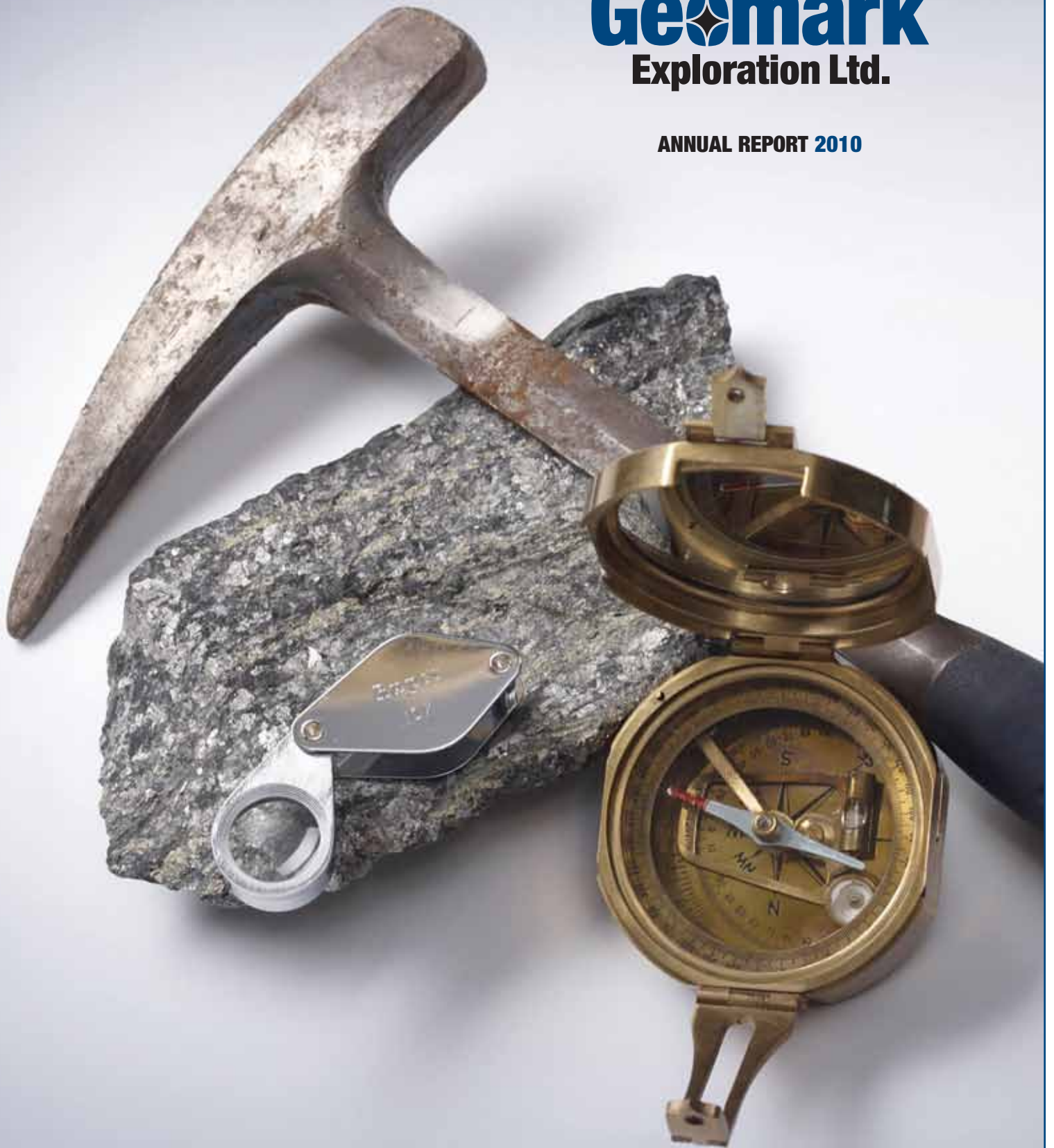


# Geomark

Exploration Ltd.

ANNUAL REPORT 2010



# Geomark

## Exploration Ltd.

Geomark Exploration Ltd. is a junior company that explores for precious and base metals. The Company's business strategy is to acquire early stage mineral exploration properties and develop them into economic situations (mines). The technical and management teams at Geomark previously provided these services to Comaplex Minerals Corp. prior to its sale of the Meliadine gold property to Agnico-Eagle Mines Ltd. in a deal valued at over \$700 million.

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Geomark is currently focused on the investigation and development of its mining assets located in Ontario, the Northwest Territories and Nunavut. It is also actively searching for new exploration prospects through both grassroots staking and prospecting programs and through negotiated transaction with other mining companies. The Company conducts aggressive exploration programs that include geophysical surveying, geological mapping and diamond drilling.

Geomark's exploration activities are funded from its present working capital, income from its investments and from revenues received from its oil and natural gas operations in the Western Canadian Sedimentary Basin, primarily in the Harmattan area of southwestern Alberta.



**Proven  
Management and  
Technical Team**

**\$40 million  
in Working  
Capital**

**8 Gold Properties  
in the Timmins Area  
with 90 – 100%  
Working Interests**

**5,000 metre  
Drill Program  
in March 2011**

**Actively Assessing  
and Pursuing  
Acquisition  
Opportunities**

**Trades  
on the  
TSX-V: GME**

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## Message to Shareholders

**Geomark is a new, publicly traded junior exploration company which emerged as a spin-out company from Comaplex Minerals Corp. (Comaplex) in conjunction with the sale of Comaplex and its five million ounce Meliadine gold deposit to Agnico-Eagle Mines Limited (Agnico-Eagle) through a plan of arrangement (the “Arrangement”).**

Geomark commenced operations on July 6, 2010. Its business strategy is to acquire early stage mineral exploration properties and to conduct exploration programs that may result in the properties being categorized as advanced exploration properties or economic deposits.

As part of the Arrangement, Comaplex transferred to Geomark all the assets and related liabilities other than those relating to the Meliadine properties. Geomark issued a total of 52,039,760 common shares to the former Comaplex shareholders (excluding Agnico-Eagle and Perfora Investment S.a.r.l.) as consideration for the Non-Meliadine Operations.

Geomark is a well-financed exploration company with proven management, experienced staff, a large cash position and immediate cash flow from its oil and gas and investment assets.

Geomark’s assets include:

- ◆ Working capital of approximately \$40 million (which includes a short-term \$20 million loan to Bonterra Energy Corp.);
- ◆ Mineral properties located in Ontario, the Northwest Territories and Nunavut;
- ◆ Oil and gas properties located primarily in the Harmattan area of southwestern Alberta, which generate between \$1 to \$2 million in cash flow per year; and
- ◆ Investments which have a current combined value of approximately \$12.9 million (at March 4, 2011) and that pay dividends to Geomark of approximately \$500,000 per year.

Geomark retained its experienced core staff and management following the Arrangement and on a combined basis the team has over 90 years of experience in mineral exploration and development. Geomark is focused on developing new prospects internally, either through grassroots efforts or through negotiated transactions with other companies. The Company intends to target projects with gold and associated precious metal potential. The history of success and proven capabilities of the Geomark team should assist in advancing the Company.

In 2010, Geomark executed a program aimed at consolidating and assessing its existing mineral properties in the Timmins area. Geomark completed the consolidation of all eight of the Timmins

Geomark is a well-financed exploration company with proven management and an experienced technical team.



area gold properties (bought out partners) and ended 2010 with interests ranging from 90 to 100 percent. Two of the properties are located in the currently active West Timmins area near the Lake Shore gold properties and several are on strike with, and near, multi-million ounce historic gold producers.

Geomark commenced geophysical surveys (Quantec Titan 24 DC/IP and MT resistivity surveys) in November, 2010 on four of the Timmins area assets – Thorneloe, Deloro, Carr-Wilkie and Cody Nighthawk. The surveys were completed in the first quarter of 2011. Based on the results received, the Company began an approximate 5,000 metre diamond drill program on three of the Timmins area gold properties (Carr-Wilkie, Deloro and Thorneloe) in mid-March, 2011. Geomark is also reviewing its Kim gold property in the Northwest Territories in which it holds a 100 percent interest. The property hosts two small high-grade gold showings in two zones.

Geomark's exploration activities are funded from its existing working capital, income from its investments and its oil and natural gas operations. The cash flow from these sources will cover a significant portion of all currently planned expenditures in 2011. Should any of the proposed exploration programs prove successful, follow-up work, as required, will be initiated without delay.

Geomark's business strategy also includes the acquisition of additional mineral interests from unrelated third parties through option/joint venture agreements and/or acquisitions. In 2010 and into 2011, gold and precious metals prices increased substantially with gold hitting a record-high of U.S. \$1,441.00 dollars per ounce on March 2, 2011. This higher pricing environment has made the acquisitions market more expensive. However, Geomark is very actively assessing and pursuing new precious metal properties of merit that it can add to its portfolio and remains optimistic that additional opportunities will develop in the near-term.

On behalf of Management and the Board of Directors, the Company would like to thank shareholders for their continued support and its staff for their dedicated efforts in the sale of the Meliadine gold property and the successful launch of this new venture, Geomark.



