

Softrock Minerals Ltd.
Financial Statements
December 31, 2007 and 2006

Softrock Minerals Ltd.

Financial Statements

December 31, 2007 and 2006

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**CHARTERED
ACCOUNTANTS**

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Auditors' Report

**To the Shareholders of
Softrock Minerals Ltd.**

We have audited the balance sheets of Softrock Minerals Ltd. as at December 31, 2007 and 2006 and the statements of operations, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Calgary, Canada
March 20, 2008**

(Signed) **“MacKay LLP”**

Chartered Accountants

Softrock Minerals Ltd.**Statements of Operations, Comprehensive Income and Deficit**

For the year ended December 31,	2007	2006
Revenue		
Petroleum and natural gas sales	\$ 2,822	\$ 37,080
Royalty income	39,331	37,336
	42,153	74,416
Expenses		
Operating	81,312	83,159
Depreciation, depletion and accretion	107,856	177,107
Professional fees	36,577	54,602
General and administrative	40,318	51,268
Stock-based compensation (note 8e)	-	61,269
Realized gain on marketable securities	(73,730)	-
Unrealized loss on marketable securities	250,000	-
	442,333	427,405
Loss before the following	(400,180)	(352,989)
Gain on sale of property, plant and equipment	-	400,000
Income (loss) before income taxes	(400,180)	47,011
Future income tax recovery (note 11a)	-	103,500
Net income (loss) and comprehensive income	(400,180)	150,511
Deficit, beginning of year	(1,957,219)	(2,107,730)
Opening deficit adjustment for changes in accounting policies		
Financial instruments	200,000	-
Deficit and accumulated other comprehensive income, end of year	\$ (2,157,399)	\$ (1,957,219)
Net income (loss) per share		
Basic and diluted (note 8)	\$ (0.01)	\$ 0.01

Softrock Minerals Ltd.**Balance Sheets**

December 31, **2007** **2006**

Assets**Current**

Cash and cash equivalents	\$	14,653	\$	19,188
Accounts receivable		8,807		7,281

23,460 **26,469****Marketable securities (note 3)** **150,000** **400,000****Future income tax asset (note 11b)** **-** **103,500****Property, plant and equipment (note 4)** **170,887** **148,974****Advances to joint venture partners (note 5)** **24,280** **-**

\$ 368,627 \$ 678,943

Liabilities**Current**

Accounts payable and accrued liabilities	\$	98,940	\$	71,153
Current portion of debentures (note 6)		-		34,000

98,940 **105,153****Asset retirement obligations (note 7)** **10,389** **9,812**

109,329 **114,965**

Shareholders' Equity**Share capital (note 8b)** **2,249,622** **2,353,122****Warrants (note 8g)** **79,936** **79,936****Contributed surplus (note 9)** **87,139** **88,139****Deficit and accumulated other comprehensive loss** **(2,157,399)** **(1,957,219)**

259,298 **563,978**

\$ 368,627 \$ 678,943

Nature of operations and going concern (note 1)**Commitments and contingencies (note 10)**

Approved by the Board:

(Signed) "The Honourable Nick Taylor", Director

(Signed) "T.M.M. Bender", Director

Softrock Minerals Ltd.**Statements of Cash Flows**

For the year ended December 31,	2007	2006
Cash provided by (used for)		
Operating activities		
Net income (loss)	\$ (400,180)	\$ 150,511
Items not affecting cash		
Depreciation and depletion	107,279	172,062
Accretion of debentures	-	4,500
Accretion of asset retirement obligations	577	545
Future income tax recovery	-	(103,500)
Gain on sale of property, plant and equipment	-	(400,000)
Realization loss on marketable securities	(73,730)	-
Unrealized loss on marketable securities	250,000	-
Stock-based compensation	-	61,269
	(116,054)	(114,613)
Changes in non-cash working capital items		
Accounts receivable	(1,526)	1,637
Accounts payable and accrued liabilities	31,384	25,421
	(86,196)	(87,555)
Financing activities		
Issue of common shares for cash	-	330,333
Share issue costs (note 8c)	-	(30,000)
Repayment of debentures	(35,000)	-
	(35,000)	300,333
Investing activities		
Expenditures on property, plant and equipment	(132,789)	(226,346)
Advances to joint venture partners	(24,280)	-
Proceeds on the sale of marketable securities	273,730	-
	116,661	(226,346)
Decrease in cash	(4,535)	(13,568)
Cash and cash equivalents, beginning of year	19,188	32,756
Cash and cash equivalents, end of year	\$ 14,653	\$ 19,188

