COBRA VENTURE CORPORATION

FINANCIAL STATEMENTS

NOVEMBER 30, 2008

CHARTERED
ACCOUNTANTS
MacKay LLP

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Auditors' Report

To the Shareholders of
Cobra Venture Corporation

We have audited the balance sheets of Cobra Venture Corporation as at November 30, 2008 and 2007, and the statements of operations, comprehensive income (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 accounting 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 disclosure in these 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 November 30, 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.

Vancouver, Canada ***"MacKay LLP"***

March 16, 2009 **Chartered Accountants**

COBRA VENTURE CORPORATION
BALANCE SHEETS
AS AT NOVEMBER 30

	2008	2007
ASSETS		
Current		
Cash	$ 1,784,900	$ 878,075
Receivables	262,378	112,800
Prepaid expenses	25,620	24,872
Income tax receivable	62,907	-
	2,135,805	1,015,747
Investment (Note 3)	250,000	-
Equipment (Note 4)	4,174	6,489
Petroleum and natural gas interests (Note 5)	1,334,564	521,992
	$ 3,724,543	$ 1,544,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 1,029,983	$ 67,740
Income taxes payable	-	63,192
	1,029,983	130,932
Asset retirement obligation (Note 11)	16,800	-
Future income taxes (Note 9)	375,300	80,000
	1,422,083	210,932
Shareholders' equity		
Capital stock (Note 6)	3,616,027	3,240,052
Subscription received in advance (Note 6)	-	25,000
Contributed surplus (Note 6)	201,619	112,076
Deficit	(1,515,186)	(2,043,832)
	2,302,460	1,333,296
	$ 3,724,543	$ 1,544,228

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Dan Evans" Director *"Cyrus Driver"* Director

The accompanying notes are an integral part of these financial statements.

COBRA VENTURE CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) AND DEFICIT
YEAR ENDED NOVEMBER 30

	2008	2007
OIL AND GAS REVENUE		
Production revenue	$ 134,809	$ -
Royalty revenue	898,875	-
	1,033,684	-
DIRECT COSTS		
Production and operation costs	34,192	-
Depletion	61,239	-
Royalties	33,844	-
	129,275	-
Gross profit	904,409	-
EXPENSES		
Abandonments	26,634	-
Amortization	2,315	1,317
Consulting fees	44,613	30,202
Corporate services	32,480	33,000
Management fees	152,000	102,000
Media and website	37,954	30,567
Mineral rights tax	966	2,554
Office and miscellaneous	31,085	11,124
Professional fees	161,382	110,667
Rent	17,310	1,200
Stock-based compensation (Note 7)	89,543	31,392
Transfer agent and regulatory fees	23,295	16,583
Travel and promotion	23,724	20,697
	(643,301)	(391,303)
Income (loss) before other items	261,108	(391,303)
OTHER ITEMS		
Gain on sale of leased land (Note 5)	330,737	-
Lease income	50,936	11,923
Interest income	38,911	30,381
	420,584	42,304
Income (loss) before income taxes	681,692	(348,999)
Future income tax recovery (provision) (Note 9)	(153,046)	156,400
Income tax expense (Note 9)	-	(62,869)
Income (loss) and comprehensive income (loss) for the year	528,646	(255,468)
Deficit, beginning of year	(2,043,832)	(1,788,364)
Deficit, end of year	$ (1,515,186)	$ (2,043,832)

- Continued -

The accompanying notes are an integral part of these financial statements.

COBRA VENTURE CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) AND DEFICIT
YEAR ENDED NOVEMBER 30

Continued…

	2008	2007
Basic income (loss) per share	$ 0.04	$ (0.02)
Diluted income (loss) per share	0.03	(0.02)
Weighted average common shares outstanding	14,816,840	12,964,616
Plus incremental shares from assumed conversions:		
Stock options	611,697	-
Warrants	156,958	-
Dilutive potential common shares	768,655	-
Adjusted weighted average shares	15,585,495	12,964,616

The accompanying notes are an integral part of these financial statements.

