Softrock Minerals Ltd.

Financial Statements

December 31, 2008 and 2007

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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, 2008 and 2007 and the statements of operations, comprehensive loss 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

MacKay LLP

Calgary, Canada
April 23, 2009

Chartered Accountants

Softrock Minerals Ltd.

Statements of Operations, Comprehensive Loss and Deficit

For the year ended December 31,		2008		2007
Revenue				
Petroleum and natural gas sales	$	**13,066**	$	2,822
Royalty income		**54,821**		39,331
		67,887		42,153
Expenses				
Operating		**54,371**		81,312
Depreciation, depletion and accretion		**83,224**		107,856
Professional fees		**43,720**		36,577
General and administrative (note 12 (a))		**45,095**		40,318
Stock-based compensation (note 7(d))		**36,460**		-
Realized (gain) loss on sale of marketable securities (note 3)		**43,170**		(73,730)
Unrealized (gain) loss on marketable securities (note 3)		**(7,500)**		250,000
		298,540		442,333
Net loss and comprehensive loss		**(230,653)**		(400,180)
Deficit, beginning of year		**(2,157,399)**		(1,957,219)
Adjustment for change in accounting policy				
Financial instruments (note 2 (r))		**-**		200,000
Deficit, end of year	**$**	**(2,388,052)**	$	(2,157,399)
Net loss per share				
Basic and diluted (note 7(c))	**$**	**(0.01)**	$	(0.01)

Softrock Minerals Ltd.

Balance Sheets

December 31,		2008		2007
Assets				
Current				
Cash and cash equivalents	$	**35,998**	$	14,653
Accounts receivable		**10,560**		8,807
		46,558		23,460
Marketable securities (note 3)		**57,500**		150,000
Property, plant and equipment (note 4)		**157,265**		170,887
Advances to joint venture partners (note 5)		**7,073**		24,280
Deposits		**2,526**		-
	$	**270,922**	$	368,627
Liabilities				
Current				
Accounts payable and accrued liabilities (note 12 (b))	$	**97,520**	$	98,940
Asset retirement obligations (note 6)		**8,297**		10,389
		105,817		109,329
Shareholders' Equity				
Share capital (note 7(b))		**2,429,558**		2,329,558
Contributed surplus (note 8)		**123,599**		87,139
Deficit		**(2,388,052)**		(2,157,399)
		165,105		259,298
	$	**270,922**	$	368,627

Nature of operations and going concern (note 1)
Commitments and contingencies (note 9)

On behalf of the Board:

__________, Director

__________, Director

Softrock Minerals Ltd.

Statements of Cash Flows

For the year ended December 31,	2008	2007
Cash provided by (used for)		
Operating activities		
Net loss	**$ (230,653)**	$ (400,180)
Items not affecting cash		
Depreciation and depletion	**82,274**	107,279
Accretion of asset retirement obligations	**950**	577
Realized gain (loss) on sale of marketable securities	**43,170**	(73,730)
Unrealized (gain) loss on marketable securities	**(7,500)**	250,000
Stock-based compensation	**36,460**	-
	(75,299)	(116,054)
Changes in non-cash working capital items		
Accounts receivable	**(1,753)**	(1,526)
Accounts payable and accrued liabilities	**17,333**	(340)
	(59,719)	(117,920)
Financing activities		
Issue of common shares for cash	**100,000**	-
Repayment of debentures	**-**	(35,000)
	100,000	(35,000)
Investing activities		
Expenditures on property, plant and equipment	**(54,487)**	(129,192)
Advances to joint venture partners	**-**	(24,280)
Deposits	**(2,526)**	-
Accounts payable and accrued liabilities	**(18,753)**	28,127
Proceeds from sale of marketable securities	**56,830**	273,730
	(18,936)	148,385
Increase (decrease) in cash	**21,345**	(4,535)
Cash and cash equivalents, beginning of year	**14,653**	19,188
Cash and cash equivalents, end of year	**$ 35,998**	$ 14,653

Supplemental cash flow information

The Company had the following non-cash transactions:

	2008	2007
Asset retirement obligations revisions	**$ 3,042**	$ -
Cash calls paid transferred to property, plant and equipment	**17,207**	-
Fair value of warrants transferred to contributed surplus on expiry	**79,936**	-
Expenditures on oil and gas properties included in accounts payable	**25,824**	44,577

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 ability to continue as a going concern is assessed in note 13.

