NEW RANGE RESOURCES LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

hudson LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To: The Shareholders of
New Range Resources Ltd.

We have audited the balance sheets of **New Range Resources Ltd.** (the "Company") as at December 31, 2007 and 2006 and the statements of operations, 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.

Hudson LLP

Calgary, Alberta
March 20, 2008

HUDSON LLP
Chartered Accountants

NEW RANGE RESOURCES LTD.
BALANCE SHEETS

DECEMBER 31		2007		2006
ASSETS				
CURRENT				
Accounts receivable (note 5)	$	285,929	$	648,811
Prepaid expenses		18,239		17,545
		304,168		666,356
PETROLEUM AND NATURAL GAS PROPERTIES (note 6)		4,641,153		4,299,444
	$	4,945,321	$	4,965,800
LIABILITIES				
CURRENT				
Bank indebtedness (note 7)	$	698,369	$	285,662
Accounts payable and accrued liabilities (note 5)		580,217		1,470,134
Loan payable (note 8)		700,000		-
		1,978,586		1,755,796
ASSET RETIREMENT OBLIGATION (note 9)		496,474		234,197
		2,475,060		1,989,993
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (note 10)		3,230,411		3,256,332
CONTRIBUTED SURPLUS (note 11)		410,179		286,463
DEFICIT		(1,170,329)		(566,988)
		2,470,261		2,975,807
	$	4,945,321	$	4,965,800

Approved on behalf of the Board

Hugh M. Thomson *(signed)*

Thomas W. Robinson *(signed)*

NEW RANGE RESOURCES LTD.
STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31	2007	2006
REVENUE		
Revenue	$ 1,404,055	$ 883,228
Royalties	(238,628)	(115,340)
Interest income	77	17,731
	1,165,504	785,619
EXPENSES		
Amortization, depletion and accretion	659,573	447,974
Operating expenses	510,417	275,262
Administration expenses (note 5)	358,575	558,026
Stock-based compensation (note 10)	123,716	272,293
Interest and bank charges	96,348	62,928
	1,748,629	1,616,483
LOSS BEFORE INCOME TAXES	(583,125)	(830,864)
INCOME TAX RECOVERY (note 12)		
Current	(19,200)	-
Future	-	(336,135)
	(19,200)	(336,135)
NET AND COMPREHENSIVE LOSS	$ (563,925)	$ (494,729)
BASIC AND DILUTED LOSS PER SHARE (note 13)	$ (0.024)	$ (0.025)

NEW RANGE RESOURCES LTD.
STATEMENTS OF DEFICIT

YEARS ENDED DECEMBER 31	2007	2006
DEFICIT, beginning of years	$ (566,988)	$ (72,259)
Net and comprehensive loss	(563,925)	(494,729)
	(1,130,913)	(566,988)
Normal course issuer bid (note 10)	(39,416)	-
DEFICIT, end of years	$ (1,170,329)	$ (566,988)

NEW RANGE RESOURCES LTD.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net and comprehensive loss	$ (563,925)	$ (494,729)
Items not affecting cash		
Amortization, depletion and accretion	659,573	447,974
Future income taxes	-	(336,135)
Stock based compensation	123,716	272,293
	219,364	(110,597)
Change in non-cash working capital items		
Accounts receivable	221,589	(337,564)
Prepaid expenses	(694)	(12,083)
Accounts payable and accrued liabilities	(345,954)	365,656
	94,305	(94,588)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of petroleum and natural gas properties	48,000	31,000
Purchase of petroleum and natural gas properties	(787,005)	(1,853,537)
Cash received on acquisition (note 3)	-	329,789
Changes in non-cash working capital relating to investing activities		
Accounts receivable	141,293	(154,410)
Accounts payable	(543,963)	794,210
	(1,141,675)	(852,948)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan payable	700,000	-
Share issuance costs	-	(234,347)
Issuance of share capital	-	486,000
Normal course issuer bid (note 10)	(65,337)	-
	634,663	251,653
CHANGE IN CASH POSITION	(412,707)	(695,883)
CASH (DEFICIENCY), beginning of years	(285,662)	410,221
DEFICIENCY, end of years	$ (698,369)	$ (285,662)

Non-Cash Transactions:

On March 30, 2006, the Company issued 14,238,500 common shares in exchange for all of the issued and outstanding shares of Open Range Resources Ltd. (note 3).