Supplemental cash flow information

The Company had the following non-cash transactions:

Settlement of accounts payable through the issuance of common shares	\$ -	\$ 21,000
Asset retirement obligations incurred	-	9,267
Conversion of debentures into common shares	-	42,000
Expenditures on oil and gas properties included in accounts payable	44,577	-
Marketable securities received on sale of property, plant and equipment	-	400,000

1. Nature of operations and going concern

Softrock Minerals Ltd., (the "Company") is a public company incorporated under the Alberta Business Corporations Act with its shares traded on the TSX Venture Exchange.

Softrock Minerals Ltd. carries on the business of oil and gas exploration and development in Western Canada.

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has incurred recurring operating losses and has a working capital deficiency of \$67,217 at December 31, 2007 (2006 - \$78,684). The Company's ability to continue as a going concern and to recover the recorded costs for property and equipment is dependent upon the ability to raise sufficient capital either through debt or equity issues, through the sale of marketable securities, to achieve profitable operations or to find a joint venture partner. The outcome of these matters cannot be predicted at this time.

These financial statements do not give effect to any adjustments which could be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

2. Significant accounting policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles applied on a consistent basis within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, the ceiling test and the amounts recorded for depletion, depreciation, accretion and asset retirement obligations are based on estimates of proved reserves, future oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

b) Cash and cash equivalents

The Company considers cash and cash equivalents to be cash and short-term investments with original maturities of three months or less from the date of acquisition.

2. Significant accounting policies (continued)

c) Marketable securities

Marketable securities are carried at fair value and unrecognized gains or losses are recognized in earnings in the period incurred.

d) Property, plant and equipment

The Company follows the full cost method of accounting for its petroleum and natural gas operations, whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisitions, geological and geophysical, lease rentals on undeveloped properties, costs of drilling both productive and non-productive wells, lease and rental equipment and overhead directly related to exploration and development activities. Proceeds received from the sale of petroleum and natural gas properties are applied against capitalized costs, without any gain or loss being recognized, unless such sale would significantly alter the rate of depletion.

All costs of acquisition, exploration and development of petroleum and natural gas reserves, associated tangible plant and equipment costs, and estimated costs of future development of proven undeveloped reserves are depleted and depreciated using the unit-of-production method based upon estimated proven petroleum and natural gas reserves before royalties as determined by independent reservoir engineers. For the purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content.

Depreciation of capital assets not related to petroleum and natural gas properties is provided using declining balance basis at rates ranging from 10 to 30 percent.

Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These properties are assessed periodically to determine whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company performs a ceiling test calculation under a two part process. Part I, the recognition of impairment, is determined by comparing the carrying value of property and equipment with the sum of the undiscounted cash flows expected to result from the production of the Company's proved reserves. Cash flows are calculated based on management's best estimate of future prices. If impairment exists, Part II calculates the magnitude of the impairment by comparing the carrying value of the property and equipment to the fair value of proved and probable reserves. Fair value is estimated using accepted present value techniques, which incorporate risk and other uncertainties as well as the future value of reserves when determining expected cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as impairment and charged as additional depletion expense in the statement of operations.

e) Interest in joint operations

The Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

2. Significant accounting policies (continued)

f) Asset retirement obligation

The Company recognizes the estimated fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. ARO is initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost will result in an increase or decrease to ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

g) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized in the current period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. Future income tax assets are limited to the amount that is more likely than not to be realized.