The Company has incurred recurring operating losses and has a working capital deficiency of $50,962 at December 31, 2008 (2007 - $75,480). 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. The business of oil and gas exploration and development involves a high degree of risk and there can be no assurance that current or future exploration programs will result in economically recoverable reserves.

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) Cash and cash equivalents

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

At December 31, 2008 and 2007 the Company did not hold any cash equivalents as all funds were held in an operating bank account with a Canadian financial institution.

2. Significant accounting policies (continued)

b) Marketable securities

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

c) 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.

d) 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)

e) Asset retirement obligations

The Company recognizes the estimated fair value of an asset retirement obligations ("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.

f) 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.

g) Revenue recognition

Revenues associated with sales of petroleum and natural gas is 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.

h) Loss per share

Basic loss per share is 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. (see note 7 (c)).

2. Significant accounting policies (continued)

i) Share capital - flow-through shares

The Company provides certain share subscribers with a flow-through component for tax benefits available on qualifying Canadian exploration expenditures. Upon renunciation to the shareholders, the Company reduces share capital and records a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient deductible temporary differences available to offset the future income tax liability created from renouncing qualifying expenditures, the realization of the deductible temporary differences will be shown as a recovery in operations in the period of renunciation.

j) Stock-based compensation

The Company has adopted an incentive stock option plan which is described in note 7 (d). 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.

k) Share issue costs

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital, and are net of applicable future income tax benefits.

l) Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as held for trading are expensed as incurred. Transaction costs related to financial instruments classified as other than held for trading are included in the initial carrying value of such instruments and amortized using the effective interest method, or if there are no fixed or determinable payments the transaction costs are expensed when the asset is derecognized or becomes impaired.

m) Valuation of equity units issued in private placements

Effective January 1, 2008, the Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

The effect of the adoption of the residual value method was applied retrospectively and resulted in the reclassification of $79,936 from fair value assigned to warrants to share capital in the prior year.

2. Significant accounting policies (continued)

n) Use of estimates

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 balance sheet date, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of management estimates include:

i. Recorded costs of property, plant and equipment are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

ii. The determination of the fair value of stock options or warrants using stock pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.

iii. The determination of future income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions can materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

iv. Option or sale agreements, under which the Company may receive shares as payment, require the Company to determine the fair value of the shares received. Many factors can enter into this determination, including, if public shares, the number of shares received, the trading value of the shares, and volume of shares, and if non-public shares, the underlying asset value of the shares, or value of the claims under option or sale. This determination is highly subjective and does not necessarily provide a reliable single measure of the fair value of the shares received.

o) New Accounting Standards

i) Section 1400, *General Standards of Financial Statement Presentation*

Effective January 1, 2008, the Company implemented amended CICA accounting Section 1400 which requires an entity to assess its ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The ability to continue as a going concern is assessed in note 13.

ii) Section 1535, *Capital Disclosures*

Effective January 1, 2008, the Company implemented CICA accounting Section 1535 which specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company discusses its capital management in note 13.