OTHER INFORMATION		
Interest paid	$ 96,348	$ 62,928

1. NATURE OF OPERATIONS

New Range Resources Ltd. (the "Company") was incorporated under the provisions of the Business Corporations Act (Alberta) on April 7, 2004 as Open Range Capital Corp., and became New Range Resources Ltd. on March 30, 2006 upon the amalgamation with Open Range Resources Ltd. ("OR Resources") (a private company, related by way of common control). The Company began trading on October 14, 2004 and trades under the symbol of RGE on the TSX Venture Exchange.

The Company's principal business activity is participation in various producing oil and gas properties in Alberta and is also in the process of exploring and developing other oil and gas properties in Alberta.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, in accordance with the applicable transitional provisions, the Company adopted without restating prior periods, the new recommendations of the CICA Handbook included in Section 3855: Financial Instruments – Recognition and Measurement, Section 3865: Hedges, Section 1530: Comprehensive Income and Section 3861: Financial Instruments – Disclosure and Presentation. Section 3855 and 3861 deal with the classifications, recognition, measurements, presentation and disclosure of financial instruments and nonfinancial derivatives in the financial statements. Section 3865 deals with the standards for when and how hedge accounting may be applied. Section 1530 deals with the presentation of comprehensive income and its components, including net income and components of comprehensive income and Section 3251 deals with the presentation of equity and changes in equity for the period.

Adoption of these recommendations has the following impact on the classification and measurement of the Company's financial instruments:

Cash is classified as "held-for-trading". It is measured at fair value and changes in fair value are recognized in earnings.

Accounts receivable is classified as "loans and receivables" and is measured at amortized cost, which is generally the amount on initial recognition less an allowance for doubtful accounts.

Accounts payable and accrued liabilities, bank indebtedness and loan payable are classified as other financial liabilities and are measured at cost.

These changes had no impact at the time of initial adoption of classification on the opening balances.

3. BUSINESS COMBINATIONS

On March 30, 2006, the Company acquired all the issued and outstanding shares of OR Resources, on the basis of one common share of the Company for each common share of OR Resources. Upon acquisition, OR Resources and the Company were amalgamated to form New Range Resources Ltd.

The acquisition was accounted for using the continuity of interest method. The results of operations are included in the accounts as if the two entities had always operated together. Details of the acquisition are as follows:

Purchase consideration:	
Shares issued	$ 2,888,000
The total purchase consideration was assigned to the net assets acquired based on their fair values as follows:	
Cash	$ 329,789
Accounts receivable	153,979
Prepaid expenses	5,462
Petroleum and natural gas properties	2,994,768
Accounts payable	(291,914)
Asset retirement obligations	(304,084)
	$ 2,888,000

The Company issued 14,238,500 shares as consideration for the purchase of OR Resources. The value of these shares were determined using the carrying value of shares at the date of acquisition as the parties were non-arms length and there was no change of control.

The operations of Siga Resources Ltd., the entity purchased by OR Resources during 2006, have been consolidated from January 1, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are accounts receivable, petroleum and natural gas properties, accounts payable and accrued liabilities, asset retirement obligation and stock-based compensation.

Cash

Cash on deposit consists of cheques in excess of funds on deposit.

Capitalized costs

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized whether successful or not. Such costs include land acquisitions, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment, asset retirement costs and the portion of general and administrative expenses directly attributable to exploration and development activities.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless such a sale would alter the rate of depletion by greater than twenty percent.

Amortization and depletion

Amortization and depletion of petroleum and natural gas properties and equipment is provided for using the unit-of-production method based on estimated proven petroleum and natural gas reserves before any royalty deductions as determined by independent engineers. For the purpose of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproven properties are excluded from costs subject to amortization and depletion until it is determined whether proven reserves are attributable to the properties or impairment occurs.

Other property, plant and equipment are recorded at cost and are amortized at an annual rate of 20%.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Asset retirement obligations

The fair value of an asset retirement obligation is recognized in the period in which the obligation is incurred, and is discounted to its present value using the Company's credit adjusted risk-free interest rate. The fair value of the estimated obligation is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion, depreciation and amortization of the underlying asset. The liability amount is increased in each reporting period due to 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 costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Ceiling test

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount for undiscounted future prices, plus unproved properties. If the carrying amount exceeds the ultimate recoverable amount, an impairment loss is recognized in net earnings. The impairment loss is limited to the amount by which the carrying amount exceeds: (i) the sum of the fair value of proved and probable reserves; and (ii) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Joint ventures

A portion of the Company's exploration, development and production activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Revenue recognition

Revenues associated with sales of crude oil, natural gas, and natural gas liquids are recorded when the products are delivered. Delivery occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. Royalty revenues are recognized when they become receivable. The Company does not enter into ongoing arrangements whereby it is required to repurchase its products, nor does the Company provide the customer with a right of return.

