COBRA VENTURE CORPORATION

FINANCIAL STATEMENTS

NOVEMBER 30, 2007

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, 2007 and 2006 and the statements of operations and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 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.

"MacKay LLP"
Chartered Accountants

Vancouver, Canada.
February 12, 2008

COBRA VENTURE CORPORATION
BALANCE SHEETS
AS AT NOVEMBER 30

	2007	2006
ASSETS		
Current		
Cash	$ 878,075	$ 610,174
Receivables	112,800	57,088
Prepaid expenses	24,872	29,584
Income tax receivable	-	221,460
	1,015,747	918,306
Equipment (Note 3)	6,489	3,817
Petroleum and natural gas interests (Note 4)	521,992	1,068,737
	$ 1,544,228	$ 1,990,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 67,740	$ 282,013
Income taxes payable	63,192	-
	130,932	282,013
Future income taxes (Note 8)	80,000	202,400
	210,932	484,413
Shareholders' equity		
Capital stock (Note 5)	3,240,052	3,214,127
Subscription received in advance (Note 5)	25,000	-
Contributed surplus (Note 5)	112,076	80,684
Deficit	(2,043,832)	(1,788,364)
	1,333,296	1,506,447
	$ 1,544,228	$ 1,990,860

Nature and continuance of operations (Note 1)
Subsequent events (Note 12)

On behalf of the Board:

"Daniel B. Evans" Director *"David H. Evans"* Director

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

COBRA VENTURE CORPORATION
STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED NOVEMBER 30

	2007	2006
ADMINISTRATIVE EXPENSES		
Amortization	$ 1,317	$ 3,068
Consulting fees	30,202	13,687
Corporate services	33,000	30,000
Management fees	102,000	109,500
Media and website	30,567	580
Mineral rights tax	2,554	4,044
Office and miscellaneous	11,124	16,572
Professional fees	110,667	96,551
Rent	1,200	1,200
Stock-based compensation (Note 6)	31,392	36,910
Transfer agent and regulatory fees	16,583	17,950
Travel and promotion	20,697	18,677
Loss before other items	(391,303)	(348,739)
OTHER ITEMS		
Lease income	11,923	-
Interest income	30,381	27,927
	42,304	27,927
Loss before income taxes	(348,999)	(320,812)
Income tax recovery (Note 8)	93,531	147,460
Loss and comprehensive loss for the year	(255,468)	(173,352)
Deficit, beginning of year	(1,788,364)	(1,615,012)
Deficit, end of year	$ (2,043,832)	$ (1,788,364)
Basic and diluted loss per common share	$ (0.02)	$ (0.01)
Weighted average number of common shares outstanding	12,964,616	12,249,538

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

COBRA VENTURE CORPORATION
STATEMENTS OF CASH FLOWS
YEAR ENDED NOVEMBER 30

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (255,468)	$ (173,352)
Items not involving cash:		
Amortization	1,317	3,068
Future income tax (recovery) expense	(156,400)	74,000
Stock-based compensation	31,392	36,910
Recovery of consulting services	-	(15,000)
Changes in non-cash working capital items:		
Decrease in receivables	49,309	24,464
(Increase) decrease in prepaid expenses	4,712	(109)
Increase (decrease) in accounts payable and accrued liabilities	(8,178)	8,710
Increase (decrease) in income taxes payable	63,192	(221,890)
Decrease (increase) in income tax receivable	221,460	(221,460)
Cash used in operating activities	(48,664)	(484,659)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of petroleum and natural gas interests	(111,328)	-
Petroleum and natural gas expenditures	(380,497)	(887,295)
Cost recoveries of petroleum and natural gas interests	17,598	-
Royalties received from oil and natural gas interests	709,856	77,378
Purchase of equipment	(3,989)	-
Cash provided by (used in) investing activities	231,640	(809,917)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common shares issued for cash	59,925	620,000
Share subscriptions received	25,000	-
Cash provided by financing activities	84,925	620,000
Change in cash	267,901	(674,576)
Cash, beginning of year	610,174	1,284,750
Cash, end of year	$ 878,075	$ 610,174
Cash paid for interest	$ -	$ 5,449
Cash (received) paid for income taxes	(221,460)	221,890

Supplemental disclosure with respect to cash flows (Note 9)

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.

The Company has yet to earn significant revenues and is considered to be in the development stage.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue business.

	2007	2006
Working capital	$ 884,815	$ 636,292
Deficit	(2,043,832)	(1,788,364)

2. SIGNIFICANT ACCOUNTING POLICIES

Effective December 1, 2006, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, *Comprehensive Income*, Handbook Section 3855, Financial Instruments – Recognition and Measurement, Section 3251, Equity, and Section 3861, *Financial Instruments – Recognition and Measurement*. These standards were adopted prospectively and accordingly, comparative amounts for prior periods have not been restated.