h) Revenue recognition

Revenues associated with sales of petroleum and natural gas are recognized when the risks and rewards of ownership are transferred to the buyer. Revenues from royalty interests are recognized when earned and collection is reasonably assured.

i) Loss per share

Basic per share amounts are computed by dividing the net earnings by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money stock options, plus unamortized stock-based compensation cost, would be used to buy back common shares at the average market price for the period. Anti-dilutive options or instruments are not included in the calculation and all options and instruments are considered anti-dilutive when the Company is in a loss position.

2. Significant accounting policies (continued)

j) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through arrangements are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions at the date of renouncement.

k) Stock-based compensation

The Company accounts for stock options granted to directors, officers, employees and non-employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to 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.

l) Financial instruments

Effective January 1, 2007, the company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3855, "Financial Instruments- Recognition and Measurement", Section 3865, "Hedges", Section 1530, "Comprehensive Income". These standards have been adopted retroactively without restatement.

i) Financial instruments

Section 3855 establishes a framework for classifying and measuring financial instruments. Under this section, all financial instruments must be initially recognized at their fair value on the balance sheet. In accordance with Section 3855, the Company has classified each financial instrument into the five categories set out in the standard: financial assets and liabilities held for trading, financial assets held to maturity, loans and receivables, financial assets available for sale and other liabilities. Measurement of each of these items is contingent upon initial classification. Unrealized gains and losses on financial instruments classified as held for trading are recognized in earnings in the period incurred. Gains and losses on assets available for sale are recognized in other comprehensive income, and are charged to earnings when the asset is derecognized or impaired. The amortized cost using the effective interest rate method is applied to the remaining categories of financial instruments.

As a result of adopting this change in accounting policy, the financial statements at January 1, 2007 were changed as follows: marketable securities increased by \$200,000, and the deficit decreased by the same amount. The Company's marketable securities are classified as held for trading. Any changes in the fair value of the marketable securities at the end of the fiscal period are classified as unrealized gains or losses on the income statement.

The classification of financial instruments occurred upon adoption of the standard, and is irrevocable.

2. Significant accounting policies (continued)

(I) Financial instruments (continued)

ii) Derivative instruments and hedging

The Company currently does not use derivative instruments to manage its exposure to the volatility in commodity prices.

iii) Embedded derivatives

An embedded derivative is a component of a financial instrument or other contract that has a feature similar to a derivative. New accounting Section 3855 requires certain embedded derivatives be identified and recorded separately from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract. The terms of the embedded derivatives are the same as the terms of a freestanding derivative, and the hybrid instrument is not re-measured at fair value.

iv) Comprehensive income

Comprehensive income is the change in equity of the Company from net earnings and other comprehensive income ("OCI"). OCI consists of the change in the fair value of any financial instruments classified as available for sale. Amounts recognized in OCI must eventually be reclassified to income when the related gains or losses are realized.

m) Accounting changes

Effective January 1, 2007 the Company adopted the revised CICA Section 1506, "Accounting Changes". Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retroactively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosure required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect on financial statement line items.

n) Recent accounting pronouncements issued and not yet adopted

The following accounting standards will apply to fiscal periods commencing on or after October 1, 2007:

i) Section 3031, "Inventories"

This section provides revised guidance on measurement and disclosures for inventories. The Company does not expect this standard to have any impact upon adoption, as its current inventory policies continue to be permitted under the revised standard. The Company will adopt this new standard effective January 1, 2008.