COBRA VENTURE CORPORATION
STATEMENTS OF CASH FLOWS
YEAR ENDED NOVEMBER 30

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the year	$ 528,646	$ (255,468)
Items not involving cash:		
Amortization	2,315	1,317
Depletion	61,239	-
Stock-based compensation	89,543	31,392
Gain from sale of leased land	(330,737)	-
Future income tax provision (recovery)	153,046	(156,400)
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(149,578)	49,309
(Increase) decrease in prepaid expenses	(748)	4,712
Increase (decrease) in accounts payable and accrued liabilities	90,029	(8,178)
Increase (decrease) in income tax payable	(63,192)	63,192
Decrease (increase) in income tax receivable	(62,907)	221,460
Cash provided by (used in) operating activities	317,656	(48,664)
CASH FLOWS FROM INVESTING ACTIVITIES		
Petroleum and natural gas expenditures	(443,806)	(491,825)
Purchase of equipment	-	(3,989)
Royalties received from oil and natural gas interests	-	709,856
Proceeds from sale of leased land	790,000	-
Investment	(250,000)	-
Cost recoveries of petroleum and natural gas interests	-	17,598
Cash provided by investing activities	96,194	231,640
CASH FLOWS FROM FINANCING ACTIVITY		
Common shares issued for cash	492,975	59,925
Share subscriptions received	-	25,000
Cash provided by financing activities	492,975	84,925
Change in cash	906,825	267,901
Cash, beginning of year	878,075	610,174
Cash, end of year	$ 1,784,900	$ 878,075
Cash paid for interest	$ -	$ -
Cash paid for income taxes	(62,907)	(221,460)

Supplemental disclosure with respect to cash flows (Note 10)

The accompanying notes are an integral part of these financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the Business Corporation Act (Alberta) on August 18, 1998 and its principal business activity is the exploration and development of petroleum and natural gas interests.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The Company believes it has adequate funds available to meet its corporate and administrative obligations for the coming year.

	2008	2007
Working capital	$ 1,105,822	$ 884,815
Deficit	(1,515,186)	(2,043,832)

2. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes cash on deposit and Canadian guaranteed investment certificates ("GIC's") that are both with a major Canadian banking institution. The GIC's are cashable on demand without interest penalties and accumulate interest at prime less 2.25% per annum.

Comprehensive income

Section 1530 introduces Comprehensive Income, which consists of Net Income and Other Comprehensive Income (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and other events with non-owner sources and includes such items as unrealized gains and losses on financial assets classified as "available for sale", and changes the fair value of the effective portion of cash flow hedging instruments. There was no impact on the Company's financial statements as a result of implementing this change.

Financial instruments – recognition and measurement

Section 3855 requires that all financial assets and financial liabilities (including derivatives) be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial asset or liability has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

On adopting of these new standards, the Company designated its cash as held-for-trading, which is measured at fair value. Receivables are classified under loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Financial instruments classified as held-for-trading are measured at fair value and unrealized gains and losses are included in net income in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments – recognition and measurement (cont'd…)

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as held-for-trading, held-to-maturity, or loans and receivables. Available-for-sale assets are measured at fair value on initial recognition with unrealized gains and losses recorded in other comprehensive income until realized, at which time they will be recognized in net income. The investment is classified as available-for-sale.

Other accounting implications arising upon the adoption of Section 3855 include the use of the effective interest method ("EIM") for any transaction costs or financing fees earned or incurred for financial instruments measured at amortized cost, and the recognition of the fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guidelines 14, Disclosure of Guarantees (AcG 14). No subsequent re-measurement at fair value is required unless financial guarantee qualifies as a derivative. If the financial guarantee meets the definition of a derivative, it is re-measured at fair value at each balance sheet date.

Transaction costs incurred in relation to the acquisition of a financial asset or liability are immediately expensed by the Company.

Measurement uncertainty and estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, asset retirement obligations and useful lives for depletion and amortization. Financial results as determined by actual events could significantly differ from those estimates.

Financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at the following annual rates:

Computer hardware	30%
Computer software	100%
Furniture and equipment	20%

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized and accumulated in cost centres on a country-by-country basis. Costs include land acquisition costs, geological and geophysical charges, carrying charges on non-productive properties and costs of drilling both productive and non-productive wells. General and administrative costs are not capitalized other than to the extent of the Company's working interest in operated capital expenditure programs on which operator's fees have been charged equivalent to standard industry operating agreements.

