

# **Softrock Minerals Ltd.**

Financial Statements

For the Second Quarter

Ending

June 30, 2008 and 2007

UNAUDITED

# **NOTICE TO READER**

## ***Responsibility for Financial Statements***

The accompanying financial statements for Softrock Minerals Ltd. ("Softrock" or the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principals consistently applied. The most significant of these accounting principals have been set out in the Company's December 31, 2007 audited financial statements.

Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent on future events. Therefore estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

## ***Auditor Involvement***

The Auditor of Softrock Minerals Ltd. has not performed a review of the comparative financial statements for the three and six months ended June 30, 2008 and 2007

## ***Notice***

***These interim period financial statements should be read in conjunction with the audited financial statements and the accompanying notes of the Company for its last completed financial year. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim period presented.***

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

( unaudited )

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
<b>REVENUE</b>				
Oil and gas income	17,132	10,443	28,070	20,590
Royalty expense		-	-	300
Oil and gas operating expense	<u>1,061</u>	<u>38,514</u>	<u>1,141</u>	<u>46,807</u>
	16,071	(28,071)	26,929	(26,517)
Gain/loss on disposal of marketable securities	-	73,730	(18,170)	73,730
Interest income	<u>-</u>	<u>10</u>	<u>-</u>	<u>10</u>
	16,071	45,669	8,759	47,223
<b>EXPENSES</b>				
Accounting and audit	(1,387)	500	(1,387)	500
Rent	2,910	1,940	3,395	2,425
Corporate expense	7,550	1,127	14,539	7,071
General and administrative expense (net of recoveries)	10,247	3,427	3,877	4,005
Consultants	(8,264)	2,070	6,190	5,772
Depletion and amortization			-	110
Stock based compensation		<u>-</u>		<u>-</u>
	11,056	9,064	26,614	19,883
Income (loss) and comprehensive income	5,015	36,605	(17,855)	27,340
Deficit – beginning of period	2,180,270	2,069,984	2,157,399	2,060,719
Deficit and accumulated other comprehensive income, end of period	2,175,255	2,033,379	2,175,256	2,033,379

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**Softrock Minerals Ltd.****Balance Sheets**

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	June. 30, 2008	Dec. 31 2007
	Unaudited	Audited
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 100,408	\$ 14,653
Accounts receivable	14,012	8,807
	114,420	23,460
<b>Marketable securities (note 3)</b>	75,000	150,000
<b>Property, plant and equipment (note 4)</b>	221,951	170,887
<b>Advances to joint venture partners</b>	21,461	24,280
	<b>\$ 432,832</b>	<b>\$ 368,627</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 81,002	\$ 98,940
	81,002	98,940
<b>Asset retirement obligations (note 6)</b>	10,389	10,389
	91,391	109,329
<b>Shareholders' Equity</b>		
Share capital (note 8b)	2,429,558	2,329,558
Contributed surplus (note 9)	87,139	87,139
<b>Deficit and accumulated other comprehensive loss</b>	<b>(2,175,256)</b>	<b>(2,157,399)</b>
	341,441	259,298
	<b>\$ 432,832</b>	<b>\$ 368,627</b>

Approved by the Board:

(Signed) Nick Taylor, Director(Signed) T.M.M. Bender, Director

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**Softrock Minerals Ltd.****Statement of Cash Flows**  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
<b>Cash provided by (used for) operating activities</b>				
Net income (-) loss	5,015	36,605	(17,857)	27,340
<b>Adjustments to reconcile net income to net cash</b>				
Marketable securities	-	200,000	75,000	200,000
Debenture	-	(34,000)	-	(34,000)
Future income tax asset				103,500
Accounts receivable	(7,429)	(188)	(5,205)	143
Accounts payable	(64,571)	(9,402)	(17,938)	(10,410)
	(66,985)	(37,090)	34,000	286,573
<b>Financing activities</b>				
Issue common stock	100,000	-	100,000	-
Subscriptions receivable		(1,000)		(1,000)
Future income tax asset				(103,500)
	100,000	(1,000)	100,000	(104,500)
<b>Investing activities</b>				
Investment in oil and gas properties	<u>2,036</u>	<u>11,503</u>	<u>(48,245)</u>	<u>(11,613)</u>
Increase (decrease) in cash	35,051	203,518	85,755	193,686
Cash at beginning of period	<u>65,357</u>	<u>9,356</u>	<u>14,653</u>	<u>19,188</u>
Cash at end of period	100,408	212,874	100,408	212,874

## 1. **Nature of operations and going concern**

Softrock Minerals Ltd., ("Softrock" or the "Company") is a public company incorporated under the Business Corporations Act (Alberta). Softrock carries on the business of oil and gas exploration and development in Western Canada. Softrock's common shares are listed and posted for trading on the TSX Venture Exchange under the symbol "SFT".