2. Significant Accounting Policies (continued)

o) New Accounting Standards (continued)

iii) Financial Instruments

Section 3862, *Financial Instruments Disclosures*
Section 3863, *Financial Instruments Presentation*

These sections are effective for the Company beginning January 1, 2008, and replace Section 3861, Financial Instruments Disclosure and Presentation. The new sections revise and enhance disclosure requirements, while carrying forward existing presentation requirements, and place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The Company discusses these risks in note 11.

p) New Accounting Standards Not Yet Adopted

i) Section 3064, *Goodwill and Intangible Assets*

Effective for fiscal years beginning on or after October 1, 2008 the CICA introduced new Handbook Section 3064 to replace existing standards and guidance on accounting for goodwill and other intangible assets. The new section specifically excludes mining activities related to prospecting, acquisition of mineral rights, exploration, drilling and mineral development as intangibles, as existing Handbook Section 3061 Property, Plant and Equipment contains standards for measurement, presentation, and disclosure of mining properties. The Company presently does not have any assets that would be affected by the new rules, and the adoption of this section will not have an impact on the financial statements and will be adopted by the Company on January 1, 2009.

ii) Section 1582, *Business combinations*
Section 1601, *Consolidated financial statements*
Section 1602, *Non-controlling interests*

These sections are effective for fiscal years beginning on or after January 1, 2011, and replace Section 1581, Business combinations and Section 1600, Consolidated financial statements. Early adoption is permitted provided the change is disclosed and all sections are applied at the same time. The Company is currently assessing the effects of these new sections on the consolidation of its subsidiaries and equity accounting of investees over which the Company has significant influence. These new sections provide the Canadian equivalent to International Financial Reporting Standards ("IFRS"), which will replace all Canadian standards and will be implemented as discussed below.

iii) International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010, and will require the Company to determine opening balances as of January 1, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2. Significant Accounting Policies (continued)

q) Financial instruments

As of January 1, 2007 the Company applied on a retroactive without restatement basis the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") regarding the recognition, measurement and presentation of financial instruments following the release of Sections 1530, -Comprehensive income, -3855, -Financial instruments – recognition and measurement, -3861, -Financial instruments – disclosure and presentation. Financial instruments are classified into one of the following four categories:

i) Financial assets and financial liabilities held for trading

Financial assets and financial liabilities held for trading are acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are recognized at fair value based on market prices, with any resulting gains and losses reflected in net income for the period in which they arise.

ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. They are measured at amortized cost using the effective interest rate method less any impairment loss. A gain or loss is recognized in net income when the financial asset is derecognized or impaired, and through the amortization process.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale, or that are not classified as loans and receivables, held-to-maturity investments, or held for trading. They are measured at fair value. Fair value is determined based on market prices. Equity instruments that do not have a quoted market price in an active market are measured at cost. Gains and losses are recognized directly in other comprehensive income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income is recognized in net income for the period.

iv) Loans and receivables and other financial liabilities

Loans and receivables and other financial liabilities are measured at amortized cost, using the effective interest rate method less any impairment loss.

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 financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities. Unless otherwise noted the fair value of these financial instruments approximates their carrying values.

Cash and cash equivalents and marketable securities are classified as financial assets held for trading and accounted for at fair value. Any changes in the fair value at the end of the fiscal period are classified as unrealized gains or losses on the income statement.

2. Significant Accounting Policies (continued)

q) Financial instruments (continued)

Accounts receivable, accounts payable and accrued liabilities are classified as loans and receivables and other financial liabilities and are measured at amortized cost, using the effective interest rate method.

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

i) Derivative instruments and hedging

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

ii) 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.

iii) 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.

3. Marketable securities

As at December 31, 2008, the Company held marketable securities with a market value of $57,500 (2007 - $150,000). For the year ended December 31, 2008, the Company realized a (loss) gain of $(43,170) (2007 - $73,730) on the disposition of marketable securities and an unrealized gain (loss) of $7,500 (2007 – $250,000).

4. Property, plant and equipment

			2008
	Cost	**Accumulated depletion**	**Net book value**
Petroleum and natural gas properties	**$ 1,038,157**	**$ 934,174**	**103,983**
Production equipment	**107,555**	**55,532**	**52,023**
Asset retirement costs	**7,175**	**5,916**	**1,259**
Furniture, fixtures and office equipment	**51,225**	**51,225**	**-**
	$ 1,204,112	**$ 1,046,847**	**$ 157,265**

4. Property, plant and equipment (continued)

			2007
	Cost	Accumulated depletion	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

During the year ended December 31, 2008, petroleum and natural gas properties included $157,265 (2007 - $170,887), 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 (2007 - $nil).