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 in 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 transaction. 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.

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. The Company does not have any investments classified as held for trading.

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 with unrealized gains and losses recorded in other comprehensive income until realized, at which time they will be recognized in net income. The Company does not have any financial assets 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 the 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.

Financial Instruments – disclosure and presentation

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

On adopting 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.

There was no effect on the financial statements as a result of adopting these policies.

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, and useful lives for amortization. Financial results as determined by actual events could 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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%

Petroleum and natural gas interests

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs of exploring for and developing oil 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. While the Company is in the preproduction stage, any costs considered unlikely to be recovered are written off.

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.

Estimated future site restoration and abandonment costs, net of expected recoveries, are provided over the life of the proved reserves using the unit-of-production method. Costs are estimated each year by management based on current regulations, costs, technology and industry standards.

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%.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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.

Flow-through shares

Canadian tax legislation permits the 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.

When flow-through expenditures are renounced, a portion of future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense, and expensed over the vesting period.

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

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 and the benefits of tax losses carried forward. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Royalties, lease and fee simple revenue

Royalties from crude oil and natural gas production from properties in which the Company has an interest with other producers are recognized on the basis of the Company's net working interest and are applied to the cost of the company's oil and gas interests.

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.

Recent Accounting Standards

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.

Financial Instruments

The AcSB issued 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. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The AcSB issued 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. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent Accounting Standards

Capital Disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Accounting Changes

The AcSB issued CICA Handbook Section 1506. The main features of this new standard are (a) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (b) changes in accounting policy are applied retrospectively unless doing so is impracticable (as defined in the section); (c) prior period errors are corrected retrospectively; and (d) new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. This new standard is effective for fiscal years beginning on or after January 1, 2007.

The adoption of these new standards is not expected to have a material impact on the financial statements.

3. EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	$ 13,636	$ 7,674	$ 5,962	$ 10,238	$ 6,421	$ 3,817
Computer software	12,860	12,333	527	12,270	12,270	-
Furniture and equipment	684	684	-	684	684	-
	$ 27,180	$ 20,691	$ 6,489	$ 23,192	$ 19,375	$ 3,817

4. PETROLEUM AND NATURAL GAS INTERESTS

	British Columbia	Alberta	Saskatchewan	Total
Balance, November 30, 2005	$ -	$ -	$ 5,391	$ 5,391
Acquisition costs	160,051	15,000	-	175,051
Deferred costs:				
Drilling	-	883,420	120	883,540
Engineering	-	2,808	-	2,808
Geochemical and geophysical	-	90,000	-	90,000
Mineral taxes	-	504	504	1,008
Royalties received	-	-	(89,061)	(89,061)
Balance, November 30, 2006	160,051	991,732	(83,046)	1,068,737
Acquisition costs	-	111,328	-	111,328
Mineral leases	-	-	64	64
Deferred costs:				
Engineering and consulting	-	346	-	346
Drilling	-	163,888	-	163,888
Geological fees	-	8,604	-	8,604
Geochemical services	-	-	-	-
Surface location costs	-	1,500	-	1,500
Cost recoveries	-	(17,598)	-	(17,598)
Royalties received	-	(6,329)	(808,548)	(814,877)
Balance, November 30, 2007	$ 160,051	$ 1,253,471	$ (891,530)	$ 521,992

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.

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

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 represents 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, the Company received $808,548 (2006 - $89,061) in royalties from production on Company lands in Southeast Saskatchewan.

Pembina Area, Alberta

On November 14, 2005, the Corporation entered into a Participation Agreement with an operating industry partner to participate in the drilling of an initial three (3) exploration wells and earn a working interest in the Pembina area of Alberta. The Corporation 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 (7) sections or approximately 4,480 acres.

In the summer of 2006, the Corporation participated in the drilling of two natural gas wells. These wells encountered multiple natural gas zones, one (1) has subsequently been abandoned in 2007, and one (1) remains standing pending recompletion.

In March 2007, the third (3^{rd}) and final earning well at Pembina Area, Alberta was drilled, completed and tied in as a producing Edmonton Sands gas well.

The Corporation has earned a 27% working interest in two (2) natural gas wells and is receiving production revenue from one (1) well and one (1) remains standing pending recompletion. The Corporation subsequently has earned 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 2007, a third party industry partner drilled and completed a fourth (4^{th}) natural gas well on Corporation lands, thru a farm in arrangement. It is currently a standing natural gas well and it is anticipated it will be tied in to produce.

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

Alderson Area, Alberta

In the fall of 2007, the Company obtained a 50% net working interest in 320 acres of land in Central Alberta for $77,215.

Willesden Green Area, Alberta

In the fall of 2007, the Company obtained a 40% net working interest in 160 acres of land in Central Alberta for $18,570.

Iosegun Area, Alberta

In the fall of 2007, the Company obtained a 20% net working interest in 160 acres of land in Central Alberta for $15,543.