2. Significant accounting policies (continued)

(n) Recent accounting pronouncements issued and not yet adopted (continued)

ii) Section 1535, "Capital Disclosures"

This section established standards for disclosing information about an entity's objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such non-compliance. The Company will adopt this new standard effective January 1, 2008.

iii) Section 3862, "Financial Instruments - Disclosures"

This section described the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks. The Company will adopt this new standard effective January 1, 2008.

iv) Section 3863, "Financial Instruments - Presentation"

This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of the standards described in Section 3861, "Financial Instruments - Disclosure and Presentation". The Company will adopt this new standard effective January 1, 2008.

v) The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period ending in 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

3. Marketable securities

As at December 31, 2007, the Company held marketable securities with a market value of \$150,000 (2006 - \$600,000). For the year ended December 31, 2007, the Company realized a gain of \$73,730 (2006 - \$nil) on the disposition of marketable securities and an unrealized loss of \$250,000.

Softrock Minerals Ltd.

Notes to the Financial Statements

Year ended December 31, 2007

4. Property, plant and equipment

			2007
	Cost	Accumulated depreciation	Net book value
Petroleum and natural gas properties	\$ 995,544	\$ 859,828	\$ 135,716
Production equipment	78,474	51,368	27,106
Asset retirement costs	9,267	5,296	3,971
Furniture, fixtures and office equipment	51,225	47,131	4,094
	\$ 1,134,510	\$ 963,623	\$ 170,887

			2006
	Cost	Accumulated depreciation	Net book value
Petroleum and natural gas properties	\$ 866,242	\$ 758,554	\$ 107,688
Production equipment	78,474	48,356	30,118
Asset retirement cost	9,267	2,648	6,619
Furniture, fixtures and office equipment	51,225	46,676	4,549
	\$ 1,005,208	\$ 856,234	\$ 148,974

During the year ended December 31, 2007, petroleum and natural gas properties included \$170,887 (2006 - \$nil), net of any dispositions relating to unproved properties which have been excluded from the depletion calculation. Included in the depletion calculation are future development costs of \$Nil.

The Company's ceiling test calculation, performed at December 31, 2007, resulted in an impairment loss of \$86,334 (2006 - \$80,500) charged as additional depletion. The future prices used by the Company in estimating cash flows were based on forecasts by an independent reserves evaluator, adjusted for the Company's quality and transportation differentials. The following table summarizes the benchmark prices used in the calculation:

	WTI Oil	Edmonton Light Crude Oil	Cromer Medium Crude Oil	AECO Gas	Foreign exchange
2008	60.00	68.00	59.25	7.45	0.87
2009	58.00	65.75	57.25	7.75	0.87
2010	57.00	64.50	56.00	7.80	0.87
2011	57.00	64.50	56.00	7.85	0.87
2012	57.50	65.00	56.50	8.15	0.87
2013	58.50	66.25	57.75	8.30	0.87
2014	59.75	67.75	59.00	8.50	0.87
2015	61.00	69.00	60.00	8.70	0.87
2016	62.25	70.50	61.25	8.90	0.87
2017	63.50	71.75	62.50	9.10	0.87
Thereafter	+ 2%/year	+2%/year	+2%/year	+2%/year	0.87

5. Advances to joint venture partners

This amount represent funds advanced on cash calls on approved AFEs to the operators of the joint ventures in which the Company has an interest, in excess of funds expensed on exploration activities.

6. Debentures

On August 31, 2005, the Company issued \$77,000 in convertible debentures. The debentures mature August 31, 2007, bear interest at 5% per year, and are secured by a first fixed and specific mortgage charge over all assets of the Company. The debentures are convertible at all times, at the discretion of the debenture holder, by giving 29 days advance notice. The Company has the option to make repayments in cash or by the issuance of units at a conversion price of \$0.09 per unit, for an aggregate amount of 855,556 units in the event the entire principal amount is converted. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.13 per share for a period of 24 months from the date of conversion.

The fair value of the repayment obligation, being the present value of the future principle and interest payments using a discount factor of 10%, was estimated to be \$70,600 on the date the debenture agreements were signed. The residual value of the proceeds was allocated to the conversion option. The conversion option is recorded as a debt discount and is being accreted over the term of the debentures. During the year ended December 31, 2007, the Company recorded accretion expense of \$Nil (2006 - \$4,500).