The Company's ceiling test calculation, performed at December 31, 2008, resulted in an impairment loss of $58,553 (2007 - $86,334) charged as additional depletion.

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. As cash calls are drawn down by the operator the Company transfers the applicable amount to property, plant and equipment. In 2008 $14,681 was transferred to property, plant and equipment.

6. Asset retirement obligations

The Company's asset retirement obligations result from working interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. As at December 31, 2008, the Company estimates the total undiscounted amount of cash flows required to settle its asset retirement to be approximately $13,016. The amount has been discounted using a credit-adjusted risk-free interest rate of 5.44% and an inflation rate of 2% 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
Revisions to previously recorded liabilities	**(3,042)**	-
Accretion expense	**950**	577
Balance, end of year	**$ 8,297**	$ 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	$ 2,353,122
Issued:				
Change in accounting policy - Reclassification of fair value assigned to warrants (note 2(m))	**-**	**-**	-	79,936
Private placement	**2,000,000**	**100,000**	-	-
Tax effect of 2006 flow-through renouncement	**-**	**-**		(103,500)
Balance, end of year	**18,429,446**	**$ 2,429,558**	16,429,446	$ 2,329,558

Share capital transactions in 2008:

On May 28, 2008 the Company completed a private placement of 2,000,000 units at a price of $0.05 per unit for gross proceeds of $100,000. Each unit consists of one common share and one common share purchase warrant. The warrant allows the holder to acquire one additional common share at $0.10 per share until May 29, 2010, as long as the weighted average trading price of the Company's common shares is $0.20 per share or better for thirty consecutive trading days on the TSX Venture exchange.

(c) Per share amounts

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

	2008	2007
Basic and diluted	**17,620,703**	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 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.

7. Share capital (continued)

(d) Stock options (continued)

	2008		2007	
	Stock options	**Weighted average exercise price ($)**	Stock options	Weighted average exercise price ($)
Outstanding, beginning of year	**1,100,000**	**0.15**	1,100,000	0.15
Granted and fully vested	**1,200,000**	**0.10**	-	-
Cancelled	**(1,100,000)**	**0.15**		
Outstanding, end of year	**1,200,000**	**0.15**	1,100,000	0.15

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

Number outstanding at December 31, 2008	**Weighted average remaining contractual life (years)**	**Number exercisable at December 31, 2008**	**Exercise price ($)**
1,200,000	4.75	1,200,000	0.10

The Company accounts for its stock-based compensation plan using the fair value based method. Under this method, compensation costs of $36,460 were recorded in the financial statements based on an estimated fair value of the options 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 123.57%; risk-free rate of 2.80% and expected life of five 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.

7. Share capital (continued)

(e) Warrants

A summary of the status of the common share purchase warrants as of December 31, 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
Issued	**2,000,000**	**0.10**	-	-
Expired	**(1,275,000)**	**0.17**	-	-
Outstanding, end of year	**2,000,000**	**0.10**	1,275,000	0.17

The following table summarizes information about warrants outstanding and exercisable at December 31, 2008:

Date	**Number of warrants**	**Exercise price ($)**	**Expiry date**
May 29, 2008	2,000,000	0.10	May 29, 2010
Exercisable, end of year	2,000,000		

The Company accounts for warrants issued using the residual value based method. Under this method, fair value assigned to the warrants issued during 2008 is $nil (2007 - $nil) based on an estimated fair value of the shares equal to the value of the units of $0.05 per share.