The costs in each cost centre, including the costs of well equipment, are depleted and amortized using the unit-of-production method based on the estimated proved reserves before royalties. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content. The costs of acquiring and evaluating significant unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved 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 capitalized costs less accumulated depletion and amortization in each cost centre are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties. The total capitalized costs less accumulated depletion and amortization, site restoration provision and future income taxes of all cost centres is further limited to an amount equal to the future net revenue from proved reserves plus the cost (net of impairments) of unproved properties of all cost centres less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Certain of the Company's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized unless such a sale significantly alters the rate of depletion by greater than 20%.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related long-lived asset.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. The Company records a reduction in capital stock for the tax benefits transferred to shareholders.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

Valuation of equity units issued in private placements

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.

Stock-based compensation

The Company accounts for stock options granted to directors, officers, employees and nonemployees 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 remeasurement. 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.

Earnings (loss) per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Royalties, lease and fee simple revenue

Revenue and royalties from petroleum and natural gas operations are recognized at the time the oil is sold or natural gas is delivered, and collectability is reasonably assured.

Revenue from petroleum and natural gas leases is recognized over the term of the lease on a straight-line basis. Payments received in advance are recorded as deferred revenue.

Comparative figures

Certain comparative figures have been reclassified to conform with the current fiscal year's presentation.

Changes in accounting policies

Accounting changes

Effective December 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the Company has not adopted because there are not yet in effect.

The adoption of this new section did not have an impact on the Company's financial statements.

Capital disclosures

Effective December 1, 2007, the Company implemented the new CICA Handbook Section 1535 "Capital disclosures" The section specifies the disclosure of (i) an enitity'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 an capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new Section relates to disclosures and did not have an impact on the Company's financial results.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Changes in accounting policies (cont'd…)

Financial instruments

Effective December 1, 2007, the Company implemented the new CICA Handbook Section 3862, *Financial Instruments – Disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) 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 principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3863, *Financial Instruments – Presentation,* and Section 3865, *Hedges.* The adoption of Section 3862 did not have an impact on the Company's financial results.

Effective December 1, 2007, the Company implemented the new CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The adoption of Section 3863 did not have an impact on the Company's financial results.

Recent accounting pronouncements

Assessing going concern

The AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company plans to adopt this section on December 1, 2008. The adoption of this section is not expected to have an impact on the Company's financial results.

Goodwill and intangible assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company plans to adopt this section on December 1, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Recent accounting pronouncements (cont'd…)

International financial reporting standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. 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.

3. INVESTMENT

	2008	2007
Shares in a private company (measured at cost)	$ 250,000	$ -

The Company holds 2,500,000 shares of a private company (November 30, 2007 - NIL) representing a 4.5% (November 30, 2007 - NIL) interest in that company, which is related by virtue of a common director. The shares are being carried at cost because, without an active market for shares of a private company, fair value cannot be measured reliably.

4. EQUIPMENT

	November 30, 2008			November 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	$ 13,636	$ 9,462	$ 4,174	$ 13,636	$ 7,674	$ 5,962
Computer software	12,860	12,860	-	12,860	12,333	527
Furniture and equipment	684	684	-	684	684	-
	$ 27,180	$ 23,006	$ 4,174	$ 27,180	$ 20,691	$ 6,489

5. PETROLEUM AND NATURAL GAS INTERESTS

Balance, November 30, 2006	$ 1,068,737
Acquisition costs	111,328
Mineral leases	64
Deferred costs:	
Engineering and consulting	346
Drilling	163,888
Geological fees	8,604
Surface location costs	1,500
Cost recoveries	(17,598)
Royalties received	(814,877)
Balance, November 30, 2007	521,992
Acquisition costs	77,143
Deferred costs:	
Equipment	74,403
Engineering and consulting	12,135
Drilling	708,051
Geological fees	23,551
Geophysical services	3,006
Surface location costs	3,000
Completion costs	414,985
Sale of leased land	(459,263)
Depletion	(61,239)
Asset retirement obligations	16,800
Balance, November 30, 2008	$ 1,334,564

The Company's reserves are estimated and assessed by a qualified, independent petroleum engineer. At November 30, 2008, petroleum and natural gas properties included $943,140 (2007 - $nil) relating to unproved properties which have been excluded from the depletion calculation. No general and administrative costs were capitalized during the year (2007 - $nil). The Company applied the ceiling test to its capitalized assets at November 30, 2008 and determined that no write-down of capitalized costs was required.

The following table outlines the benchmark prices used in the impairment test at November 30, 2008:

Year	Crude Oil $ / BBL	Natural Gas $ / MCF
2009	$ 65.35	$ 6.70
2010	72.80	7.30
2011	79.95	7.60
2012	86.55	8.15
2013	95.90	8.95

Benchmark prices escalated at 1.50 percent per year thereafter.