**George F. Fink**

Chairman and  
Chief Executive Officer



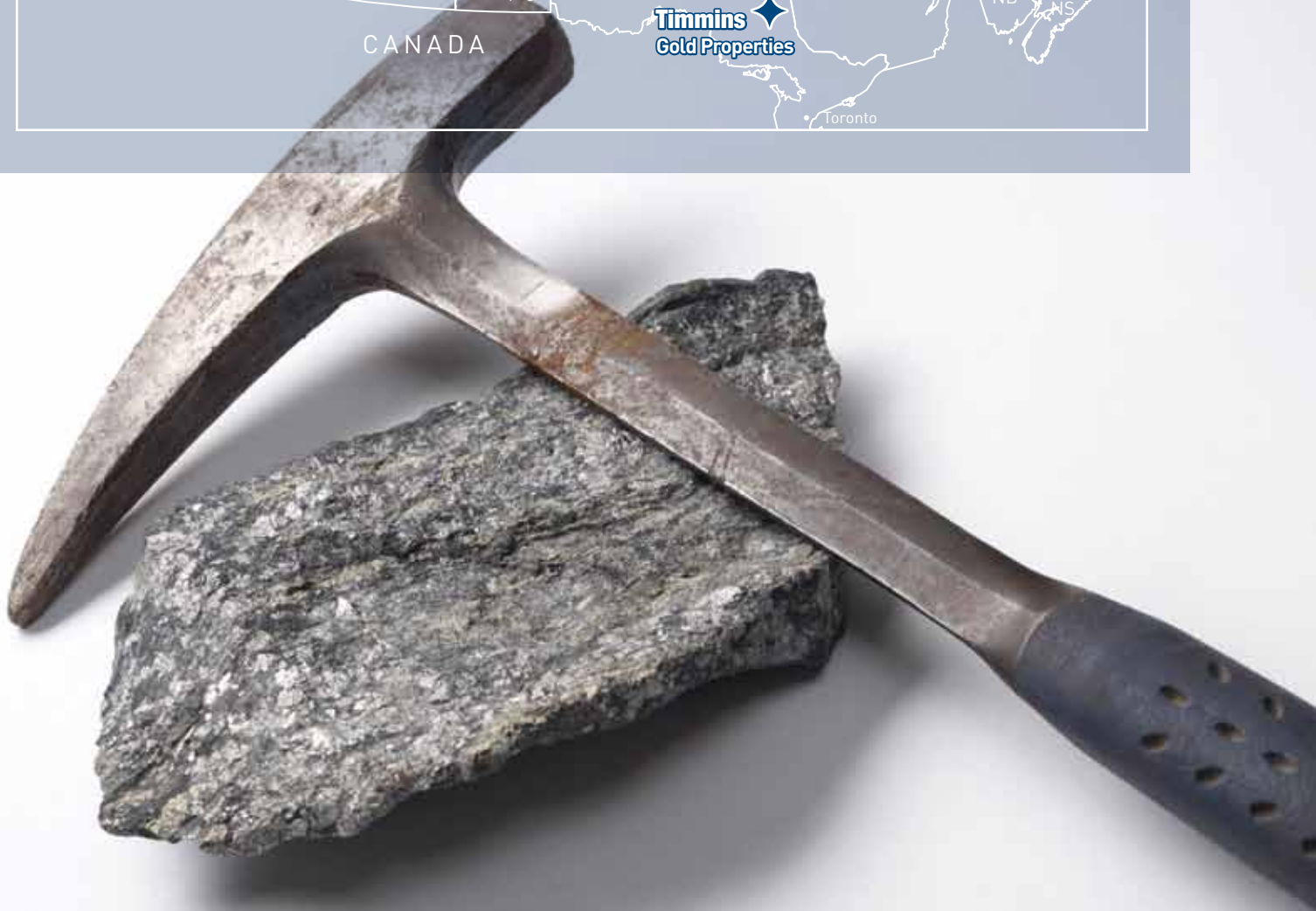
**Mark J. Balog**

President and  
Chief Operating Officer

Geomark's exploration activities are funded from its existing working capital, income from its investments and its oil and natural gas operations. The cash flow from these sources will cover a significant portion of all currently planned expenditures in 2011.



# Review of Major Mineral Properties

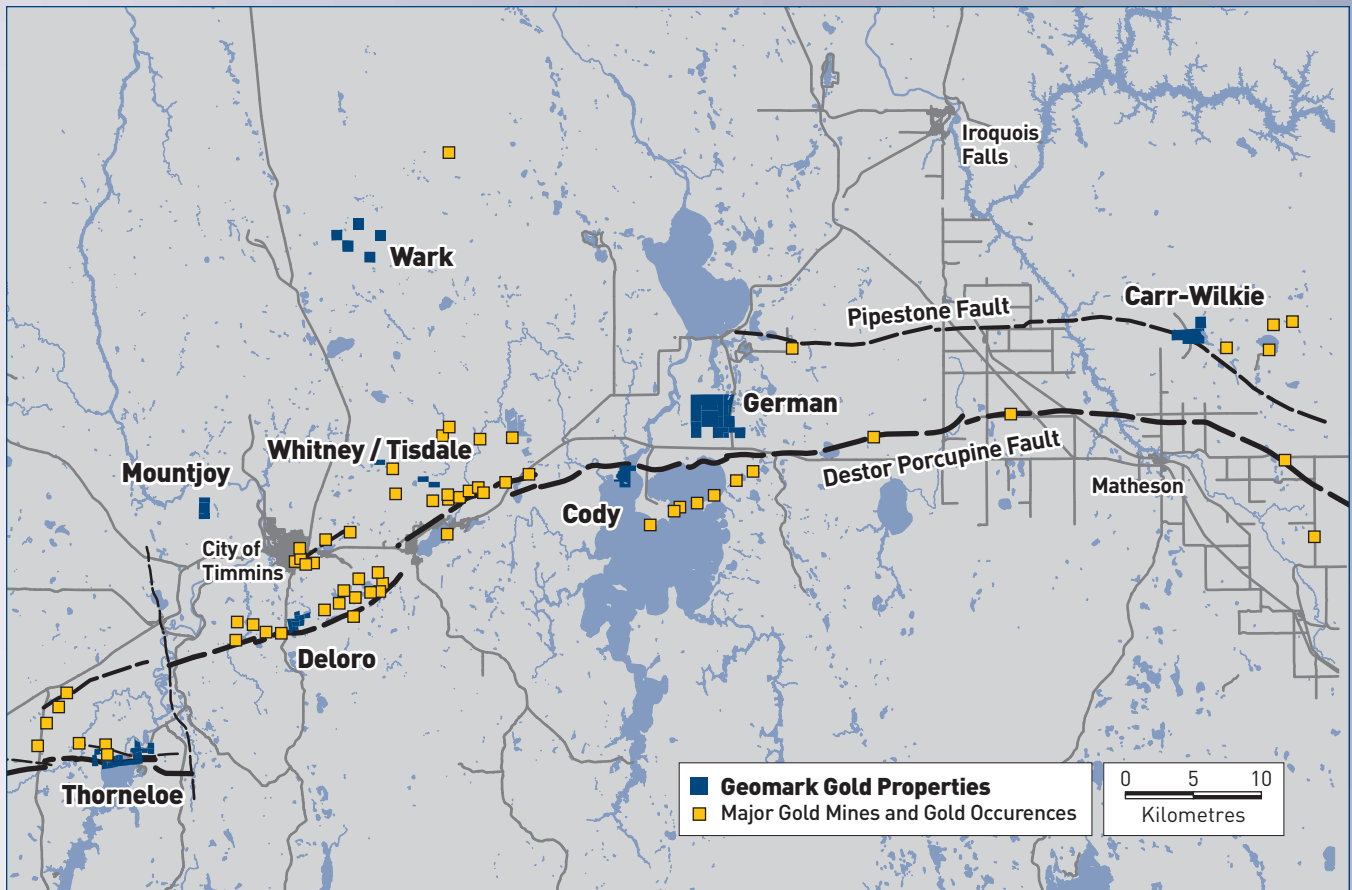


### Timmins, Ontario Properties

As evidenced by the recent exploration results provided by several companies operating in the area, the Timmins belt is a prolific, world class gold camp that continues to give up economic gold deposits. Historical work in the Timmins belt over the years has, to this point, concentrated on the outcropping and near-surface gold mineralization (within 100 to 300 metres of surface). The new gold discoveries in the last few years tend to involve exploration either “in the shadow of the head frame” (near known deposits or mines) or at depth.

Induced polarization (IP) and magneto telluric (MT) surveying was recently completed by Geomark over four of its eight properties in the Timmins area. The geophysical system used (Titan 24 – Quantec) is designed to look for geophysical targets at depths below those of traditional surveys previously carried out on the various properties. The work was completed in late 2010 and early 2011 with the results compiled in February 2011. Based on both the geophysical results and an analysis of all existing data, the Company initiated a 5,000 metre drill program on three of the properties, Thorneloe, Northwest Deloro and Carr-Wilkie, in March, 2011.

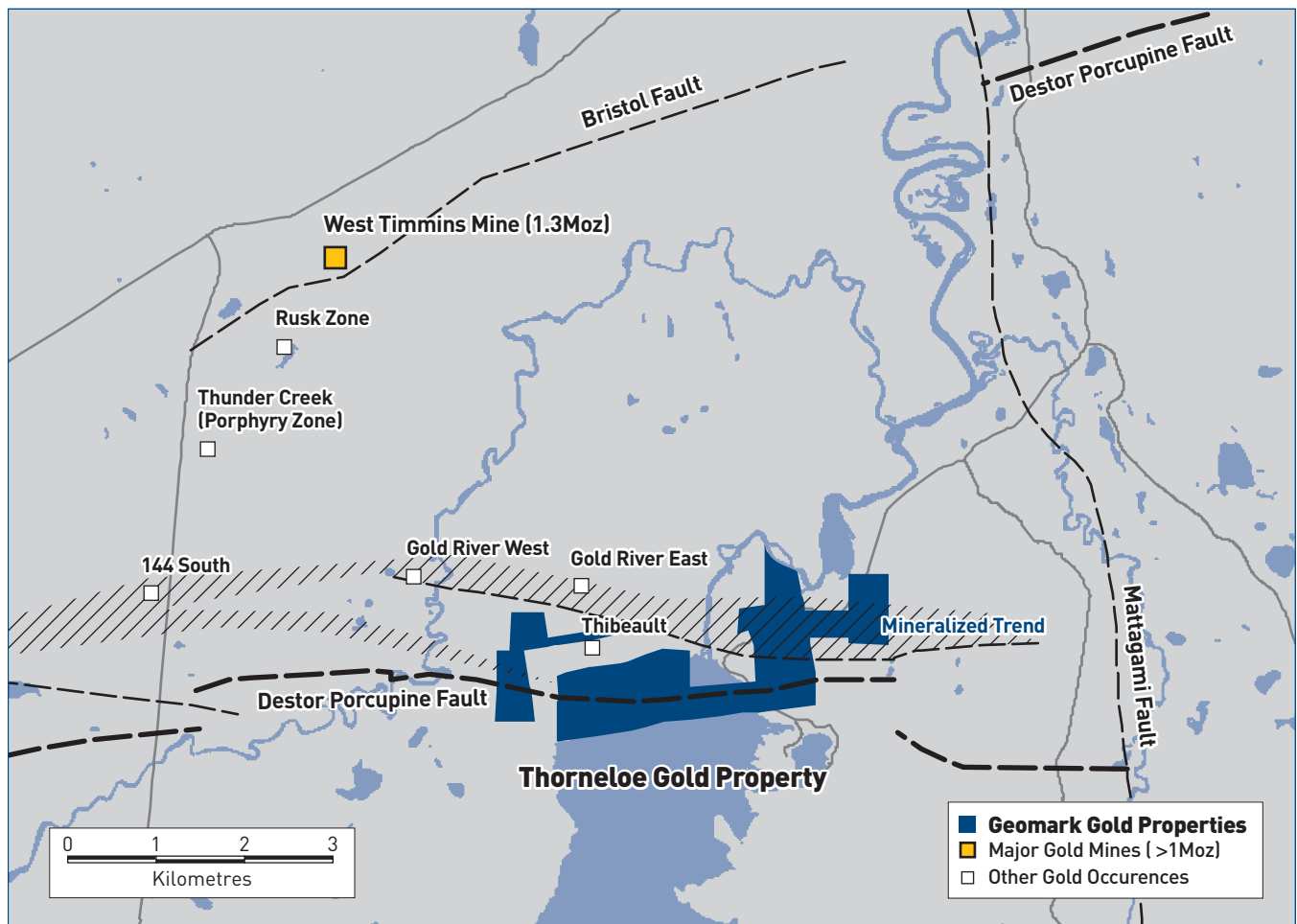
### Ontario Properties



### Thorneloe Property (gold)

The Thorneloe property is located in the West Timmins area, a region that has witnessed significant exploration activity for gold in the last few years. The property hosts steeply dipping, north facing sedimentary rocks and lesser mafic and ultramafic volcanic rocks immediately north of the Destor Porcupine Fault, a structure associated with many of the large gold mines in the area. One of the targets of exploration on the Thorneloe property is the eastern extension of the favorable, variably mineralized schists that extend onto the property from the Lake Shore Minerals ground onto the Geomark claims. Geomark has a 100 percent interest in the property.