During 2006, debentures with a face value of \$42,000 were converted into units of the Company at a price of \$0.09 per unit resulting in 466,667 units being issued. Each unit consists of one common share and one-half common share purchase warrant. On conversion the Company issued in aggregate 466,667 common shares and 233,333 common share purchase warrants.

A director and officer of the Company subscribed to \$75,000 of the convertible debentures issued on August 31, 2005 and converted debentures with a face value of \$40,000 during 2006.

Softrock Minerals Ltd.**Notes to the Financial Statements**

Year ended December 31, 2007

6. Debentures (continued)

Interest on the convertible debentures is at 5% per annum, compounded monthly and is paid quarterly in arrears. Interest of \$1,055 (2006 - \$2,613) has been charged to operations in respect of the debentures and \$nil is included in accounts payable at December 31, 2007 (2006 - 736).

Gross amount received	\$	77,000	
Value of conversion option		6,400	
<hr/>			
Fair value of repayment obligation	\$	70,600	
<hr/>			
		2007	2006
<hr/>			
Balance, beginning of year	\$	34,000	\$ 71,500
Issuances		-	-
Accretion		1,000	4,500
Conversions		-	(42,000)
Repayment		(35,000)	(42,000)
<hr/>			
Balance, end of year	\$	-	\$ 34,000

7. Asset retirement obligations

The Company's ARO results from working interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. As at December 31, 2007, the Company estimates the total undiscounted amount of cash flows required to settle its asset retirement to be approximately \$11,673. The amount has been discounted using a credit-adjusted risk-free interest rate of 7% and an inflation rate of 3% over the varying lives of the assets to calculate the present value of the asset retirement obligation.

A reconciliation of the ARO is provided below:

		2007	2006
<hr/>			
Balance, beginning of year	\$	9,812	\$ -
Liabilities incurred		-	9,267
Accretion expense		577	545
<hr/>			
Balance, end of year	\$	10,389	\$ 9,812

Softrock Minerals Ltd.**Notes to the Financial Statements**

Year ended December 31, 2007

8. Share capital**(a) Authorized**

Unlimited number of:

Common shares without nominal or par value

First and second preferred shares issuable in series

(b) Common shares

	2007		2006	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	16,429,446	\$ 2,353,122	13,179,447	\$ 2,069,725
Issued:				
For cash pursuant to private placements	-	-	2,400,000	226,102
Share issuance costs	-	-	-	(30,000)
On settlement of accounts payable	-	-	150,000	14,962
On conversion of debentures	-	-	466,666	42,000
For cash on exercise of warrants	-	-	233,333	30,333
Tax effect of 2006 flow-through		(103,500)		
Balance, end of year	16,429,446	\$ 2,249,622	16,429,446	\$ 2,353,122

(c) Private placements

The following is a summary of the private placements that were issued during 2006:

Date	Number of shares	Price per unit	Total proceeds	Share issue costs	Net proceeds
February 2006	2,000,000	\$ 0.10	\$ 200,000	\$ 20,000	\$ 180,000
August 2006	400,000	0.25	100,000	10,000	90,000
	2,400,000		\$ 300,000	\$ 30,000	\$ 270,000
Value assigned to the warrants	-		(73,898)		
Value assigned to the shares	2,400,000		\$ 226,102		

In February 2006, the Company issued 2,000,000 units at a price of \$0.10 per unit. The total proceeds were \$200,000. Each unit consists of one flow-through common share and one-half common share purchase warrant. Each whole common share purchase warrant is exercisable at \$0.14 per share. The warrants expire on February 21, 2008 and have been valued at \$58,979 on the Company's books using the Black-Scholes method. Share issue costs of \$20,000 were paid in cash.