5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd…)

Viewfield area, Saskatchewan

On October 10, 2002, the Company completed an agreement for the purchase of petroleum and natural gas assets ("Assets") from Charter Oil Corporation ("Charter"). The petroleum and natural gas assets consisted of an approximate 90% net working interest in 2,880 freehold acres in the Viewfield region of southeast Saskatchewan. In consideration of the acquisition of the Assets from Charter, the Company paid cash consideration of $150,000, issued 400,000 common shares at an agreed value of $240,000 and issued 830,000 Participating Redeemable Series "A" Preferred Shares at an agreed value of $830,000, for total consideration of $1,220,000.

The Company entered into several leases on portions of the Company's freehold acreage in the Viewfield area, Saskatchewan totaling approximately 1,440 acres. These leases have terms varying from six months to two years. The Company is currently receiving fee simple royalty and rental revenue from 3 wells drilled in 2004.

On May 27, 2005, the Company entered into a sale agreement, for the sale of a non-producing undivided four-fifths 1,440 gross (1,152 net) acres situated in the Province of Saskatchewan for a total purchase price of $1.45 million. The transaction closed June 6, 2005, and the Company received the funds on July 15, 2005. The sale of the freehold properties represented approximately 39 percent of the Company's non-producing Saskatchewan landholdings.

During the year ended November 30, 2007, the Company entered into a multi-well farmout with a privately owned, Calgary based oil exploration company Acero Energy Inc. ("Acero"). The Company has an average 75% working interest in all of the combined lands in the farmout, and has negotiated a gross overriding royalty of 16% with no deductions on all production achieved on the subject lands.

During the year ended November 30, 2008, the Company received $898,875 (2007 - $804,548 – see table page 13) in royalty revenue.

During the year ended November 30, 2008, the Company sold 480 acres of 640 acres in the Province of Saskatchewan for a total purchase price of $790,000, resulting in a gain of $330,737.

Pembina area, Alberta

On November 14, 2005, the Company entered into a Participation Agreement with an operating industry partner to participate in the drilling of an initial three exploration wells and earn a working interest in the Pembina area of Alberta. The Company had the right to earn a 27% net working interest by paying 45% of all costs associated with the drilling program to earn a 40% net working interest in the prospect area comprised of seven sections or approximately 4,480 acres.

The Company issued 100,000 shares as finder's fee valued at $15,000 during the year ended November 30, 2006.

The Company has earned a 27% working interest in two natural gas wells and is receiving production revenue from both wells. The Company also has a 40% net working interest in 4,200 acres where an additional 10-12 drill targets have been identified and are being evaluated for future development.

During the year ended November 30, 2008, the Company received $134,809 (2007 - $6,329 – see table page 13) in production revenue.

Alderson area, Alberta

During the year ended November 30, 2007, the Company acquired a 50% net working interest in 320 acres of land in Central Alberta for $77,215.

5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd…)

Willesden Green area, Alberta

During the year ended November 30, 2007, the Company acquired a 40% net working interest in 160 acres of land in Central Alberta for $18,570.

Iosegun area, Alberta

During the year ended November 30, 2007, the Company acquired a 20% net working interest in 160 acres of land in Central Alberta for $15,543.

Morinville area, Alberta

During the year ended November 30, 2008, the Company acquired a 40% net working interest in a 5 year crown lease for $73,675 and annual rental fees. The lease is for one section of land in Central Alberta.

Inga area N.E. British Columbia

During the year ended November 30, 2006, the Company acquired a 5 year crown lease of one section of land in Northeastern British Columbia for annual rental fees. The Company's net working interest is 75%.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares, issuable in series

Issued:

	2008			2007		
	Shares	Amounts	Contributed Surplus	Shares	Amounts	Contributed Surplus
Balance, beginning of year	13,135,750	$ 3,240,052	$ 112,076	12,746,250	$3,214,127	$ 80,684
Issued for:						
Private placement	1,000,000	300,000	-	-	-	-
Warrants exercised	386,500	154,600	-	30,000	6,000	-
Stock options exercised	418,500	63,375	-	359,500	53,925	-
Stock-based compensation	-	-	89,543	-	-	31,392
Future income taxes on exploration expenditures renounced	-	(142,000)	-	-	(34,000)	-
Balance, end of year	14,940,750	$3,616,027	$ 201,619	13,135,750	$ 3,240,052	$ 112,076