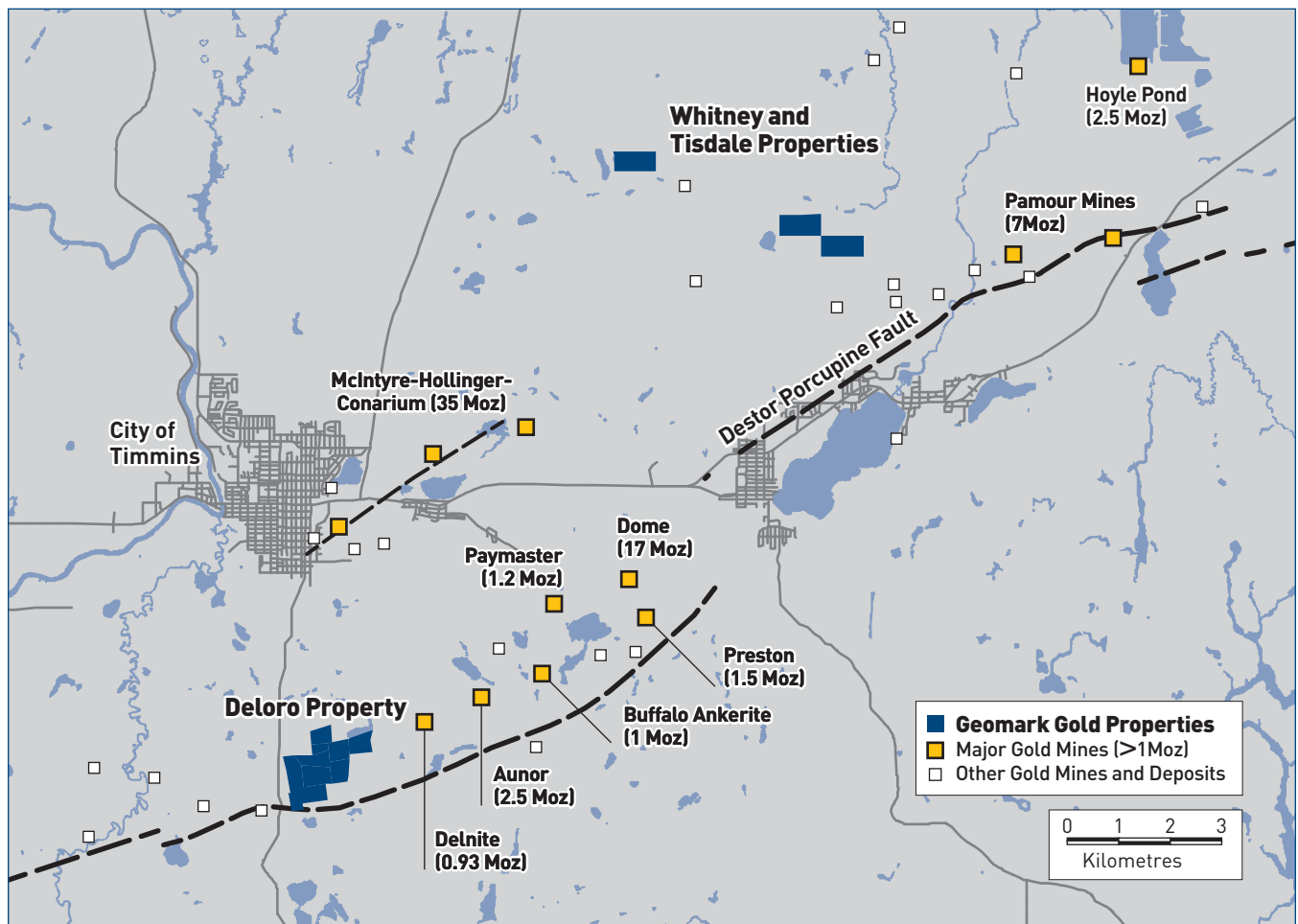
#### Thorneloe Area



**Northwest Deloro Property (gold)**

The Northwest Deloro property is situated 300 metres north of the Destor Porcupine Fault in a position directly on strike with a series of one to 17 million ounce gold deposits and mines (within one to six kilometres). Recent geophysical work on the property, in combination with analysis of previous drilling, has identified a potential target that will be drill tested in the upcoming 2011 drill program. Geomark has a 100 percent interest in this property.

**Deloro Area**



**Experienced  
Technical  
Team**

**Cash Flow Positive  
Junior Company  
Conducting Mineral  
Exploration**



Drilling on the Carr-Wilkie Gold Property (March 2011).

### **Carr-Wilkie Property (gold)**

Geomark has a 90 percent interest in the Carr-Wilkie property. The Carr-Wilkie property straddles the contact between variably altered mafic volcanics and sediments. A major east-west fault, the Pipestone Fault, traverses the property proximal to this contact. Historical exploration on the claims recovered east trending, high grade gold bearing quartz veins on surface (Carlo Showing) of very limited strike extent. Historical exploration, consisting of surface geophysics and follow-up diamond drilling (11 holes) of the Carlo showing quartz veins in the late 1980s, produced low grade gold values. Considering the gold showings along the regional extent of the Pipestone Fault, additional exploration is warranted on the property.

### **Cody - Nighthawk Lake (gold)**

Stratigraphically, the Cody-Nighthawk property is interpreted to be located largely over lower mafic and ultramafic volcanics. The claims are, however, situated on the waters of Nighthawk Lake and were never diamond drilled. Geophysical surveying of the property was recently completed. No targets were discerned and no work is planned on the ground in 2011. Geomark has a 100 percent interest in the claim block.

### **Mountjoy Property (gold)**

The property is located north of the Destor Porcupine Fault and is underlain by a thick sequence of ultramafic volcanic rocks in an area of numerous quartz-feldspar porphyry intrusions. The volcanics are pervasively carbonatized and host significant pyrite, arsenopyrite, and tourmaline. The best zone of mineralization has undergone only limited peripheral drilling by various third party companies since Geomark's predecessor, Comaplex, acquired the property. Comaplex completed minor channel sampling of the northernmost outcrops on the property in 2008 and 2009. While gold values were low, quartz veins hosting abundant coarse ankerite, fuchsite, and pyrite were encountered. Geomark has a 100 percent interest in the property.

### **German Property (gold)**

The German property occurs on the eastern extension of the Timmins gold camp just north of the Destor Porcupine Fault. The property hosts a three kilometer wide east trending suite of ankeritized and sericitized volcanics, up to 400 metres thick, bounded to the north and south by sediments. Minor drilling along the southern sediment-volcanic contact returned anomalous gold values.



March 2011 Timmins Drill Program.

Previous airborne and ground geophysical surveying of the German property suggests that a northeast trending splay off of the Destor Porcupine Fault traverses the eastern part of the property in the area of a large magnetic low. In the summer of 2009, Geomark's predecessor, Comaplex, re-logged old core from the property and reviewed the results to date. This target remains to be drill tested. Further evaluation will be undertaken by Geomark in 2011. The Company has a 90 percent interest in the German property.

#### **Whitney Tisdale (gold)**

The 100 percent owned property is underlain by mafic volcanics that correlate with those hosting the nearby Bonetal and Beaumont mines. The proximity of these mine deposits and the recognition of the same stratigraphy on the claims suggest additional work is warranted. Geomark will be evaluating the property in the first half of 2011.

#### **Wark-Prosser Property (gold)**

The property is located six kilometres east of the Kidd Creek base metal deposit and straddles a northeast trending volcanic-sedimentary contact. Early re-analysis of the existing data suggests untested targets may exist on the property. More work will be done in 2011. Geomark has a 100 percent interest in the property.

#### **Kim Property, Northwest Territories (Gold)**

Geomark has a 100 percent interest in approximately 7,590 acres of leased claims located approximately 200 kilometres north of Yellowknife, Northwest Territories. The property hosts two small gold showings, the Main and Cass zones that host historical (non 43-101 compliant) gold resources.

The gold mineralization at the Main zone is hosted in quartz-carbonate vein lodes associated with a fault zone at the contact between mafic volcanics and sediments. Cass zone gold mineralization is associated with tension gash type quartz veins hosted entirely in a gabbro sill. There is renewed exploration and staking activity in the immediate area of the Kim property by several companies. Geomark plans to review the property in detail in the first half of 2011.

#### **Rankin Inlet, Nunavut (Copper, Nickel and Platinum Group Elements)**

Geomark has a 70 percent interest in two claims on the Rankin Inlet peninsula in Nunavut that cover the old North Rankin nickel mine that was active from 1957 to 1962. It is estimated that 21 million pounds of nickel and 6 million pounds of copper were produced over the life of the mine. Platinum Group Elements and exotic mineralogy have been recovered from previous work on the prospect. Geomark does not currently plan to conduct any exploration on this property in 2011.

# Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) dated March 22, 2011 is a review of the operations and current financial position for Geomark Exploration Ltd. ("Geomark" or the "Company") and should be read in conjunction with the audited financial statements for the year ended December 31, 2010, including the notes related thereto.

## Basis of presentation

Geomark was incorporated on April 20, 2010 as a 100 percent wholly-owned subsidiary of Comaplex Minerals Corp. (Comaplex). Pursuant to an acquisition agreement between Comaplex, Agnico-Eagle Mines Ltd. (Agnico-Eagle) and Geomark (the "Arrangement"), Agnico-Eagle acquired on July 6, 2010 all of the issued and outstanding common shares of Comaplex on the basis of one Comaplex share for 0.1576 of an Agnico-Eagle share. Also on July 6, 2010, Geomark was capitalized with Comaplex's Carved Out Operations' assets and obligations (Geomark Operations), including a 100 percent wholly-owned subsidiary WMC International Limited. In return, Geomark's common shares were distributed to the shareholders of Comaplex, other than Agnico-Eagle and Perfora Investments S.a.r.l. (Perfora) (a wholly owned subsidiary of Resource Capital Fund III L.P.), on the basis of one Geomark share for every Comaplex share. The initial share issued to Comaplex was then cancelled.

As Geomark and the Geomark Operations were under common control, these consolidated financial statements have been presented on a continuity-of-interest basis of accounting and represent the activities of the above noted entities from the date each commenced operations. The consolidated financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if Geomark had been consolidated with the Geomark Operations since inception.