Interest income is recognized in the period it is earned.

Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Loss per share

The calculation of basic loss per share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. In addition, diluted common shares also include the effect of the potential exercise of any outstanding warrants.

Stock-based compensation

The Company has a stock based compensation plan, which is described in note 10. Awards of options under this plan are expensed based on the fair value of the options at the grant date and credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is generated when the renouncements related to the corresponding exploration and development expenditures are filed with the tax authorities.

5. RELATED PARTY TRANSACTIONS

During the year, the Company paid $45,200 (2006 - $43,650) for office and administrative expenses, to a company related by common directors; $100,000 (2006 - $36,000) was paid to a company controlled by a director for management consulting services and $33,000 (2006-$24,000) to a company controlled by a director for land consulting services. A total of $48,991 (2006 - $nil) was paid to two companies controlled by common shareholders and directors for interest on short-term loans. Legal fees totaling $45,115 (2006 - $19,909) were paid to a law firm who employs a director of the Company.

The Company also is a joint venture partner with a company related by two common directors. Certain revenue and expense amounts related to the joint venture are allocated from this related-company to Company on a monthly basis.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Included in accounts receivable is $54,172 (2006 - $156,000), in accounts payable and accrued liabilities is $9,000 (2006 - $319,679) and the loan payable balance of $700,000 (2006 - $nil) is owed to related parties with common director and shareholders.

6. PETROLEUM AND NATURAL GAS PROPERTIES

	2007		
	Cost	Accumulated amortization and depletion	Net
Petroleum and natural gas properties	$ 7,281,472	$ 2,640,319	$ 4,641,153

	2006		
	Cost	Accumulated amortization and depletion	Net
Petroleum and natural gas properties	$ 6,300,459	$ 2,001,015	$ 4,299,444

The Company performed a ceiling test at December 31, 2007 and December 31, 2006 and no write-down was required for the years then ended. The following independent reserve engineering prices and inflation rates were used to perform the ceiling test in 2007:

	Edmonton Crude Oil ($Cdn/bbl)	AECO Natural Gas ($Cdn/ MMBtu)	Inflation Rate (%)
2008	$ 88.35	$ 6.70	2
2009	85.75	7.50	2
2010	83.10	7.75	2
2011	80.50	7.90	2
2012	77.85	8.05	2

7. BANK INDEBTEDNESS

The Company has a demand revolving operating loan facility with a Canadian chartered bank, to be used for development and acquisition of petroleum and natural gas properties and related assets. At December 31, 2007, the credit facility available was for up to $665,000 (2006 - $850,000). This credit facility is secured by a fixed and floating charge debenture over all assets, a general security agreement and a general assignment of book debts. The facility bears interest at prime plus 0.25%, payable monthly.

8. LOAN PAYABLE

At December 31, 2007, the Company had a short term loan from a related party, related by a common shareholder, totaling $700,000 (2006 - $nil). The loan bears interest payable monthly at prime plus 4% per annum. There is no collateral and the balance is due on demand.

9. ASSET RETIREMENT OBLIGATION

The estimated cash flows of asset retirement obligations have been discounted at 6.25% (2006-7.00%). The total undiscounted amount of the estimated cash flows required to settle the obligations is $603,381 (2006 - $303,000). Payments to settle the obligation occur on an ongoing basis and will continue over the life of the operating assets, which is estimated to be an average of ten years.

For the Company, asset retirement obligations relate to the abandonment of oil and gas producing facilities. While plant and battery equipment have asset retirement obligations associated with them, obligations have not been recognized since the fair value cannot be estimated due to the uncertainty of the settlement date of the obligation.

The following table reconciles the Company's total asset retirement obligations:

	2007	2006
Balance, beginning of year	$ 234,197	$ -
Liabilities acquired through acquisition	-	304,084
Change in accounting estimate	242,008	(163,823)
Accretion expense	20,269	93,936
	$ 496,474	$ 234,197

10. SHARE CAPITAL

Authorized
Unlimited number of Common voting shares, without nominal or par value.
Unlimited number of Preferred shares, without nominal or par value, issuable in series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Common shares issued

	Number	Amount
Balance December 31, 2005	7,000,000	$ 452,814
Agent options exercised in January 2006	400,000	40,000
February 2006 share issuance	2,230,000	446,000
Shares issued on acquisition of Open Range Resources Ltd.	14,238,500	2,888,000
Tax effect of flow-through shares	-	(336,135)
Share issuance costs	-	(234,347)
Balance December 31, 2006	23,868,500	3,256,332
Normal course issuer bid purchases	(190,000)	(25,921)
Balance December 31, 2007	23,678,500	$ 3,230,411

10. **SHARE CAPITAL, continued**

During January 2006, agent options were exercised, and the Company issued 400,000 common shares at a price of $0.10 per share for proceeds of $40,000.