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

During the year ended November 30, 2008, the Company:

a) issued 386,500 common shares on exercise of flow-through warrants for gross proceeds of $154,600, $25,000 of which was received prior to December 1, 2007;

b) issued 418,500 common shares on exercise of stock options for gross proceeds of $63,375; and

c) issued 1,000,000 flow-through units pursuant to a non-brokered private placement for gross proceeds of $300,000. Each unit consisted of one flow through common share and one non-flow through common share purchase warrant enabling the holder to purchase an additional common share at $0.35 per share until December 13, 2009.

d) renounced $454,600 of property expenditures to flow-through share subscribers resulting in share issue costs and a future tax liability of $142,000.

During the year ended November 30, 2007, the Company:

a) issued 30,000 common shares on exercise of warrants for gross proceeds of $6,000;

b) received $25,000 in advance for 62,500 warrants exercised subsequent to year end at $0.40;

c) issued 359,500 common shares on exercise of stock options at a price of $0.15 per share for gross proceeds of $53,925; and

d) renounced $100,000 of property expenditures to flow-through share subscriptions resulting in a future tax liability of $34,000.

7. STOCK OPTIONS AND WARRANTS

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 20% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. Options vest as determined by the board of directors. The options can be granted for a maximum term of 5 years.

As at November 30, 2008, the following incentive stock options and share purchase warrants are outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	500,000	0.15	October 25, 2010
	300,000	0.20	December 9, 2010
	100,000	0.23	May 15, 2009
	5,000	0.27	June 19, 2012
	500,000	0.34	December 18, 2012
Warrants	1,000,000	0.35	December 13, 2009

7. STOCK OPTIONS AND WARRANTS (cont'd…)

Stock option transactions are as follows:

	Number of Options		Weighted Average Exercise Price
Balance outstanding, November 30, 2006	1,583,500	$	0.16
Options granted	110,000		0.23
Options exercised	(359,500)		0.15
Options expired	(500)		0.15
Balance outstanding, November 30, 2007	1,333,500		0.17
Options granted	500,000		0.34
Options exercised	(418,500)		0.15
Options expired	(10,000)		0.15
Balance, November 30, 2008	1,405,000	$	0.23
Exercisable and outstanding	1,152,500	$	0.20

Stock-based compensation

During the year ended November 30, 2008, the Company granted 500,000 stock options, which were valued at $131,514 using the Black-Scholes option pricing model. A total amount of $84,716 was recognized as expense during the year ended November 30, 2008 for the vested portion of these options.

During the year ended November 30, 2007, the Company granted 110,000 stock options, which were valued at $9,899 using the Black-Scholes option pricing model. A total amount of $4,827 (2007 – $5,072) was recognized as expense during the year ended November 30, 2008 for the vested portions of these options.

During the year ended November 30, 2006, the Company granted 300,000 stock options, which were valued at $31,461. The Company also issued Agent's Warrants to acquire 140,000 common shares at a price of $0.20 per share which were valued at $10,184 using the Black-Scholes option pricing model. A total amount of $15,731 was recognized as expense during the year ended November 30, 2007 for the vested portions of these options.

During the year ended November 30, 2005, the Company re-priced 783,500 stock options which resulted in compensation expense of $23,000 and granted 500,000 options which were valued at $42,358. A total of $10,589 was recognized as expense during the year ended November 30, 2007 for the vested portion.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and warrants granted during the year:

	2008	2007
Risk-free interest rate	4.18%	4.57%
Expected life of options	5 years	2.27 years
Annualized volatility	81.79%	61.09%
Dividend rate	0%	0%

7. STOCK OPTIONS AND WARRANTS (cont'd…)

Warrants

The following is a summary of warrant transactions during the year:

	Number of Shares		Weighted Average Exercise Price
Outstanding at November 30, 2006	1,177,500	$	0.29
Exercised	(30,000)		0.35
Expired	(110,000)		0.35
Outstanding at November 30, 2007	1,037,500		0.40
Issued	1,000,000		0.35
Exercised	(386,500)		0.40
Expired	(651,000)		0.35
Outstanding at November 30, 2008	1,000,000	$	0.35

8. RELATED PARTY TRANSACTIONS

The fair value of the amounts due to or from related parties is not determinable as they have no fixed terms of repayment, do not bear interest and are unsecured.