## Forward-looking statements

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; mineral prices and demand, oil and natural gas prices and demand; expansion and other development trends of the mineral and oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of mineral companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Geomark disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

**ANNUAL FINANCIAL AND OPERATIONAL HIGHLIGHTS**

As at and for the year ended December 31	2010	2009	2008
(\$ 000s, except \$ per share)			
<b>REVENUE</b>			
Minerals Division	13,958	247	808
Oil and Gas Division	2,207	1,898	3,468
Cash Flow (Deficiency) from Operations	523	(292)	2,644
Per Share Basic <sup>(1)</sup>	0.01	(0.01)	-
Per Share Diluted <sup>(1)</sup>	0.01	(0.01)	-
Net Earnings (Loss)	13,287	(1,561)	976
Per Share Basic <sup>(1)</sup>	0.25	(0.03)	-
Per Share Diluted <sup>(1)</sup>	0.25	(0.03)	-
Capital Expenditures			
Minerals Division	226	-	-
Oil and Gas Division	166	604	427
Total Assets			
Minerals Division	40,382	28,241	21,964
Oil and Gas Division	12,623	9,466	5,902
<b>OIL AND GAS OPERATIONS</b>			
Barrels of Oil Equivalent (BOE) per day <sup>(2)</sup>	148	152	181

**QUARTERLY FINANCIAL AND OPERATIONAL HIGHLIGHTS**

(\$ 000s, except \$ per share)	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>REVENUE</b>								
Minerals Division	179	13,636	73	70	72	59	77	39
Oil and Gas Division	440	523	676	568	549	367	425	557
Cash Flow (Deficiency)								
From Operations	300	60	(41)	204	(77)	123	(262)	(76)
Per Share Basic and Diluted <sup>(1)</sup>	0.01	0.00	(0.00)	0.00	(0.00)	0.00	(0.01)	(0.00)
Net Earnings (Loss)	189	13,276	(12)	(166)	(673)	(461)	(318)	(109)
Per Share Basic and Diluted <sup>(1)</sup>	0.00	0.26	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)
Capital Expenditures								
Minerals Division	179	47	-	-	-	-	-	-
Oil and Gas Division	8	1	-	157	144	112	184	164
<b>OIL AND GAS OPERATIONS</b>								
Barrels of Oil Equivalent (BOE) per day <sup>(2)</sup>	125	161	148	161	139	139	150	177

<sup>(1)</sup> Geomark issued one common share upon incorporation on April 20, 2010, and on July 6, 2010 issued 52,039,760 common shares as consideration for the net investment in Geomark Operations with an ascribed net book value of \$21,152,000 as at December 31, 2009 and cancelled the original common share. For purposes of the per share calculations, it was assumed that all 52,039,760 shares issued have been outstanding since January 1, 2009.

<sup>(2)</sup> Barrels of Oil Equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

## RESULTS OF OPERATIONS

### Revenues

(\$ 000s)	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
<b>MINERALS DIVISION REVENUE:</b>					
Receipt of contingent consideration	-	13,500	-	<b>13,500</b>	-
Interest and other	<b>179</b>	136	72	<b>458</b>	247
<b>OIL AND GAS DIVISION REVENUE:</b>					
Oil and Gas Sales	<b>377</b>	427	458	<b>1,868</b>	1,702
Dividend income	<b>136</b>	135	98	<b>510</b>	344
Gross Revenue	<b>692</b>	14,198	628	<b>16,336</b>	2,293
Average Realized Prices (Cdn \$):					
Natural gas (per MCF)	<b>3.76</b>	3.74	4.78	<b>4.29</b>	4.33
Natural gas liquids (per barrel)	<b>61.79</b>	49.00	55.50	<b>58.65</b>	41.53

In December 2009, Comaplex acquired Meliadine Resources Ltd. from Perfora, by issuance of 12,750,000 common shares of Comaplex. As part of the Purchase and Sale Agreement, Perfora was required to pay additional consideration to Comaplex for the issued common shares upon their sale to a maximum of \$13,500,000. Agnico-Eagle acquired on July 6, 2010 all of the issued and outstanding common shares of Comaplex on the basis of one Comaplex share for 0.1576 of an Agnico-Eagle share. The right to the contingent consideration was transferred to Geomark pursuant to the Arrangement. Perfora sold all of its 2,009,400 Agnico-Eagle common shares (12,750,000 times 0.1576 exchange ratio) in the third quarter of 2010. Geomark has received the maximum consideration of \$13,500,000 and has recorded the amount as income.

Interest and other income for the 2010 year increased by \$211,000 from 2009. The increase in interest income was mainly due to increased interest income from the receipt of the \$13,500,000 contingent receivable from Perfora and a larger cash balance from a financing done in the second half of 2009. Interest and other income for Q4 2010 were higher than Q3 2010 due to the funds received on the contingent receivable being outstanding for the full quarter and a higher interest rate earned on \$8,000,000 additional funds loaned to Bonterra Energy Corp. (Bonterra) in the third quarter of 2010.

Revenue from petroleum and natural gas sales increased 9.8 percent in 2010 compared to 2009 due to an increase in natural gas liquid prices; this was partially offset by lower natural gas production volumes. Quarter over quarter the Company saw a decrease in revenue due to prior period adjustments for natural gas production, which was partially offset by higher commodity prices for natural gas liquids.

On February 1, 2009, the operator of one of the Company's oil and gas properties unilaterally stopped allocating natural gas production (approximately 55 MCF per day) to Geomark and the other minority interest partners based on the operator's interpretation of the pooling agreement. It is the Company's position that this interpretation of the agreement is incorrect and the non-operating partners should continue to receive this production. None of the natural gas in dispute has been recorded as sales from this property. Geomark has filed a claim against the operator. Until the matter is resolved, no amounts will be accrued in respect of this production.

Dividend income from Bonterra increased for the 2010 year over the 2009 year. This was due to Bonterra increasing its dividends to \$2.49 per share for the twelve months of 2010 from \$1.68 per share for the twelve months of 2009.

### Production

	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Natural gas (MCF per day)	<b>561</b>	731	619	<b>660</b>	693
Natural gas liquids (barrels per day)	<b>32</b>	39	36	<b>39</b>	37
Total BOE per day	<b>125</b>	161	139	<b>148</b>	152

Average production was slightly lower in 2010 compared to 2009 due to natural gas declines offset by field optimization conducted in the latter half of 2009 and early 2010. Production was lower in Q4 2010 compared to Q3 2010 due to the production adjustments in the third quarter of 2010, on one of Geomark's largest properties.

## Royalties

(\$ 000s)	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Crown royalties (Recovery)	50	21	(10)	83	67
Gross overriding royalties	23	18	17	88	81
Total royalty expense	73	39	7	171	148

Crown royalties for the 2010 year were higher than the 2009 year partially due to Geomark not being allocated gas cost allowance (GCA), which reduces crown royalties. Once all 2010 GCA forms are filled in Q1 2011 by Geomark, the Company anticipates a refund of a portion of these crown royalties. The Company received the benefit of the GCA until Q4 2010, when the operator of the properties transferred production allocations to Geomark.

Geomark acquired two crown royalty drilling credits of \$102,000 per credit from Bonterra for \$51,000 each. One of the credits was acquired in the first quarter of 2010 and the other in the last quarter of 2009 (discussed further in the related party section of this report). These drilling credits reduce crown royalty expense to a maximum of 50 percent of crown royalties payable.

## Production costs

(\$ 000s)	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Production costs – Natural gas/NGLs (\$ 000s)	92	195	109	567	680
\$ per BOE	7.96	13.21	8.55	10.46	12.22

Production costs for the 2010 year end were lower than 2009 because of a settlement of outstanding 2008 processing fees that was applied to Q1 2009 production costs. Q4 2010 production costs were lower in comparison to Q3 2010 due to the payment of 13 month equalization adjustments in the third quarter on one of the Company's major properties.

## General and administrative (G&A)

(\$ 000s)	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
G&A costs – Minerals Division	271	493	330	1,465	1,277
G&A costs – Oil and Gas Division	20	36	36	134	143
Total G&A	291	529	366	1,599	1,420

Minerals division general and administrative costs increased by \$188,000 in 2010 compared to 2009 due to increased legal and compliance costs with regard to the incorporation and commencement of operations for Geomark in the third quarter of 2010. The Oil and Gas division G&A costs have remained relatively unchanged.

## Stock-based compensation

(\$ 000s)	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Stock-based compensation	151	345	186	829	913

Stock-based compensation is a statistically calculated value representing the estimated expense of issuing employee stock options. As Geomark Operations was responsible for all the employees it has recorded a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Stock-based compensation decreased in 2010 compared to 2009. The decrease was due primarily to the granting of 731,000 stock options in September, 2008, with the majority of the stock-based compensation being recognized in the first year after issuance. Stock-based expense for Q4 2010 decreased from Q3 2010 due to the vesting of the remaining Comaplex stock options upon the July 6, 2010 Arrangement.

Subsequent to the Arrangement, the Company issued 3,009,000 (2009 – 22,500) stock options with an estimated fair value of \$984,000 (2009 – \$26,000); \$0.33 per option (2009 – \$1.15 per option) using the Black-Scholes option pricing model with the following key assumptions:

	2010	2009
Weighted-average risk free interest rate (%)	1.8	1.4
Dividend yield (%)	0.0	0.0
Expected life (years)	3.3	3.0
Weighted-average volatility (%)	57.0	51.0

### Depletion, depreciation, accretion expense and impairment expense

(\$ 000s)	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Depletion, depreciation and accretion expense	77	90	115	333	331
Impairment of oil and gas assets	77	-	252	77	252

The Company follows the successful efforts method of accounting for petroleum and natural gas exploration and development costs. Under this method, the costs associated with dry holes are charged to operations. For intangible capital costs that result in the addition of reserves, the Company depletes its oil and natural gas intangible assets using the unit-of-production basis by field. Oil and gas tangible assets, such as well equipment, are depreciated at a 20 percent declining balance per year.

Provisions are made for asset retirement obligations for the Company's oil and gas and mineral properties. The amount of the asset retirement obligations is based on management's estimation of the discounted amount of the total abandonment and site reclamation costs to be incurred using escalating cost assumptions. The calculated amount is recorded as a liability and as part of the cost of the related intangible assets. The adjustment to the intangible assets is depleted as per the above discussion. A charge (accretion expense) related to the discounting of the asset retirement obligation is made each year.

At December 31, 2010, the estimated total undiscounted amount required to settle the asset retirement obligations for the oil and gas operations was \$425,000 (2009 – \$326,000). No amounts were recorded for an asset retirement obligation in respect to its mineral operations. This amount has been discounted using a credit adjusted risk-free interest rate of five percent. The discount rate is reviewed annually and adjusted if considered necessary. A change in the rate would not have a significant impact on the amount recorded for asset retirement obligations. These obligations will be settled based on the useful lives of the underlying assets.