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. 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.

The Company has incurred recurring operating losses and has a working capital of \$33,418 at June 30, 2008 (2007 - \$159,270).

## 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.

### 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.

### 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. 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.

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.

**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

**g) Income taxes**

The Company uses the asset and liability method of accounting for income taxes.

**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

**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.

**l) Financial instruments**

Effective January 1, 2007, the company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3855, "Financial Instruments- Recognition and Measurement",

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Section 3865, "Hedges", Section 1530, Comprehensive Income". These standards have been adopted retroactively without restatement.

**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.

**3. Marketable securities**

As at June 30, 2008, the Company held marketable securities with a market value of \$ 75,000 (2007 - \$150,000). For the six months ended June 30, 2008, the Company realized a loss of \$18,170 on the disposition of marketable securities.

**4. Property, plant and equipment**

	2008		
	Cost	Accumulated depreciation	Net book value
Petroleum and natural gas properties	\$ 1,068,069	\$ 859,828	\$ 208,241
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
	<b>\$ 1,207,035</b>	<b>\$ 963,623</b>	<b>\$ 243,412</b>

  

	December 31, 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 cost	9,267	5,296	3,971
Furniture, fixtures and office equipment	51,225	47,131	4,094
	<b>\$ 1,005,208</b>	<b>\$ 963,623</b>	<b>\$ 170,887</b>

**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.

**5. Debentures**

On September 30, 2005, the Company issued \$77,000 in 5% convertible debentures. The debentures matured and were paid out on September 30, 2007.

## 6. 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 June 30, 2008, 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:

	2008		2007	
Balance, beginning of year	\$	10,389	\$	9,812
Liabilities incurred		-		
Accretion expense				577
Balance, end of year	\$	10,389	\$	10,389

## 7. 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

	2008		2007	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	16,429,446	\$ 2,329,558	16,429,446	\$ 2,433,058
Issued:	2,000,000	100,000		
Tax effect of 2006 flow-through				(103,500)
Balance, end of year	18,429,446	\$2,429,558	16,429,446	\$ 2,329,558

### (c) Per share amounts

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

	2008	2007
Basic and diluted	18,429,446	16,429,446

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

### (d) Stock options

Under the Company's stock option plan (the "Plan"), the Company may grant options to employees, officers and directors. The number of shares issuable upon exercise of

outstanding options shall not exceed 10% of it's the Company's 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, an option's maximum term is five years.

During the first six months of 2008 all stock options issued to directors expired. There are no options outstanding at June 30, 2008

**(f) Warrants**

A summary of the status of the common share purchase warrants as of June 30, 2008, and changes during the year is presented as follows:

		2008		2007
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Outstanding, beginning of year	1,275,000	0.17	1,275,000	0.17
Expired	1,075,000	-		
Issued	2,000,000	0.10		
Outstanding, end of quarter	2,200,000	-	1,275,000	-

The following table summarizes information about warrants outstanding and exercisable at June 30, 2008:

Date	Number of warrants	Exercise price (\$)	Expiry date
August 30, 2006	200,000	0.35	August 30, 2008
May 29, 2008	2,000,000	0.10	May 29, 2010
Exercisable as at June 30, 2008	2,200,000		

**8 Contributed surplus**

A summary of the status of contributed surplus as of June 30, 2008 and the changes during the quarter are presented below:

	2008	2007
Balance, beginning of year	\$ 87,139	\$ 88,139.1
Equity portion of convertible debentures		(1,000)
Balance, end of year	\$ 87,139	\$ 87,139

**9. 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.

## 10. 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.

## 11. Related party transactions

During the period, 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:

	2008	2007
Directors expenses	\$ 2,848	0

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 period, the amounts due to related parties included in accounts payable and accrued liabilities were as follows:

	June 30, 2008	December 31, 2007
Due to a company controlled by a director	-	1,250
	<b>\$ -</b>	<b>\$ 1,250</b>