During the year ended November 30, 2008, the Company paid or accrued:

i) $1,000 (2007 - $1,200) in rent to a company owned by a director and $16,311 (2007 - $NIL) in rent to a company in which a director and officer hold an interest.

ii) $144,000 (2007 - $102,000) in management fees to a company owned by a director and officer of the Company.

iii) $8,000 (2007 - $Nil) in directors fees, disclosed as management fees, to directors and officers of the Company.

iv) $31,700 (2007 - $33,000) in administrative fees disclosed as office and miscellaneous to a company owned by a director of the Company.

v) $23,743 (2007 - $34,869) in professional fees to a firm in which an officer of the Company is partner.

vi) $114,900 (2007 - $52,500) in professional fees to a firm in which a director of the Company is a partner.

Included in accounts payable is $30,000 (November 30, 2007 - $6,000) due to a firm in which a director of the Company is a partner and $7,132 due to directors and officers.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2008	2007
Income (loss) before income taxes	$ 681,692	$ (348,999)
Income tax expense (recovery) at statutory rates	$ 213,381	$ (119,660)
Non-deductible items	196,097	11,967
Amounts (deducted) recognized for tax	(256,432)	170,562
Total current income taxes	-	62,869
Total future income taxes (recovery)	153,046	(156,400)
Total income tax provision (recovery)	$ 153,046	$ (93,531)

The significant components of the Company's future income tax assets (liabilities) are as follows:

	2008	2007
Future income tax assets (liabilities):		
Non-capital loss carry forwards	$ 17,900	$ -
Share issuance costs	4,100	7,597
Petroleum and natural gas interests	(416,900)	(86,673)
Equipment	19,600	(924)
Net future income tax assets (liabilities)	$ (375,300)	$ (80,000)

The Company has available for deduction against future years' taxable income non-capital losses of approximately $57,060 which expire in 2027.

During the 2008 fiscal year, the Company issued common shares on a flow-through basis for gross proceeds of $454,600. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's oil and gas interests. The total expenditures renounced in 2008 resulted in a future tax liability of $142,000.

During the 2007 fiscal year, the Company issued common shares on a flow-through basis for gross proceeds of $100,000. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's oil and gas interests. The total expenditures renounced in 2007 resulted in a future tax liability of $34,000.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended November 30, 2008, the Company had the following significant non-cash transactions:

a) At November 30, 2008 accounts payable and accrued liabilities included $904,548 of petroleum and natural gas expenditures.

b) Allocated $25,000 of subscriptions received in advance to capital stock.

c) At November 30, 2008, asset retirement obligations of $16,800 were included in oil and gas expenditures.

During the year ended November 30, 2007, the Company:

a) included in accounts receivable at November 30, 2007 were $105,021 related to oil and natural gas royalty revenue; and

b) included in accounts payable and accrued liabilities at November 30, 2007 were $32,334 petroleum and natural gas expenditures.

11. ASSET RETIREMENT OBLIGATION

	2008	2007
Balance, beginning of year	$ -	$ -
Liabilities incurred	16,800	-
Balance, end of year	$ 16,800	$ -

The total future asset retirement obligations were estimated by management based on the Company's interests in all wells, estimated costs to reclaim and abandon wells, and the estimated timing of costs to be incurred in future periods. The undiscounted amount of the estimated cash flows required to settle the obligation is approximately $70,000. The estimated cash flow has been discounted using a credit-adjusted risk free rate of 10%. The estimated settlement ranges to a maximum of fifteen years.

12. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, receivables, investment, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

12. FINANCIAL INSTRUMENTS AND RISK (cont'd…)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at November 30, 2008, the Company had a cash balance of $1,784,900 (November 30, 2007 - $878,075) to settle current liabilities of $1,029,983 (November 30, 2007 - $130,932). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and cashable GIC's November 30, 2008 ($1,190,000) at prime less 2.25%. The Company is satisfied with the credit ratings of its banks. Since the GIC's are cashable anytime, the Company believes it is not exposed to significant interest rate risk.

(b) Foreign currency risk

The Company conducts its activities in Canada with Canadian dollars. Therefore, the Company believes it is not exposed to foreign currency risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of petroleum and natural gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

13. SEGMENTED INFORMATION

The Company operates in one business segment, being the exploration and development of petroleum and natural gas interests, in Canada.

14. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie share capital , contributed surplus and retained earnings).

The Company sets the amount of capital in proportion to risk. 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 issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements.