NEW RANGE RESOURCES LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

hudson LLP
CHARTERED ACCOUNTANTS

300, 625 - 11th Avenue SW, Calgary, Alberta T2R 0E1
T 403.265.0340 F 403.265.3142 www.hudsonllp.ca

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, 2008 and 2007 and the statements of operations and deficit and cash flows for the Year 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 Year then ended in accordance with Canadian generally accepted accounting principles.

Hudson LLP

Calgary, Alberta
April 20, 2009

HUDSON LLP
Chartered Accountants

NEW RANGE RESOURCES LTD.

BALANCE SHEETS

DECEMBER 31		2008		2007
ASSETS				
CURRENT				
Accounts receivable (note 5)	$	291,316	$	285,929
Prepaid expenses		32,245		18,239
		323,561		304,168
PETROLEUM AND NATURAL GAS PROPERTIES (note 6)		3,190,000		4,641,153
	$	3,513,561	$	4,945,321
LIABILITIES				
CURRENT				
Bank indebtedness	$	877,152	$	698,369
Accounts payable and accrued liabilities (note 5)		365,854		580,217
Loan payable (note 8)		650,000		700,000
Contingent liability (note 12)		20,000		-
		1,913,006		1,978,586
ASSET RETIREMENT OBLIGATION (note 9)		483,994		496,474
		2,397,000		2,475,060
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (note 10)		3,230,411		3,230,411
CONTRIBUTED SURPLUS (note 11)		410,179		410,179
DEFICIT		(2,524,029)		(1,170,329)
		1,116,561		2,470,261
	$	3,513,561	$	4,945,321

Going concern (note 3)

Contingent liability (note 12)

Approved on behalf of the Board

Hugh Thomson *(signed)*

Thomas Robinson *(signed)*

NEW RANGE RESOURCES LTD.
STATEMENTS OF OPERATIONS AND DEFICIT

YEAR ENDED DECEMBER 31	2008	2007
REVENUE		
Revenue	$ 2,040,551	$ 1,404,055
Interest income	349	77
Royalties	(331,281)	(238,628)
	1,709,619	1,165,504
EXPENSES		
Amortization, depletion and accretion	805,367	659,573
Interest and bank charges	100,094	96,348
Operating expenses	629,847	510,417
Office and administration	324,191	358,575
Stock based compensation	-	123,716
	1,859,499	1,748,629
LOSS BEFORE THE FOLLOWING ITEMS	(149,880)	(583,125)
OTHER EXPENSES		
Impairment on petroleum and natural gas properties (note 6)	1,183,820	-
Working interest payout (note 12)	20,000	-
	1,203,820	-
LOSS BEFORE INCOME TAXES	(1,353,700)	(583,125)
INCOME TAX RECOVERY (note 14)		
Current	-	(19,200)
NET LOSS	(1,353,700)	(563,925)
DEFICIT, beginning of year	(1,170,329)	(566,988)
Normal course issuer bid (note 10)	-	(39,416)
DEFICIT, end of year	$ (2,524,029)	$ (1,170,329)
BASIC AND DILUTED LOSS PER SHARE (note 13)	(0.057)	(0.024)

NEW RANGE RESOURCES LTD.
STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,353,700)	$ (563,925)
Items not affecting cash		
Amortization, depletion and accretion	805,367	659,573
Stock based compensation	-	123,716
Impairment on petroleum and natural gas properties	1,183,820	-
	635,487	219,364
Change in non-cash working capital items		
Accounts receivable	(5,387)	221,589
Prepaid expenses	(14,006)	(694)
Accounts payable and accrued liabilities	(214,363)	(345,954)
Contingent liability	20,000	-
	421,731	94,305
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of petroleum and natural gas properties	-	48,000
Purchase of petroleum and natural gas properties	(550,514)	(787,005)
Changes in non-cash working capital relating to investing activities		
Accounts receivable	-	141,293
Accounts payable	-	(543,963)
	(550,514)	(1,141,675)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank indebtedness	178,783	412,707
Loan payable	(50,000)	700,000
Normal course issuer bid	-	(65,337)
	128,783	1,047,370
CHANGE IN CASH POSITION	-	-
CASH, beginning of year	-	-
CASH, end of year	$ -	$ -
OTHER INFORMATION		
Interest paid	$ 100,094	$ 96,348

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 the 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. CHANGE IN ACCOUNTING POLICY

Going Concern

The Canadian Institute of Chartered Accountants amended ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation. There were no changes required to the financial statements as a result of this change.

Financial Instruments

Effective January 1, 2008, the Company prospectively adopted the new CICA Handbook Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation. The purpose of these sections is to enhance the financial statement users' ability to evaluate, the significance of financial instruments on an entity's financial position, performance and cash flows; the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date; and how the entity manages those risks.

The new standards require additional disclosure with no effect on the financial position, results of operations or cash flows in 2008.

Capital Disclosure

Effective January 1, 2008, the Company adopted the new CICA Handbook Section 1535, Capital Disclosures for disclosure of an entity's objectives, policies and processes for managing capital. The new standard requires additional disclosure with no effect on the financial position, results of operations or cash flows in 2008.

3. GOING CONCERN

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

The Company has a working capital deficiency of $1,589,445 (2007 - $1,674,418) and incurred a net loss of $1,353,700 (2007 - $563,925). The continued operations of the Company are dependent on obtaining additional capital resources for the exploration and development of oil and gas properties and achieving and maintaining profitable operations. Management is currently investigating the Company's options however there is no certainty that management will be able to accomplish these matters.

Failure to achieve a favourable financial position as described above may result in financial difficulties which would make the use of the going concern assumption invalid. If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities and the reported expenses and the balance sheet classifications used.

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.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

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 amortized at an annual rate of 20% using declining balance method.

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 total amount that is recoverable based on expected cash flows at undiscounted future prices. 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.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Financial instruments

The Company has classified their financial instruments in the following categories:

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.

Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items, in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

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 $51,511 (2007 - $45,200) for office and administrative expenses, to a company related by common directors; $72,000 (2007 - $100,000) was paid to a company controlled by a director for management consulting services and $nil (2007 - $33,000) to a company controlled by a director for land consulting services. A total of $66,145 (2007 - $48,991) was paid to two companies controlled by common shareholders and directors for interest on short-term loans. Legal fees totaling $20,922 (2007 - $45,115) were paid to a law firm who employs a director of the Company.

The Company is also 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 the 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 $60,960 (2007 - $54,172), accounts payable and accrued liabilities of $78,455 (2007 - $9,000) and a loan payable of $650,000 (2007 - $700,000) is owed to related parties with common director and shareholders.

6. PETROLEUM AND NATURAL GAS PROPERTIES

			2008
	Cost	Accumulated amortization and depletion	Net
Petroleum and natural gas properties	$ 7,799,397	$ 4,609,397	$ 3,190,000

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

6. PETROLEUM AND NATURAL GAS PROPERTIES, continued

The following independent reserve engineering prices and inflation rates were used to perform the ceiling test in 2008:

	Edmonton Crude Oil ($Cdn/bbl)	AECO Natural Gas ($Cdn/ MMBtu)	Inflation Rate (%)
2009	64.50	7.27	2
2010	74.74	7.65	2
2011	86.83	8.12	2
2012	91.79	8.54	2
2013	93.74	8.82	2

For the year ending December 31, 2008, the Company recorded impairment on its petroleum and natural gas properties of $1,183,820.

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, 2008, the credit facility available was for up to $880,000 (2007 - $665,000). 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 requires monthly principle repayments of $40,000 plus interest at prime plus 0.25%.

8. LOAN PAYABLE

At December 31, 2008, the Company had a short term loan from a related party, related by a common shareholder, totaling $650,000 (2007 - $700,000). 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 5.00% (2007 - 6.25%). The total undiscounted amount of the estimated cash flows required to settle the obligations is $602,221 (2007 - $603,381). 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, certain obligations have not been recognized since the fair value cannot be estimated due to the uncertainty of the settlement date of the obligation.

9. ASSET RETIREMENT OBLIGATION, continued

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

	2008	2007
Balance, beginning of year	$ 496,474	$ 234,197
Change in accounting estimate	(32,589)	242,008
Accretion expense	20,109	20,269
	$ 483,994	$ 496,474

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, 2006	$ 23,868,500	$ 3,256,332
Normal course issuer bid purchases	(190,000)	(25,921)
Balance December 31, 2008 and 2007	$ 23,678,500	$ 3,230,411

During early 2007 the Company 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 percent 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 was deducted from share capital, with the remaining $39,416 charged to deficit.

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.

The following transactions occurred in 2008 and 2007:

	Number	Weighted average exercise price
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
Expired in 2008	(530,000)	0.22
Outstanding December 31, 2008	1,710,000	$ 0.21

Options outstanding	Exercise price	Options exercisable at December 31, 2008	Expiry date
545,000	$ 0.10	545,000	October 10, 2009
725,000	0.25	725,000	April 11, 2011
30,000	0.25	30,000	August 15, 2011
60,000	0.30	60,000	February 9, 2012
350,000	0.30	350,000	February 15, 2012

During 2007, upon cessation of a consultant's contract, 50,000 options were cancelled.

On February 9 and 15, 2007, the Company granted a total of 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, expected volatility of 112%, market risk-free interest rate of 3.0%, and expected life of 5 years.

During 2008, upon resignation of a director, 530,000 options were cancelled with a weighted average exercise price of $0.22.

11. CONTRIBUTED SURPLUS

	2008	2007
Opening balance	$ 410,179	$ 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	$ 410,179

12. CONTINGENT LIABILITY

During 2006 the Company amalgamated with OR Resources and as a result it consolidated operations with OR Resources and Siga Resources, a company owned by OR Resources. Subsequently a claim relating to an unpaid working interest has been brought against Siga Resources. Being that the Company is the amalgamation successor of Siga Resources it is likely that a settlement for the claim will be paid. As a result, a contingent liability of $20,000 is recorded on the balance sheet and in the statement of operations.

Additionally one of the Company's joint venture partners have instituted legal actions against a third party which is also a joint venture partner in the same property. If the action is successful the Company could be liable for expenses totaling $280,000. These proceedings are being contested and it is not possible at this time to predict their ultimate outcome. Accordingly, no provision for the liability, if any, has been made in the financial statements.

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:

	2008		
	Net loss	Weighted average common shares	Loss per share
Basic and diluted	$ (1,353,700)	23,678,500	(0.057)

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

14. INCOME TAXES

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

	2008	2007
Future income tax asset		
Non-capital loss carry-forwards	$ 296,282	$ 320,704
Carrying value of petroleum and natural gas properties in excess of tax basis	195,893	(255,989)
Share issue costs	31,493	50,585
	523,668	115,300
Valuation allowance	(523,668)	(115,300)
	$ -	$ -

14. INCOME TAXES, continued

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 29.0% (2007 - 29.5%) to the loss for the years as follows:

	2008	2007
Loss for the year before income taxes	$ (1,353,700)	$ (583,125)
Anticipated income tax recovery	$ (392,573)	$ (172,022)
Benefit of income tax losses not recognized	(17,257)	-
Permanent income differences	244	36,936
Share issue costs	-	(18,548)
Change in valuation allowance	408,368	115,300
Income tax rate adjustment	1,954	(66)
Recovery of prior years taxes from acquisitions	(736)	19,200
Income tax recovery	$ -	$ (19,200)

As at December 31, 2008, the Company has approximately $3,301,990 (2007 - $3,277,000) of Canadian tax pools available for deduction against future taxable income.

For income tax purposes, the Company has losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses expire as follows:

2015	$ 14,604
2026	484,767
2027	522,290
	$ 1,021,661

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to improve the Company's financial capacity and liquidity to continue as a going concern; to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and to enable the Company to maximize growth by meeting its capital expenditure budget and to expend its budget to take advantage of profitable exploration and development opportunities.

The Company's capital structure includes shareholders' equity, and loan payable ("Total debt").

	2008	2007
Shareholders' equity	$ 1,116,561	$ 2,470,261
Total debt	650,000	700,000
	$ 1,766,561	$ 3,170,261

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may obtain new debt or issue equity instruments, reduce debt levels, refinance terms of existing debt, or make adjustments to its capital expenditure program.

The Company's shareholders' equity is not subject to external restrictions, however its credit facility is based on its petroleum and natural gas reserves, maintaining certain revenue levels and holding adequate insurance coverage. The Company is in compliance with all externally imposed capital requirements.

The Company's objectives with regard to capital management remain unchanged from 2007.

16. 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) Market risk

Market risk is the risk or uncertainty arising from possible market price or interest rate movements and their impact on the future performance of the business. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

16. FINANCIAL INSTRUMENTS, continued

(b) Interest rate risk

The Company is exposed to interest rate cash flow risk on its outstanding borrowings, specifically, on the floating rate element of its credit facility and bank indebtedness. All the Company's borrowings have a floating interest rate component. The Company manages this risk through regular review of market conditions and interest rates, for which, if considered necessary, recommendations for changes to existing financing or new arrangements are presented to the board of directors for approval.

A 1% change in the interest rate would affect net loss for the year ended December 31, 2008 by $15,000. This was calculated by applying the percentage change to the average quarterly balance of the credit facility and bank indebtedness over the year.

(c) Commodity price risk

The Company is exposed to movements in the prices of oil commodities sold during its normal course of operations. Management does not currently use derivative instruments to hedge commodity prices.

A $1 change in the price of oil and gas production would affect net loss for the year ended December 31, 2008 by $33,000. This was calculated by applying the change to the total average production for the year.

(d) Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main source of liquidity is its cash generated from operations, and credit facilities. These funds are primarily used to finance working capital, operating expenses, and capital expenditures.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities. The current year's budget is planned to be funded from a combination cash flow from operations with the remaining requirements from the credit facility.

The Company has a strong relationship with the holder of it's credit facility and if required management could propose that the Board approve increasing the facility amounts.

16. FINANCIAL INSTRUMENTS, continued

(e) Credit risk

Credit risk is the risk of economic loss arising when a counterparty fails to meet its obligations as they come due. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness and the respective concentration risk.

Credit risk resulting from joint venture operations is managed through the use of cash calls to partners prior to incurring expenditures. Therefore, management believes that there is no significant credit risk inherent in the Company's accounts receivable from joint venture partners.

Of the Company's accounts receivable at December 31, 2008, approximately 27% was due from one related party customer (2007 – 19%). Amounts due from this related party have historically been collected when due. Credit risk on trade receivables from non-related parties is managed through dealing with creditworthy counterparties, typically publicly traded international oil and gas companies for which financial information is readily available for review and is monitored on an ongoing basis. There were no accounts receivable which management felt would not be collected as at December 31, 2008 as there have been no accounts receivable which are past due based on the terms of payment.

The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as loans and receivables and cash and cash equivalents.

(f) Fair value

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

17. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

18. RECENT ACCOUNTING PRONOUNCEMENTS

The CICA Accounting Standards Board has adopted the following new or amended Handbook Sections:

(a) The following standards were issued by the CICA during 2008 and will be effective for the Company beginning on January 1, 2009:

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, ("Section 3064") replacing Sections 3062, Goodwill and other intangible assets ("Section 3062") and 3450, Research and development costs. Various changes have been made to other standards to be consistent with Section 3064. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. The Company is currently evaluating the impact of the adoption of Section 3064 on its financial statements, however, it is not expected that the adoption will have a material impact on the financial statements.

(b) The following standards were issued by the CICA during 2009 and will be effective for the Company beginning on January 1, 2011:

Section 1582, Business Combinations will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" and replace the existing Section 1581, Business Combinations. The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests.

Section 1601, Consolidated Financial Statements establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, Consolidated Financial Statements. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1602, Non-Controlling Interests.

Section 1602, Non-controlling Interests establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1601, Consolidated Financial Statements.

The Company does not expect the new sections to impact the financial statements.