During February 2006, the Company issued 2,230,000 common shares at a price of $0.20 per share for proceeds of $446,000.

On March 30, 2006, the Company issued 14,238,500 common shares in exchange for all of the issued and outstanding shares of Open Range Resources Ltd. at a deemed price of $0.20 per share. For accounting purposes, however, the shares have been valued based on the carrying value of net assets of Open Range Resources Ltd. Continuity of interest accounting was used as this was considered to be a related party and there was no change in control. The carrying value of these assets was $2,888,000.

The Company has received all required regulatory approvals including approval by the TSX Venture Exchange in compliance with applicable securities laws, rules and regulations, to make a normal-course issuer bid to repurchase up to 2,053,350 of its common voting shares, being 10 per cent of the Company's public float as defined in the policies of the TSX Venture Exchange. The bid commenced on January 17, 2007, and ended on January 16, 2008. In January and February 2007 the Company purchased 190,000 common shares in the market for $65,337 at an average purchase price of $0.34 per share. The average cost base of the shares repurchased was $0.13643/share and as such $25,921 has been deducted from share capital, with the remaining $39,416 charged to deficit.

Escrowed shares

Under the requirements of the TSX Venture Exchange there are nil (2006 - 1,500,000) seed-capital common shares remaining in escrow of the original 3,000,000.

Also under the requirements of the TSX Venture Exchange there are nil (2006 - 383,750) common shares remaining in escrow of the original 767,500.

10. SHARE CAPITAL, continued

Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants to the Company with common shares to be reserved for issuance as options not to exceed 10% of the issued and outstanding common shares.

Pursuant to the Agency Agreement related to the public offering that took place on October 14, 2004, the Agent received non-transferable options to purchase 400,000 shares at a price of $0.10 per common share. These options were exercised during January 2006.

On April 1, 2006, the Company granted 1,275,000 options to purchase common shares to officers, directors and consultants. These options vested immediately, carry an exercise price of $0.25, and expire on April 1, 2011. Upon cessation of employment of an officer, director or consultant, the options will expire 90 days from the cessation date. Stock-based compensation expense of $358,874 was recorded, with a corresponding credit to contributed surplus. The amount of compensation expense was based on the fair value of the options. Also, during the year, upon cessation of a consultants contract, 275,000 options were cancelled.

On August 15, 2006, the Company granted 80,000 options to purchase common shares to officers, directors and consultants. These options vested immediately, carry an exercise price of $0.25, and expire on August 15, 2011. Stock-based compensation expense of $18,122 was recorded, with a corresponding credit to contributed surplus. During 2007, upon cessation of a consultant's contract, 50,000 options were cancelled.

On February 9 and 15, 2007, the Company granted 510,000 options to purchase common shares to officers, directors and consultants. These options vest immediately, carry an exercise price of $0.30 per share and expire on February 9 and 15, 2012. Upon cessation of employment of an officer, director or consultant, the options will expire 90 days from the cessation date. Stock-based compensation expense of $123,716 was recorded, with a corresponding credit to contributed surplus.

The fair value of the stock options granted in 2007 have been determined using the Black-Scholes option-pricing model using the following assumptions; dividend yield (nil), expected volatility of 112% (2006 - 110%), market risk-free interest rate of 3.0% (2006 - 3%), and expected life of 5 years (2006 - 5 years).

10. SHARE CAPITAL, continued

The following transactions occurred in 2007 and 2006:

	Number	Weighted average exercise price
Outstanding December 31, 2005	1,100,000	$ 0.10
Issued, April 1, 2006	1,275,000	0.25
Issued, August 15, 2006	80,000	0.25
Exercised in the year	(400,000)	0.10
Cancelled in the year	(275,000)	0.25
Outstanding December 31, 2006	1,780,000	0.19
Issued, February 9, and 15 2007	510,000	0.30
Expired in 2007	(50,000)	0.25
Outstanding December 31, 2007	2,240,000	$ 0.21