Depletion, depreciation and accretion expenses related to oil and gas assets were \$333,000 in 2010 compared to \$331,000 in 2009. An impairment provision of \$77,000 (2009 – \$252,000) was recorded on one of the oil and gas properties as its estimated fair value was below its carrying value. These calculations require an estimation of the amount of the Company's petroleum reserves by field. This figure is calculated annually by an independent engineering firm and is used to calculate depletion and is, to a large extent, subjective. Reserves are affected by economic assumptions as well as estimates of petroleum products in place and methods of recovering those reserves. When reserves are increased or decreased, depletion costs generally will be affected. No amounts were recorded for depletion, depreciation and accretion expenses in relation to the mineral operations.

The Company reviews the carrying value of its mineral properties on an ongoing basis and reduces the cost of properties if it is determined that the property values are lower than the property cost.

### Income tax expense (recovery)

The Company has adopted the liability method of accounting for income taxes under which the future income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has no current income tax expense as it has sufficient tax pools to ensure that no current income taxes are payable.

In 2010, the future income tax recovery was \$527,000 compared to a future income tax expense of \$110,000 in 2009. The 2010 future income tax recovery relates primarily to the receipt of the \$13,500,000 contingent consideration that was not taxable in Geomark and to changes in the estimates, tax rates and other differences in the Geomark Operations to the legal entity tax returns prior to July 6, 2010. These adjustments were partially offset by a full valuation allowance on the Company's future income tax assets which was determined that their recoverability is not likely. The 2009 future income tax expense was primarily due to the changes in the estimates, tax rates and other differences in the Geomark Operations to the legal entity tax returns.

The tax pool balances at the end of 2010 totalled \$6,448,000 and consist of the following pool balances.

	Rate of Utilization (%)	Amount (\$ 000s)
Undepreciated capital costs	30	1,159
Canadian oil and gas property expenditures	10	4,733
Canadian development expenditures	30	61
Canadian exploration expenditures	100	165
Non-capital loss carryforward <sup>(1)</sup>	100	330
		6,448

<sup>(1)</sup> Expires 2030.

### Net earnings (loss)

	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
(\$ 000s)					
Net earnings (Loss)	<b>189</b>	13,276	(674)	<b>13,287</b>	(1,561)

Net earnings for the 2010 year increased compared to the 2009 year, due to the receipt of the contingent consideration of \$13,500,000 and to a lesser extent by increased oil and gas revenue, dividend and interest income. The decrease in net earnings in Q4 2010 compared to Q3 2010 is mainly attributable to the contingent consideration received in the third quarter of 2010.

### Other comprehensive income

Other comprehensive income relates entirely to the mark to market valuation on Geomark's investments in Bonterra and Pine Cliff Energy Ltd. (Pine Cliff). During the 2010 year, the market value of the investments increased by \$3,480,000. In the 2009 year, the market value of the investments increased by \$3,572,000.

### Cash flow (deficiency) from operations

	Three months ended			Twelve months ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
(\$ 000s)					
Cash flow (deficiency) from operations	<b>300</b>	60	(77)	<b>523</b>	(292)

Cash flow from operations increased \$815,000 in the 2010 year compared to the 2009 year. The increase was primarily due to increased oil and gas revenue, dividend and interest income and adjustments in non-cash working capital items. Q4 2010 increased from Q3 2010 due to lower G&A and production costs and increased interest income, offset partially by lower oil and gas sales and higher royalty expense.

### Liquidity and capital resources

At December 31, 2010, Geomark had a working capital position of \$39,923,000 (December 31, 2009 – \$27,893,000). These numbers do not include the value of liquid investments of \$10,673,000 at December 31, 2010 (December 31, 2009 – \$7,193,000).

Capital expenditures of \$226,000 (2009 – \$Nil) were conducted on Geomark's mineral projects. Capital expenditures of \$166,000 (2009 – \$604,000) were incurred on Geomark's oil and natural gas assets for capital maintenance projects. The Company is currently examining its 2011 capital budget for its mineral exploration operations. Capital expenditures for the oil and natural gas assets are expected to be less than \$250,000 for 2011.

The Company's authorized share capital consists of an unlimited number of common shares without nominal or par value as well as an unlimited number of first preferred shares. As of December 31, 2010, no first preferred shares have been issued. A summary of the issued status of the common shares and changes for the year ended December 31, 2010:

	Number	Amount (\$ 000s)
<b>Common Shares</b>		
Balance, January 1 <sup>(1)</sup>	52,039,760	21,152
Additional net investment to Comaplex		(641)
Balance, December 31	52,039,760	20,511

<sup>(1)</sup> Geomark issued one common share upon incorporation on April 20, 2010, and on July 6, 2010 issued 52,039,760 common shares as consideration for the net investment in Geomark Operations with an ascribed net book value of \$21,152,000 as at December 31, 2009 and cancelled the original common share. For purposes of the earnings per share calculation, it was assumed that all 52,039,760 shares issued have been outstanding since January 1, 2009.

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 10 percent of the outstanding common shares which as of December 31, 2010 was 5,203,976. The exercise price of each option granted equals the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options generally vest one-third each year for the first three years of the option term.

A summary of the status of the Company's stock option plan as of December 31, 2010 and changes during the year ended December 31, 2010:

	Options	Weighted- Average Exercise Price
Outstanding at beginning of year	-	\$ -
Options issued	3,009,000	0.80
Options exercised	-	-
Options cancelled	-	-
Outstanding at end of year	3,009,000	\$ 0.80
Options exercisable at end of year	-	\$ -

The following table summarizes information about options outstanding at December 31, 2010:

	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/10	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable 12/31/10	Weighted- Average Exercise Price
Range of Exercise Prices					
\$0.80 to \$1.00	2,997,000	2.8 years	\$ 0.80	-	\$ -
\$1.05 to \$1.25	12,000	3.5 years	\$ 1.25	-	\$ -
\$0.80 to \$1.25	3,009,000	2.8 years	\$ 0.80	-	\$ -

## Related party transactions

A management fee to Bonterra of \$316,500 (2009 – \$330,000) was paid by Geomark. Geomark also shares office rental costs with Bonterra and reimburses Bonterra for costs related to employee benefits and office materials. These costs have been included in general and administrative costs. In addition, Bonterra owns 689,682 (December 31, 2009 – 689,682) common shares in Geomark and previous to July 6, 2010 the equivalent amount in Comaplex. Services provided by Bonterra include executive services (executive and finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at December 31, 2010, Geomark had an account payable to Bonterra of \$35,000 (December 31, 2009 – \$105,000).

During the year, Bonterra sold \$102,000 (2009 – \$102,000) of drilling royalty credits to Geomark for \$51,000 (2009 – \$51,000). Drilling royalty credits will be used to offset future crown royalties.

Geomark assets include at December 31, 2010, 204,633 (December 31, 2009 – 204,633) common shares in Bonterra representing just over one percent of the outstanding shares of Bonterra. The shares have a fair value of \$10,569,000 (December 31, 2009 – \$7,093,000). In 2010, Geomark received dividend income of \$510,000 (2009 – \$344,000).

As at December 31, 2010, Geomark has loaned Bonterra \$20,000,000 (December 31, 2009 – \$12,000,000). Effective May 1, 2010, interest is charged at a rate of Canadian Chartered Bank Prime less 5/8 percent. Prior to May 1, 2010, interest was charged at a rate of Canadian Chartered Bank Prime less 0.25 percent. The loan is subordinated to Bonterra's bank debt and is unsecured. The loan is payable upon demand subject to availability under Bonterra's line of credit. As at December 31, 2010, Bonterra has sufficient room under its line of credit to repay the loan. Interest earned on the loan during the period was \$313,000 (2009 – \$194,000). This loan results in a substantial benefit to Bonterra and to the Company. The interest paid by Bonterra is substantially lower than the bank interest rate and for the Company, the interest earned is substantially higher than it would receive by investing in bank instruments such as bankers' acceptance or guaranteed investment certificates.

Geomark assets also include, at December 31, 2010, 346,000 (December 31, 2009 – 346,000) common shares in Pine Cliff. Pine Cliff has common directors and management with the Company. Pine Cliff trades on the TSX Venture Exchange. As of December 31, 2010 the common shares have a fair value of \$104,000 (December 31, 2009 – \$100,000). The ownership of 346,000 common shares represents less than one percent of the total issued and outstanding common shares of Pine Cliff. There were no transactions between Pine Cliff and Geomark.

## Financial reporting update

### International financial reporting standards (IFRS)

In October 2009, the Accounting Standards Board issued a third and final IFRS Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to apply IFRS, in full and without modification, for all financial periods beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Geomark for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

The Company commenced the process to transition its financial statements from current Canadian GAAP to IFRS in 2008. The Company's project consists of three key phases: the scoping and diagnostic phase, the impact analysis and evaluation phase and the implementation phase.

- Scoping and diagnostic phase – this phase involves performing a high level impact analysis to identify areas that may be affected by the transition to IFRS. The results of this analysis were given a priority ranking according to their complexity and the amount of time required to assess the impact of changes in transitioning to IFRS. The Company identified the following high impact and medium impact areas:

High impact areas:

- IFRS 1 – First time adoption of IFRS
- IFRS 3 – Business combinations
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property and equipment
- IAS 36 – Impairment of assets

Medium impact areas include:

- IFRS 2 – Share-based payments
  - IAS 1 – Presentation of financial statements
  - IAS 10 – Events after the balance sheet date
  - IAS 12 – Income Taxes
  - IAS 18 – Revenues
  - IAS 23 – Borrowing costs
  - IAS 37 – Provisions, contingent liabilities and contingent assets
  - ED 9 – Joint arrangements
- Impact analysis and evaluation phase – during this phase, items identified in the diagnostic were addressed according to the priority ranking assigned to them. The Company conducted analysis of policy choices allowed under IFRS and their impact to the financial statements. Additionally, certain potential differences were further investigated to assess if there was any broader impact to the Company's net earnings, compensation arrangements or management reporting systems. The impact analysis and evaluation phase was concluded by management pending the Audit Committee of the Board of Directors approval on all accounting policies chosen by management. Since Geomark uses successful efforts method of accounting on its petroleum and natural gas properties under Canadian GAAP, the audit committee of the Board of Directors gave management the directive to choose policies that will retain as much comparability to the accounting policies chosen under Canadian GAAP.
  - Implementation phase – involved implementation of all changes approved in the impact analysis and evaluation phase, which included minor changes to existing information systems, the creation of new business processes and the modification of training staff impacted by the conversion.

Since its inception, the project has been led by the financial reporting group with sponsorship from the executive team. The Company has effectively completed all phases of its IFRS transition project and continues to review its draft IFRS financial statements and disclosures for completeness and quality assurance. The Audit Committee will review and approve the Company's IFRS accounting policy selections and adjustments prior to the release of the first quarter of 2011 financial statements and MD&A.