Notes to the Financial Statements

Year ended December 31, 2007

8. Share capital (continued)

(c) Private placements (continued)

In August 2006, the Company issued 400,000 units at a price of \$0.25 per unit. The total proceeds were \$100,000. Each unit consists of one flow-through common share and one-half common share purchase warrant exercisable at \$0.35 per share. The warrants expire on August 30, 2008 and have been valued at \$14,919 on the Company's books using the Black-Scholes method. Share issue costs of \$10,000 were paid in cash.

(d) Settlement of accounts payable

In April 2006, the Company issued 150,000 units in satisfaction of \$21,000 in accounts payable. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.14 per share. The warrants expire on February 21, 2008 and have been valued at \$6,038 on the Company's books.

(e) Per share amounts

The following table summarizes the weighted average common shares used in calculating net income (loss) per common shares:

	2007	2006
Basic and diluted	16,429,446	15,455,474

Diluted weighted average common shares outstanding are equal to basic as dilutive instruments are not in the money.

(f) Stock options

Under the Company's stock option plan, the Company may grant options to employees, officers and directors up to 10% of its issued and outstanding common stock. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares. Under the plan, options are exercisable upon issuance and an option's maximum term is five years.

	2007		2006	
	Stock options	Weighted average exercise price (\$)	Stock options	Weighted average exercise price (\$)
Outstanding, beginning of year	1,100,000	0.15	550,000	0.10
Granted and fully vested	-	-	550,000	0.20
Outstanding, end of year	1,100,000	0.15	1,100,000	0.15

8. Share capital (continued)**(f) Stock options (continued)**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2007:

Number outstanding at December 31, 2007	Options outstanding	Options exercisable	
	Weighted average remaining contractual life (years)	Number exercisable at December 31, 2007	Exercise price (\$)
550,000	0.75	550,000	0.10
550,000	0.50	550,000	0.20
1,100,000		1,100,000	

The Company accounts for its stock-based compensation plan using the fair value based method. Under this method, compensation costs of \$61,269 were recorded in the financial statements based on an estimated fair value of the options at the time of the grant of approximately \$0.11 per option.

The fair value of each option granted during the year was estimated on the date of the grant using the Black-Scholes option pricing model, recognizing forfeitures as they occur, with the following assumptions: zero dividend yield; expected volatility of 125.09%; risk-free rate of 4.06% and expected life of two years.

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, use of the Black-Scholes option pricing model, as required by Canadian generally accepted accounting principles, does not necessarily provide a reliable measure of the fair value of the Company's stock options at the date of the grant or thereafter.

Notes to the Financial Statements

Year ended December 31, 2007

8. Share capital (continued)

(g) Warrants

A summary of the status of the common share purchase warrants as of December 31, 2007, and changes during the year is presented as follows:

	2007		2006	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Outstanding, beginning of year	1,275,000	0.17	1,000,000	0.10
Issued	-	-	1,508,333	-
Exercised	-	-	(233,333)	-
Expired	-	-	(1,000,000)	0.10
Outstanding, end of year	1,275,000	0.17	1,275,000	0.17

The following table summarizes information about warrants outstanding and exercisable at December 31, 2007:

Date	Number of warrants	Exercise price (\$)	Expiry date
May 10, 2006	75,000	0.14	May 10, 2008
February 21, 2006	1,000,000	0.14	February 21, 2008
August 30, 2006	200,000	0.35	August 30, 2008
Exercisable, end of year	1,275,000		

The Company accounts for warrants issued using the fair value based method. Under this method, fair value assigned to the warrants issued during 2007 is \$nil (2006 - \$79,936) based on an estimated fair value of the warrants at the time of issue of approximately \$0.06 per option.

The fair value of the warrants issued during the year were estimated on the date of issue using the Black-Scholes option pricing model, with the following assumptions: zero dividend yield; expected volatility ranging from 121.31% to 129.96%; risk-free rate of 4.09% and expected life of two years.