8. Contributed surplus

A summary of the status of contributed surplus as of December 31, 2008 and the changes during the year is presented below:

		2008		2007
Balance, beginning of year	**$**	**87,139**	$	88,139
Fair value assigned to stock-based compensation		**36,460**		-
Equity portion of convertible debentures		**-**		(1,000)
Balance, end of year	**$**	**123,599**	$	87,139

9. Commitments and contingencies

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. 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,	2008	2007
Loss before income taxes	**$ (230,653)**	$ (400,180)
Enacted income tax rate	**29.5%**	32.35%
Expected income tax (recovery)	**(68,000)**	(129,500)
Increase (decrease) in taxes resulting from:		
Stock-based compensation	**11,000**	-
Other	**-**	(1,000)
Non-taxable portion of capital (gains) losses	**6,000**	(12,000)
Non-taxable portion of unrealized capital (gains) losses	**(1,000)**	40,400
Impact of change in effective tax rate	**14,000**	155,700
Change in valuation allowance	**38,000**	(53,600)
Future income taxes (recovered)	**$ -**	$ -

(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, 2008 and 2007 are as follows:

As at December 31,	2008	2007
Non-capital losses	**$ 75,000**	$ 55,000
Asset retirement obligation	**2,000**	3,000
Property, plant and equipment	**326,000**	304,000
Marketable securities	**5,000**	6,000
Share issue costs	**3,000**	5,000
Total gross future tax assets	**411,000**	373,000
Valuation allowance	**(411,000)**	(373,000)
Net future income tax assets	**$ -**	$ -

10. Income taxes (continued)

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, 2008, the Company has available for deduction against future taxable income, the following approximate amounts:

	2008	Rate
Operating loss carry forwards	$ 299,000	100%
Share issue costs	13,000	20%
Canadian exploration expenditures	205,000	100%
Foreign exploration and development expenditures	1,153,000	10%
Capital cost allowances	102,000	20-25%

The availability of deduction of the operating loss carry forwards against future taxable income expires as follows:

Year expire:	Amount
2015	$ 7,000
2027	212,000
2028	80,000
	$ 299,000

11. Financial instruments

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

a) Credit risk

The Company is exposed to credit risk by holding cash and cash equivalents. This risk is minimized by holding the funds in large Canadian financial institutions or with Canadian governments. 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 balance of accounts receivable is represented by refundable credits due from Canadian government. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers.

b) Interest rate risk

The Company is not exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations as the Company does not maintain any cash equivalents or debt subject to interest.

11. Financial instruments (continued)

c) Market risk

The Company is exposed to market risk because of the fluctuating values of its publicly traded marketable securities. The Company has no control over these fluctuations and does not hedge its investments. Based on the December 31, 2008 portfolio values every 10% increase or decrease in the share price of the company held in marketable securities, would have impacted operations, up or down, by approximately $6,000 before taxes.

d) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

e) Currency risk

The Company is not exposed to any currency risk.

12. 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:

		2008		2007
For accounting services	**$**	**5,125**	$	4,338
For interest on debentures		**-**		1,055

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:

		2008		2007
Due to a director	**$**	**1,570**	$	2,177
Due to a company controlled by a director		**-**		2,100
	$	**1,570**	$	4,277

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

13. Risk management and capital management

The Company is a junior oil and gas company and considers items included in shareholders' equity as capital. The Company has no debt and does not expect to enter into debt financing. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or make special distributions to shareholders. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

The Company currently receives royalty income from a gross overriding royalty held and oil revenue from production received from its working interest in one well. Revenues are not sufficient to meet ongoing obligations and meet future exploration commitments in respect of its property, plant and equipment. In order to fund future projects and pay for administrative costs, the Company is required to sell its marketable securities and raise additional funds as needed. As at December 31, 2008, the Company had a working capital deficiency of $50,962 and shareholders' equity of $165,105. Management has assessed that its working capital position, marketable securities held and shareholders' equity are sufficient for the Company to continue as a going concern beyond one year. The Company's ability to continue as a going concern on a long term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon its ability to develop, sell or option its property, plant and equipment and its ability to borrow or raise additional financing from equity markets.

14. Comparative figures

Certain of the comparative figures have been reclassified to conform to current year's presentation. Net loss for the prior year and deficit end of year remain unchanged.