#### **First time adoption of IFRS**

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented, based on standards applicable at that time. IFRS 1 provides entities adopting IFRS for the first time with certain optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. Management has analyzed the various accounting policy choices available under IFRS 1 and has implemented those determined to be the most appropriate for Geomark. Accordingly, it has applied the following IFRS 1 exemptions in its IFRS opening balance sheet:

- Business combinations (IFRS 1) – provides the option to apply IFRS 3, business combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.
- Share-based payments (IFRS 2) – encourages the application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. Further, the Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at its Transition Date. This election has no material effect on the Company.
- Borrowing Costs (IAS 23) – requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Since the Company has no debt, this election has no effect on the Company.
- Leases (IAS 17) – requires an entity to assess arrangements outstanding at the Transition Date. It also requires a determination of the appropriate lease classification in accordance with IAS 17, should an arrangement containing a lease be identified as part of the International Financial Reporting Interpretations Committee (IFRIC) 4, Determining Whether an Arrangement Contains a Lease, application. This election has no effect on the Company.

- Decommissioning Liabilities Included in the Cost of Property, Plant and Equipment (IAS 37) – Provisions, Contingent Assets and Contingent Liabilities, requires an entity to estimate the statutory and constructive liabilities that existed at the Transition Date, discounted at the risk free rate. The Company has revalued its asset retirement obligation under GAAP to IFRS. The Company also determined it had no unrecorded statutory or constructive obligations.

#### **Summary of accounting changes**

The Company anticipates no material changes to IFRS from its January 1, 2010 balance sheet under Canadian GAAP. Geomark has not yet prepared a full set of annual financial statements under IFRS, therefore, the determination that there is no material changes is unaudited.

In addition to accounting policy differences, the Company's transition to IFRS is expected to impact its internal controls over financial reporting, disclosure controls and procedures, certain of Geomark's business activities and IT systems as follows:

- Internal controls over financial reporting (ICFR) – Geomark is currently in the process of reviewing its ICFR documentation and is identifying instances where controls must be amended or added in order to address the accounting policy changes required under IFRS. No material changes in control procedures are expected as a result of transition to IFRS.
- Disclosure controls and procedures – Geomark has assessed the impact of transition to IFRS on its disclosure controls and procedures and has not identified any material changes required in its control environment. It is expected that there will be increased note disclosure around certain financial statement items than what is currently required under Canadian GAAP. Management is currently drafting its IFRS note disclosure in accordance with current IFRS standards and continues to monitor requirements put forth by the International Accounting Standards Board (IASB) in discussion papers and exposure drafts for future disclosure requirements. Throughout the transition process, Geomark has carefully considered its stakeholders' information requirements and will continue to ensure that adequate and timely information is provided to meet these needs.
- Business activities – Management has been cognizant of the upcoming transition to IFRS, and as such, has worked with its counterparties to ensure that any agreements that contain references to Canadian GAAP financial statements are modified to allow for IFRS statements. Based on the changes to the Company's accounting policies, no issues are expected to arise with the existing wording of agreements as a result of the conversion to IFRS.
- IT systems – Geomark has completed the accounting system updates required in order to prepare for IFRS reporting. Since the Company has been using successful efforts method to account for its petroleum and natural gas assets, no significant modifications were deemed critical in order to allow for reporting of both Canadian GAAP and IFRS statements in 2010.

#### **Sensitivity analysis**

The Company is still in the exploration stage of development of its mineral exploration properties and as such generates nominal cash flow or earnings from these properties. Some of the Company's interest income is subject to the Canadian prime rate and as such changes of one percent in the prime interest rate would have no significant impact on the net earnings or comprehensive income per share amounts of the Company.

In addition, the Company's petroleum and natural gas operations also provide only moderate cash flow and as such changes of \$1.00 US per barrel in the price of crude oil, \$0.10 per MCF in the price of natural gas and \$0.01 change in the Cdn/U.S. exchange rate would also have no significant impact on the net earnings or comprehensive income per share amounts of the Company.

#### **Additional information**

Additional information relating to Geomark may be found on [www.sedar.com](http://www.sedar.com) and by visiting our website at [www.geomark.ca](http://www.geomark.ca).

# Management's Responsibility for Financial Statements

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

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

Deloitte & Touche LLP was appointed by the shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditor's report. The audit committee has reviewed the financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented.



George F. Fink  
Chief Executive Officer  
March 22, 2011



Garth E. Schultz  
Chief Financial Officer  
March 22, 2011

# Independent Auditor's Report

## To the Shareholders of Geomark Exploration Ltd.

We have audited the accompanying consolidated financial statements of Geomark Exploration Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of net earnings (loss) and retained earnings, comprehensive income and cash flow for the years then ended, and the notes to the consolidated financial statements.

## Management's responsibility for the consolidated financial statements

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

## Auditor's responsibility

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

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

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

## Opinion

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

Calgary, Alberta  
March 22, 2011

  
Chartered Accountants

# Consolidated Balance Sheets

(See Note 1: Basis of Presentation)

As at December 31 (\$ 000s)	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	8,110	16,051
Term investment (Note 4)	12,000	-
Accounts receivable	265	359
Prepaid expenses	33	246
Loan to related party (Note 5)	20,000	12,000
	<b>40,408</b>	28,656
<b>Investments</b> (Note 5)	<b>10,673</b>	7,193
<b>Property and Equipment</b> (Note 7)		
Property and equipment	10,639	10,172
Accumulated depletion, depreciation and amortization	(8,715)	(8,314)
<b>Net Property and Equipment</b>	<b>1,924</b>	1,858
	<b>53,005</b>	37,707
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 5)	485	763
<b>Asset Retirement Obligations</b> (Note 8)	<b>288</b>	179
<b>Future Income Tax Liability</b> (Note 6)	<b>-</b>	20
	<b>773</b>	962
<b>Shareholders' Equity</b> (Note 9)		
Share capital	20,511	21,152
Contributed surplus	254	-
	<b>20,765</b>	21,152
Retained earnings	24,385	11,098
Accumulated other comprehensive income (Note 10)	7,082	4,495
	<b>31,467</b>	15,593
<b>Total Shareholders' Equity</b>	<b>52,232</b>	36,745
	<b>53,005</b>	37,707

See accompanying notes to these consolidated financial statements.

On behalf of the Board:



George F. Fink  
Director



Bill Woodward  
Director

# Consolidated Statements of Net Earnings (Loss) and Retained Earnings

(See Note 1: Basis of Presentation)

For the Years Ended December 31

(\$ 000s, except \$ per share)

	2010	2009
<b>Minerals Division</b>		
Receipt of contingent consideration (Note 13)	13,500	-
Interest and other	458	247
	<b>13,958</b>	247
<b>Oil and Gas Division</b>		
Oil and gas sales	1,868	1,702
Royalties	(171)	(148)
Dividend income (Note 5)	510	344
	<b>2,207</b>	1,898
<b>Total Net Revenue</b>	<b>16,165</b>	2,145
<b>Expenses</b>		
Oil and gas production costs	567	680
General and administrative (Note 5)		
Minerals division	1,465	1,277
Oil and gas division	134	143
Stock-based compensation	829	913
Depletion, depreciation and accretion	333	331
Impairment of oil and gas assets (Note 7)	77	252
	<b>3,405</b>	3,596
<b>Earnings (Loss) Before Taxes</b>	<b>12,760</b>	(1,451)
<b>Income Taxes (Recovery) (Note 6)</b>		
Current	-	-
Future	(527)	110
	<b>(527)</b>	110
<b>Net Earnings (Loss) for the Year</b>	<b>13,287</b>	(1,561)
Retained earnings, beginning of year	11,098	12,659
<b>Retained Earnings, End of Year</b>	<b>24,385</b>	11,098
<b>Net Earnings (Loss) Per Share – Basic and Diluted (Note 9)</b>	<b>0.25</b>	(0.03)

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Comprehensive Income

(See Note 1: Basis of Presentation)

For the Years Ended December 31  
(\$ 000s, except \$ per share)

	2010	2009
<b>Net Earnings (Loss) for the Year</b>	<b>13,287</b>	(1,561)
<b>Other Comprehensive Income</b>		
Unrealized gain on investments	3,480	3,572
Future taxes on unrealized gain on investments	(893)	(522)
Future tax adjustment on exchange of investments	-	514
<b>Other Comprehensive Income</b> (Note 10)	<b>2,587</b>	3,564
<b>Comprehensive Income</b>	<b>15,874</b>	2,003
<b>Comprehensive Income Per Share – Basic and Diluted</b> (Note 9)	<b>0.30</b>	0.04

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Cash Flow

[See Note 1: Basis of Presentation]

For the Years Ended December 31  
(\$ 000s)

	2010	2009
<b>Operating Activities</b>		
Net earnings (loss) for the year	13,287	(1,561)
Items not affecting cash		
Receipt of contingent consideration	(13,500)	-
Stock-based compensation	829	913
Depletion, depreciation and accretion	333	331
Impairment of oil and gas assets	77	252
Future income taxes (recovery)	(527)	110
	499	45
Change in non-cash operating working capital items		
Accounts receivable	118	(63)
Prepaid expenses	213	(59)
Accounts payable and accrued liabilities	(278)	(187)
Asset retirement obligations settled	(29)	(28)
	24	(337)
<b>Cash Provided By (Used in) Operating Activities</b>	<b>523</b>	<b>(292)</b>
<b>Financing Activities</b>		
Net investment by Comaplex Minerals Corp.	(1,608)	7,077
<b>Cash Provided By (Used in) Financing Activities</b>	<b>(1,608)</b>	<b>7,077</b>
<b>Investing Activities</b>		
Mineral exploration property and equipment expenditures	(226)	-
Oil and gas property and equipment expenditures	(166)	(604)
Proceeds on oil and gas property and equipment disposals	60	-
Loan to related party	(8,000)	(12,000)
Purchase of term investment	(12,000)	-
Receipt of contingent consideration	13,500	-
Change in non-cash operating working capital items		
Accounts receivable	(24)	-
<b>Cash Used in Investing Activities</b>	<b>(6,856)</b>	<b>(12,604)</b>
<b>Net Cash Outflow</b>	<b>(7,941)</b>	<b>(5,819)</b>
<b>Cash, Beginning of Year</b>	<b>16,051</b>	<b>21,870</b>
<b>Cash, End of Year</b>	<b>8,110</b>	<b>16,051</b>
<b>Cash interest paid</b>	-	-
<b>Cash taxes paid</b>	-	-

See accompanying notes to these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

## 1. BASIS OF PRESENTATION, AND OPERATIONS

Geomark Exploration Ltd. ("Geomark" or the "Company") was incorporated on April 20, 2010 as a 100 percent wholly-owned subsidiary of Comaplex Minerals Corp. (Comaplex). On July 6, 2010, Geomark was capitalized with Comaplex's Carved Out Operations' assets and obligations (the "Geomark Operations"), including a 100 percent wholly-owned subsidiary WMC International Limited. In return, Geomark's common shares were distributed to the shareholders of Comaplex, other than Agnico-Eagle Mines Limited (Agnico-Eagle) and Perfora Investments S.a.r.l. (Perfora), on the basis of one Geomark share for every Comaplex share.