Softrock Minerals Ltd.**Notes to the Financial Statements**

Year ended December 31, 2007

9. Contributed surplus

A summary of the status of contributed surplus as of December 31, 2007 and the changes during the year is presented below:

		2007		2006
Balance, beginning of year	\$	88,139	\$	26,870
Fair value assigned to stock-based compensation		-		61,269
Equity portion of convertible debentures		(1,000)		-
Balance, end of year	\$	87,139	\$	88,139

10. Commitments and contingencies**(i) Environmental regulations**

The Company's activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing in Canada and generally are becoming more restrictive. The Company believes its operations comply in all material respects with all applicable laws and regulations.

11. Income taxes**(a) Future income tax recovery**

The provision for income tax reflects an effective income tax rate which differs from federal and provincial statutory income tax rates. The main difference is as follows:

For the years ended December 31,		2007		2006
Income (loss) before income taxes	\$	(400,180)	\$	47,011
Enacted income tax rate		32.35%		37.22%
Expected income tax expense (recovery)	\$	(129,500)	\$	17,500
Increase (decrease) in taxes resulting from:				
Resource allowance		-		2,000
Stock-based compensation		-		23,000
Other		(1,000)		1,700
Non-taxable portion of capital gains		(12,000)		-
Non-taxable portion of capital unrealized capital losses		40,400		-
Impact of change in effective tax rate		155,700		(1,200)
Change in valuation allowance		(53,600)		(146,500)
Future income taxes (recovered)	\$	-	\$	(103,500)

Notes to the Financial Statements

Year ended December 31, 2007

11. Income taxes (continued)**(b) Components of the net future income tax asset (liability)**

Temporary differences and carry forwards that give rise to future income tax assets as of December 31, 2007 and 2006 are as follows:

As at December 31,	2007	2006
Non-capital losses	\$ 55,000	\$ 2,000
Asset retirement obligation	3,000	3,000
Property, plant and equipment	304,000	552,000
Marketable securities	6,000	-
Share issue costs	5,000	10,000
Total gross future tax assets	373,000	567,000
Valuation allowance	(373,000)	(463,500)
Net future income tax assets	\$ -	\$ 103,500

The valuation allowance offsets the net future income tax assets for which there is no assurance of recovery. The valuation allowance is evaluated considering positive and negative evidence about whether the future income tax assets will be realized. At the time of evaluation, the allowance is either increased or reduced, reduction could result in the complete elimination of the allowance, if positive evidence indicated that the value of the future income tax assets is no longer impaired and the allowance is no longer required.

(c) Tax pools

As at December 31, 2007, the Company has available for deduction against future taxable income, the following approximate amounts:

	2007	Rate
Operating loss carry forwards	\$ 219,000	-
Share issue costs	22,000	20%
Canadian exploration expenditures	162,000	100%
Foreign exploration and development expenditures	1,153,000	10%
Capital cost allowances	73,000	20-25%
	\$ 1,629,000	

The availability of deduction of the operating loss carry forwards against future taxable income expires in the year 2027.

Notes to the Financial Statements

Year ended December 31, 2007

12. Financial instruments

Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. The Company's customers are subject to an internal credit review to minimize risk of non-payment. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers.

Fair value of financial assets and liabilities

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company's financial instruments consist of cash, accounts receivable and accounts payable. The fair value of financial instruments is not estimated by management to be materially different from the carrying value.

13. Related party transactions

During the year, the Company entered into the following transactions with related parties not otherwise disclosed in these financial statements:

- (a) The Company paid to its directors and officers, either directly, or indirectly, the following amounts:

	2007		2006
For accounting services	\$ 4,338	\$	3,750
For interest on debentures	1,055		2,545

The above transactions were in the normal course of operations and were recorded at the exchange value which was the amount of consideration established and agreed to by the related parties.

- (b) At the end of the year, the amounts due to related parties included in accounts payable and accrued liabilities were as follows:

	2007		2006
Due to a director	\$ 2,177	\$	736
Due to a company controlled by a director	2,100		1,250
	\$ 4,277	\$	1,986

The amounts due to directors of the Company are unsecured and without interest. The amounts will be paid in the normal course of operations.