Options outstanding	Exercise price	Options exercisable at December 31, 2007	Expiry date
700,000	$ 0.10	700,000	May 11, 2009
1,000,000	0.25	1,000,000	April 1, 2011
30,000	0.25	30,000	August 15, 2011
60,000	0.30	60,000	February 9, 2012
450,000	0.30	450,000	February 15, 2012
2,240,000		2,240,000	

11. CONTRIBUTED SURPLUS

	2007	2006
Opening balance	$ 286,463	$ 14,170
Options issued, April 1, 2006	-	254,171
Options issued, August 15, 2006	-	18,122
Options issued, February 9 and 15, 2007	123,716	-
	$ 410,179	$ 286,463

12. INCOME TAXES

a) The components of future income tax balances are as follows:

	2007	2006
Future income tax asset		
Non-capital loss carry-forwards	$ 320,704	$ 136,592
Carrying value of petroleum and natural gas properties in excess of tax basis	(255,989)	(205,325)
Share issue costs	50,585	68,733
	115,300	-
Valuation allowance	(115,300)	-
	$ -	$ -

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 29.50% (2006 - 32.12%) to the loss for the years as follows:

	2007	2006
Loss for the year before income taxes	$ (583,125)	$ (830,864)
Anticipated income tax recovery	(172,022)	(266,874)
Benefit of income tax losses not recognized	-	80,993
Income tax losses utilized prior to acquisition of business combination	-	(126,699)
Permanent income differences	36,936	44,812
Share issue costs	(18,548)	(12,062)
Change in valuation allowance	115,300	(20,151)
Income tax rate adjustment	-	(7,187)
Recovery of prior years taxes from acquisitions	19,200	-
Other	(66)	(28,967)
Recovery of income taxes	$ (19,200)	$ (336,135)

As at December 31, 2007, the Company has approximately $3,277,000 (2006 - $3,390,000) of Canadian tax pools available for deduction against future taxable income. The Company also has Canadian non-capital tax losses of approximately $1,087,000 (2006 - $425,000) available for deduction against future taxable income that expire between 2014 and 2027.

13. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of stock options outstanding. Loss per share is calculated as follows:

	2007		
	Net loss	Weighted average common shares	Loss per share
Basic and diluted	$ (563,925)	23,690,974	(0.024)

	2006		
	Net loss	Weighted average common shares	Loss per share
Basic and diluted	$ (494,729)	19,903,875	(0.025)

14. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of accounts receivable which will result in future cash receipts, as well as bank indebtedness, accounts payable and accrued liabilities and loan payable which will result in future cash outlays.

The nature of the Company's operations result in exposure to fluctuations in commodity prices, exchange rates and interest rates. The Company does not use derivative financial instruments to manage its exposure to these risks.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. During 2007 and 2006, a small number of customers comprised the majority of the Company's oil and gas revenue and accounts receivable. Since these sales could be made to other buyers on terms that would allow the reporting entity to continue as a viable economic entity, the economic dependency on these customers is minimized.

14. FINANCIAL INSTRUMENTS, continued

(b) Fair value

It is management's opinion that the Company's carrying values of accounts receivable, bank indebtedness and accounts payable and accrued liabilities equals their fair values due to the immediate or short-term maturity of these instruments.

The fair value of the loan payable is less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

(c) Interest rate risk

The Company is exposed to interest rate risk through floating rate borrowings. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

15. RECENT ACCOUNTING PRONOUNCEMENTS

Recently the Accounting Standards Board (AcSB) approved new accounting recommendations which have not yet come into effect. The following is a summary of the new recommendations:

(a) Going concern

For fiscal years beginning on or after January 1, 2008 the AcSB issued recommendations for assessing and disclosing an entity's ability to continue as a going concern. Section 1400 of the CICA Handbook (which was announced in June 2007) requires management to assess their ability to continue as a going concern.

(b) Capital disclosures

The AcSB have issued Section 1535 with an effective date for periods commencing on or after October 1, 2007. This standard will require the Company to make disclosures regarding:

- the Company's objectives, policies and processes for managing capital;
- quantitative data about what the Company regards as capital;
- whether the Company had complied with any capital requirements; and
- if it has not complied, the consequences of such non-compliance.

Management are currently reviewing the impact that this standard will have on the Company's financial statements.

15. RECENT ACCOUNTING PRONOUNCEMENTS, continued

(c) Financial instruments disclosure and presentation

In December 2006, the AcSB issued Section 3862, "Financial Instruments - Disclosure", and Section 3863, "Financial Instruments - Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carried forward existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. These new requirements are for disclosure only and will not impact the financial results of the Company.