As Geomark and the Geomark Operations were under common control, these consolidated financial statements have been presented on a continuity-of-interest basis of accounting and represent the activities of the above noted entities from the date each commenced operations. The consolidated financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if Geomark had been consolidated with the Geomark Operations since inception.

Geomark is a public company listed on the TSX Venture Exchange. Geomark's primary activity is to explore for both base and precious metals in Canada and to a lesser extent the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in accordance with Canadian generally accepted accounting principles (GAAP).

### Consolidated entities

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary WMC International Limited. Inter-company transactions and balances are eliminated upon consolidation.

### Measurement uncertainty

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the balance sheets as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion, depreciation and accretion costs and amounts used for impairment test calculations are based on estimates of mineral resources, crude oil and natural gas reserves and future costs required to develop those resources and reserves. Stock-based compensation is based upon expected volatility and option life estimates. Asset retirement obligations are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgements in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

### Revenue recognition

Revenues associated with sales of petroleum, natural gas and all other items are recorded when title passes to the customer. Interest and other income and dividend income are recorded when earned.

### Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the Consolidated Balance Sheet date. Revenues and expenses are translated at the period average rates of exchange. Translation gains and losses are included in earnings in the period in which they arise.

### **Joint interest operations**

Significant portions of the Company's oil and gas operations are conducted jointly with other parties and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

### **Investments**

Investments are carried at fair value. Fair value is determined by multiplying the year end trading price of the investments by the number of common shares held.

### **Property and equipment**

#### **Undeveloped mineral properties**

All costs related to acquisition and exploration of mineral properties and related equipment are capitalized. These costs are assessed on an annual basis or more frequently when events or changes in circumstances indicate that the carrying amounts of related assets might not be recoverable. In assessing the impairment of exploration properties, management reviews its intended plans, results of current exploration activities and the market value of recent transactions involving sales or optioning of similar properties. The costs of abandoned properties are charged to operations. When proved reserves are found, and production commences, the related costs will be depleted on the unit-of-production basis. Depreciation of mining equipment is provided on the declining balance method. Declining balance depreciation is provided at 10 to 20 percent per year, based on the estimated service life of the related assets.

#### **Petroleum and natural gas properties and related equipment**

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of exploratory wells are initially capitalized pending determination of proved reserves. Costs of wells which are assigned proved reserves remain capitalized, while costs of unsuccessful wells are charged to earnings. All other exploration costs including geological and geophysical costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Producing properties and significant unproved properties are assessed annually or as economic events dictate, for potential impairment. Impairment is assessed by comparing the estimated net undiscounted future cash flows to the carrying value of the asset. If required, the impairment recorded is the amount by which the carrying value of the asset exceeds its fair value.

Depreciation and depletion of capitalized costs of oil and gas producing properties are calculated using the unit of production method. Development and exploration drilling and equipment costs are depleted over the remaining proved reserves. Depreciation of other plant and equipment is provided on the declining balance method. Declining balance depreciation is provided at 20 percent per year, based on the estimated service life of the related assets.

### **Income taxes**

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax basis of assets and liabilities, using substantively enacted income tax rates. The effect on future tax assets and liabilities of a change in tax rates is recognized in net earnings in the period in which the change is substantively enacted. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

### **Asset retirement obligations**

The Company recognizes an asset retirement obligation (ARO) in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes, if any, will be applied prospectively. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and this amount is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the obligations are charged against the ARO to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the income statement as a credit or charge.

### **Stock-based compensation**

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options granted to directors, officers, employees and other service providers using the Black-Scholes option pricing model. Stock-based compensation expense is recorded over the vesting period with a corresponding amount reflected in contributed surplus. Stock-based compensation expense is calculated as the estimated fair value of the options at the time of grant, amortized over their vesting period. When stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

### **Financial instruments**

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash is classified as held-for-trading and is measured at fair value which equals the carrying value. Accounts receivable and loan to related party are classified as loans and receivables which are measured at amortized cost. Investments in related parties are classified as available-for-sale and are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

### **Basic and diluted per share calculations**

Basic earnings per share are computed by dividing earnings by the weighted average number of shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options to purchase shares were exercised. The treasury stock method is used to determine the dilutive effect of common share options, whereby proceeds from the exercise of common share options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

## **3. CHANGE IN ACCOUNTING POLICIES**

### **Property and equipment**

#### **Petroleum and natural gas properties and related equipment**

On January 1, 2010, Geomark prospectively changed its policy of depreciating petroleum and natural gas plant and equipment to using the declining balance method at 20 percent per year, from the straight-line method. The change of estimate was due to the declining balance method providing a better reflection of the estimated service life of the related assets. Geomark incurred \$52,000 less depreciation under the declining balance method, than under the straight-line method.

### **Recent accounting pronouncements**

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises.

## **4. TERM INVESTMENT**

Term investment is a guaranteed investment certificate (GIC) that accrues interest at 1.3 percent per annum, matures on November 8, 2011 and the GIC plus accrued interest is redeemable on demand. Interest earned on the GIC for the year was \$24,000 (2009 – \$Nil).

## 5. RELATED PARTY TRANSACTIONS

Geomark paid a management fee of \$316,500 (2009 – \$330,000) to Bonterra Energy Corp. (Bonterra) a publically traded oil and gas corporation listed on the Toronto Stock Exchange, that has common directors and management with Geomark. Geomark also shares office rental costs with Bonterra and reimburses Bonterra for costs related to employee benefits and office materials. These costs have been included in general and administrative expenses. Services provided by Bonterra include executive services (executive and finance duties), accounting services, oil and gas administration and office administration.

During the year, Bonterra sold \$102,000 (2009 – \$102,000) of drilling royalty credits to Geomark for \$51,000 (2009 – \$51,000). Drilling royalty credits will be used to offset future crown royalties.

Bonterra owns 689,682 (December 31, 2009 – 689,682) common shares in Geomark.

As at December 31, 2010, Geomark had an account payable to Bonterra of \$35,000 (2009 – \$105,000).

As at December 31, 2010, Geomark has loaned Bonterra \$20,000,000 (2009 – \$12,000,000). Effective May 1, 2010, interest is charged at a rate equal to a Canadian Chartered Bank Prime rate less 5/8 percent. Prior to May 1, 2010, interest was charged at a rate equal to a Canadian Chartered Bank Prime rate less 0.25 percent. The loan is subordinated to Bonterra's bank debt and is unsecured. The loan is payable upon demand subject to availability under Bonterra's line of credit. As at December 31, 2010, Bonterra has sufficient room under its line of credit to repay the loan. Interest earned on the loan during the year was \$313,000 (2009 – \$194,000).

At December 31, 2010, Geomark owns 204,633 (December 31, 2009 – 204,633) shares in Bonterra representing just over one percent of the outstanding shares of Bonterra. The shares have a fair value of \$10,569,000 (December 31, 2009 – \$7,093,000). In 2010, Geomark received dividend income of \$510,000 (2009 – \$344,000) from this investment.

At December 31, 2010, Geomark also owns 346,000 (December 31, 2009 – 346,000) common shares in Pine Cliff Energy Ltd. (Pine Cliff). Pine Cliff has common directors and management with Geomark. Pine Cliff shares trade on the TSX Venture Exchange. As of December 31, 2010, the common shares have a fair value of \$104,000 (December 31, 2009 – \$100,000). Geomark's ownership of 346,000 common shares represents less than one percent of the total issued and outstanding common shares of Pine Cliff.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

## 6. INCOME TAXES

The Company has recorded a full valuation allowance for its future income tax assets as it has been determined that their recoverability is not likely.

	December 31, 2010	December 31, 2009
(\$ 000s)	Amount	Amount
Future income tax assets (liabilities):		
Capital assets	1,049	28
Investments	(452)	(228)
Asset retirement obligations	72	46
Loss carry-forward	82	-
Other	-	32
Attributed crown royalty income	-	102
Valuation allowance	(751)	-
	-	(20)

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

(\$ 000s)	2010	2009
Earnings (loss) before income taxes	12,760	(1,451)
Combined federal and provincial income tax rates	28.0%	29.0%
Income tax expense (recovery) calculated using statutory tax rates	3,573	(421)
Increase (decrease) in taxes resulting from:		
Receipt of non-taxable contingent consideration	(3,780)	-
Permanent differences on capitalization of Geomark	(1,303)	-
Stock-based compensation	232	265
Change in estimates and other	-	266
Change in valuation allowance	751	-
Income tax expense (recovery)	(527)	110

The Company has the following tax pools which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of Utilization (%)	Amount (\$ 000s)
Undepreciated capital costs	30	1,159
Canadian oil and gas property expenditures	10	4,733
Canadian development expenditures	30	61
Canadian exploration expenditures	100	165
Non-capital loss carryforward <sup>(1)</sup>	100	330
		6,448

(1) Expires 2030.

## 7. PROPERTY AND EQUIPMENT

(\$ 000s)	2010		2009	
	Cost	Accumulated Depletion, Depreciation and Amortization	Cost	Accumulated Depletion, Depreciation and Amortization
Mineral properties and related equipment	669	442	442	442
Petroleum and natural gas properties and related equipment	9,970	8,273	9,730	7,872
	10,639	8,715	10,172	8,314

During the year, \$94,000 (2009 – \$Nil) of general and administrative expenses related to mineral exploration were capitalized. No general and administrative expenses related to oil and gas operations have been capitalized.

The Company has capitalized \$227,000 (2009 – \$Nil) related to its mineral exploration properties, which have been excluded from costs subject to depletion and depreciation.

During 2010, one of the Company's oil and gas properties had an impairment provision of \$77,000 (2009 – \$252,000), due to a significant decrease in estimated reserves. The decrease in reserves was mainly due to continuing low natural gas prices.

## 8. ASSET RETIREMENT OBLIGATIONS

As at December 31, 2010, the estimated total undiscounted amount required to settle the asset retirement obligations was \$425,000 (2009 – \$326,000). Costs for asset retirement have been calculated assuming a one and a half percent inflation rate. These obligations will be settled based on the useful lives of the underlying assets, which extend up to 27 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent (2009 – five percent).

Changes to asset retirement obligations were as follows:

(\$ 000s)	2010	2009
Asset retirement obligations, beginning of year	179	172
Adjustment to asset retirement obligations	129	26
Liabilities settled during the year	(29)	(28)
Accretion	9	9
Asset retirement obligations, end of year	288	179

## 9. SHARE CAPITAL

### Authorized

Unlimited number of common shares without nominal or par value

Unlimited number of first preferred shares

### Issued

	2010	
	Number	Amount (\$ 000s)
<b>Common Shares</b>		
Balance, January 1 <sup>(1)</sup>	52,039,760	21,152
Additional net investment to Comaplex		(641)
Balance, December 31	52,039,760	20,511

<sup>(1)</sup> Geomark issued one common share upon incorporation on April 20, 2010, and on July 6, 2010 issued 52,039,760 common shares as consideration for the net investment in Geomark Operations with an ascribed net book value of \$21,152,000 as at December 31, 2009 and cancelled the original common share. For purposes of the earnings per share calculation, it was assumed that all 52,039,760 shares issued have been outstanding since January 1, 2009.

Contributed surplus consists of \$254,000 of stock-based compensation on the stock options issued by Geomark after July 6, 2010. Prior to July 6, 2010, Geomark Operations expensed a further \$575,000 of Comaplex stock options that vested and were exercised. This expense was booked as a capital contribution to Geomark.

The number of weighted average basic and diluted shares outstanding for the years ended December 31:

	2010	2009
Basic shares outstanding <sup>(1)</sup>	52,039,760	52,039,760
Dilutive share options	261,454	–
Diluted shares outstanding	52,301,214	52,039,760

<sup>(1)</sup> Basic shares outstanding are used to calculate basic and diluted loss per share when the Company is in a loss position.

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 10 percent of the outstanding common shares which as of December 31, 2010 was 5,203,976. The exercise price of each option granted equals the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options generally vest one-third each year for the first three years of the option term.

A summary of the status of the Company's stock option plan as of December 31, 2010 and changes during the year ended December 31, 2010 is as follows:

	Options	Weighted Average Exercise Price
Outstanding at beginning of year	-	\$ -
Options issued	3,009,000	0.80
Options exercised	-	-
Options cancelled	-	-
Outstanding at end of year	3,009,000	\$ 0.80
Options exercisable at end of year	-	\$ -

The following table summarizes information about options outstanding at December 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/10	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable 12/31/10	Weighted- Average Exercise Price
\$0.80 to \$1.00	2,997,000	2.8 years	\$ 0.80	-	\$ -
\$1.05 to \$1.25	12,000	3.5 years	\$ 1.25	-	-
\$0.80 to \$1.25	3,009,000	2.8 years	\$ 0.80	-	\$ -

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Company issued 3,009,000 stock options with an estimated fair value of \$984,000 (\$0.33 per option) using the Black-Scholes option pricing model with the following key assumptions:

	2010
Weighted-average risk free interest rate (%)	1.8
Dividend yield (%)	0.0
Expected life (years)	3.3
Weighted-average volatility (%)	57.0

## 10. ACCUMULATED OTHER COMPREHENSIVE INCOME

(\$ 000s)	January 1, 2010	Other Comprehensive Income	December 31, 2010
Unrealized gains on available-for-sale investments	4,495	2,587	7,082

(\$ 000s)	January 1, 2009	Other Comprehensive Income	December 31, 2009
Unrealized gains on available-for-sale investments	931	3,564	4,495

## 11. BUSINESS SEGMENT INFORMATION

Geomark's activities are represented by two industry segments comprised of mineral exploration and oil and gas production:

(\$ 000s)	Years ended December 31	
	2010	2009
Gross revenue		
Mineral exploration	13,958	247
Oil and Gas	2,378	2,046
	<b>16,336</b>	2,293
Depletion, depreciation, accretion, and impairment		
Mineral exploration	-	-
Oil and Gas	410	583
	<b>410</b>	583
Net earnings (loss)		
Mineral exploration	12,465	(1,927)
Oil and Gas	822	366
	<b>13,287</b>	(1,561)
Property and equipment expenditures		
Mineral exploration	226	-
Oil and Gas	166	604
	<b>392</b>	604
Total assets		
Mineral exploration	40,382	28,241
Oil and Gas	12,623	9,466
	<b>53,005</b>	37,707

## 12. FINANCIAL AND CAPITAL RISK MANAGEMENT

### Financial risk factors

Geomark undertakes transactions in a range of financial instruments including:

- Cash deposits;
- Term investment;
- Receivables;
- Loan to related party;
- Investments; and
- Payables.

Geomark's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk and foreign exchange risk) credit risk and liquidity risk. Financial risk management is carried out by senior management under the direction of the Board of Directors.

Geomark does not enter into risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale in accordance with the Board directive.

### Capital risk management

Geomark's objectives when managing capital, which Geomark defines to include equity and working capital balances, are to safeguard Geomark's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Geomark has a large working capital balance to fund its future exploration activities.

Geomark believes that it is adequately capitalized to allow it to continue its future mineral exploration and oil and gas activities.

The following section (a) of this note provides a summary of the underlying economic positions as represented by the carrying values, fair values and contractual face values of the financial assets and financial liabilities.

The following section (b) addresses in more detail the key financial risk factors that arise from Geomark's activities including its policies for managing these risks.

#### a) Financial assets, financial liabilities

The carrying amounts, fair value and face values of Geomark's financial assets and liabilities are shown in Table 1.

**Table 1**

(\$ 000s)	As at December 31, 2010			As at December 31, 2009		
	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value	Face Value
Financial assets						
Cash	8,110	8,110	8,110	16,051	16,051	16,051
Term investment	12,000	12,000	12,000	-	-	-
Accounts receivable	265	265	269	359	359	453
Loan to related party	20,000	20,000	20,000	12,000	12,000	12,000
Investments	10,673	10,673	-	7,193	7,193	-
Financial liabilities						
Accounts payable and accrued liabilities	485	485	485	763	763	763

Financial instruments consisting of accounts receivable, loan to related party and accounts payable and accrued liabilities are carried on the consolidated balance sheet at amortized cost. Cash, term investment and investments are carried at fair value. All of the fair value items are transacted in active markets. Geomark classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Geomark's cash and term investment have been assessed on the fair value hierarchy described above and are all considered Level 1.

#### b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of Geomark's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Geomark is exposed are discussed below.

### Commodity price risk

Geomark's principal operation is the exploration of mineral properties. Geomark also engages in the production and sale of oil and natural gas. Fluctuations in prices of these commodities may directly impact Geomark's performance and ability to continue with its operations.

The Company's management, at the direction of the Board of Directors, currently does not use risk management contracts to set price parameters for its production.

### Sensitivity analysis

Geomark is still in the exploration stage of development of its mineral exploration properties and therefore generates nominal cash flow or earnings from these properties. In addition, Geomark's petroleum and natural gas operations provide only moderate cash flow and as such, changes of \$1.00 U.S. per barrel in the price of crude oil, \$0.10 per MCF in the price of natural gas and \$0.01 change in the Cdn/U.S. exchange rate would have no significant impact on net earnings or comprehensive income.

### Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that Geomark uses. The principal exposure to Geomark is on its cash and its loan to related party which have a variable interest rate which gives rise to a cash flow interest rate risk.

Geomark's cash consists of Canadian and U.S. investment chequing accounts. In order to achieve a higher interest rate on a portion of its excess funds, Geomark has purchased a one year redeemable GIC thereby reducing its exposure to interest rate risk.

### Sensitivity analysis

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, Geomark believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12-month period.

A one percent change in the Canadian prime rate would increase or decrease annual net earnings and comprehensive income by \$202,000.

### Foreign exchange risk

Geomark has no foreign operations and currently makes all of its product sales in Canadian currency. Geomark has an insignificant U.S. cash balance. Geomark does not mitigate Cdn \$/U.S. \$ exchange rate risk by using risk management contracts.

### Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause Geomark to incur a financial loss. Geomark is exposed to credit risk on all financial assets included on the balance sheet. To help mitigate this risk:

- Geomark only maintains its cash balances with low risk exposure which frequently results in receiving lower interest rates on investments.
- Equity investments are only with entities that have common management with Geomark.

Accounts receivable balance at December 31, 2010 (\$265,000) and December 31, 2009 (\$359,000) primarily consist of product sales with major oil and gas marketing companies, all of which have generally paid within 30 days, federal and provincial government refunds and credits, and interest from a major Canadian Bank.

Geomark assesses its financial assets quarterly to determine if there has been any impairment. No impairment provision was required on the mineral and oil and gas financial assets. Geomark does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that Geomark considers past due.

**Liquidity risk**

Liquidity risk includes the risk that, as a result of Geomark's operational liquidity requirements:

- Geomark will not have sufficient funds to settle a transaction on the due date;
- Geomark will not have sufficient funds to continue with its exploration projects;
- Geomark will be forced to sell assets at a value which is less than what they are worth; or
- Geomark may be unable to settle or recover a financial asset at all.

To help reduce these risks, Geomark:

- Has a significant working capital base;
- Holds current investments that are readily tradable should the need arise; and
- Maintains a continuous evaluation approach as to the financing requirements for its exploration programs.

The Company's financial liabilities consist of accounts payable and accrued liabilities due within a year which are recognized on the financial statements.

**13. CONTINGENT CONSIDERATION**

In December 2009, Comaplex acquired Meliadine Resources Ltd. from Perfora Investments S.a.r.l. (Perfora) (a wholly owned subsidiary of Resource Capital Fund III L.P.), by issuance of 12,750,000 common shares of Comaplex. As part of the Purchase and Sale Agreement, Perfora was required to pay additional consideration to Comaplex for the issued common shares upon their sale to a maximum of \$13,500,000.

On July 6, 2010, Agnico-Eagle acquired all of the issued and outstanding common shares of Comaplex on the basis of one Comaplex share for 0.1576 of an Agnico-Eagle share, pursuant to an acquisition agreement between Comaplex, Agnico-Eagle and Geomark (the "Arrangement"). As part of the Arrangement, the right to the contingent consideration was transferred to Geomark. Perfora sold all of its 2,009,400 Agnico-Eagle common shares (12,750,000 times 0.1576 exchange ratio) in the third quarter of 2010. Geomark has received the maximum consideration of \$13,500,000 and has recorded the amount as income.

# Corporate Information

## BOARD OF DIRECTORS

**G.J. Drummond**, Nassau, Bahamas

**G.F. Fink**, Calgary, Alberta

**C.R. Jonsson**, Vancouver, British Columbia

**F. W. Woodward**, Calgary, Alberta

## OFFICERS

**G.F. Fink**

Chief Executive Officer and Chairman of the Board

**M.J. Balog**

President and Chief Operating Officer

**G E. Schultz**

Chief Financial Officer

**R.D. Thompson**

Vice President, Finance

## REGISTRAR & TRANSFER AGENT

Olympia Trust Company, Calgary, Alberta

## AUDITORS

**Deloitte & Touche LLP**, Calgary, Alberta

## SOLICITORS

**Borden Ladner Gervais LLP**,

Calgary, Alberta

## BANKERS

**Canadian Imperial Bank of Commerce**, Calgary, Alberta

## STOCK LISTING

**Toronto Stock Exchange Ventures**, Toronto, Ontario

Trading symbol: **GME**

## HEAD AND REGISTERED OFFICE

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## WEBSITE

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# Geomark

**Exploration Ltd.**

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