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

Inga Area N.E. British Columbia

Early in the summer of 2006, the Company obtained 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%.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares, issuable in series

Issued:

	2007			2006		
	Shares	Amounts	Contributed Surplus	Shares	Amounts	Contributed Surplus
Common shares						
Balance, beginning of year	12,746,250	$3,214,127	$ 80,684	9,471,250	$ 2,759,811	$ 33,590
Issued for:						
Private placements	-	-	-	3,175,000	620,000	-
Warrants exercised	30,000	6,000	-	-	-	-
Stock options exercised	359,500	53,925	-	-	-	-
Agent's warrants	-	-	-	-	-	10,184
Issue costs	-	-	-	-	(35,684)	-
Stock-based compensation	-	-	31,392	-	-	36,910
Finder's fees	-	-	-	100,000	15,000	-
Future income taxes on exploration expenditures renounced (Note 8)	-	(34,000)	-	-	(145,000)	-
Balance, end of year	13,135,750	$3,240,052	$ 112,076	12,746,250	$ 3,214,127	$ 80,684

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.

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

During the year ended November 30, 2006 the Company:

a) Completed a private placement of 2,075,000 units ("Units") at a purchase price of $0.20 per Unit, for gross proceeds of $415,000. Each Unit is comprised of one common share issuable on a flow through basis and one half of a flow through share purchase warrant entitling the holder thereof to purchase one common share on a flow through basis for each full warrant held at an exercise price of $0.30 in the first twelve months after issuance and $0.40 in the next twelve months after issuance. The securities issued pursuant to the private placements are subject to a four month hold period from the date of issuance.

   The Company paid $25,500 to a broker in connection with the sale of 1,400,000 of the Units during the 2005 fiscal year. The Company issued Agents Warrants entitling the holder to purchase up to 140,000 common shares at an exercise price of $0.20 per common share valued at $10,184 for a period of twelve months from the date of closing;

b) Completed a private placement of 700,000 common shares at a price of $0.15 per common share, for gross proceeds of $105,000. The securities issued pursuant to the private placement are subject to a four month hold period from the date of issuance;

c) Issued 100,000 common shares at a price of $0.15 pursuant to a finder's fee agreement for the Pembina oil and gas interest;

d) Renounced $415,000 of property expenditures to flow-through share subscribers resulting in a future tax liability of $145,000; and

e) Completed a private placement of 400,000 flow-through common shares at a price of $0.25 per common share, for gross proceeds of $100,000. The securities issued pursuant to the private placement are subject to a four month hold period from the date of issuance.

6. 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, 2007, the following incentive stock options and share purchase warrants are outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	423,500	$ 0.15	February 5, 2008
	500,000	0.15	October 25, 2010
	300,000	0.20	December 9, 2010
	100,000	0.23	May 15, 2009
	10,000	0.27	June 19, 2012
Warrants	1,037,500	0.40	December 9, 2007

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

	Number of Options		Weighted Average Exercise Price
Balance, November 30, 2005	1,283,500	$	0.15
Options granted	300,000		0.20
Balance, 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, November 30, 2007	1,333,500	$	0.17
Exercisable	1,276,000	$	0.17

Subsequent to year end, 423,500 common shares were issued pursuant to the exercise of 423,500 incentive stock options for gross proceeds of $63,375. 10,000 incentive stock options expired unexercised.

Stock-based compensation

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 $5,072 (2006 – Nil) was recognized as expense during the year ended November 30, 2007 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 (2006 - $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 (2006 - $21,179) was recognized as expense during the current year for the vested portion.

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

	2007	2006
Risk-free interest rate	4.57%	3.95%
Expected life of options	2.27 years	5 years
Annualized volatility	61.09%	56.69%
Dividend rate	0%	0%

6. 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, 2005	140,000	$ 0.35
Granted	1,177,500	0.29
Expired	(140,000)	(0.35)
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

Subsequent to year end, 386,500 warrants of the remaining warrants available were exercised. The balance of 651,000 warrants expired unexercised.

7. RELATED PARTY TRANSACTIONS

During the year ended November 30, 2007, the Company paid or accrued $33,000 (2006 - $30,000) in corporate service fees, $1,200 (2006 - $1,200) in rent and $102,000 (2006 - $109,500) in management fees to companies with common directors. The Company also paid or accrued $87,369 (2006 - $82,078) in professional fees to partnerships in which a director and an officer are partners.

Included in accounts payable and accrued liabilities at November 30, 2007 is $6,000 (2006 - $21,062) due to companies with common directors.

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.

8. INCOME TAXES

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

	2007	2006
Loss before income taxes	$ (348,999)	$ (320,813)
Income tax recovery at statutory rates	$ (119,660)	$ (116,400)
Non-deductible items	11,967	21,314
Amounts (deducted) recognized for tax	170,470	(110,954)
Effect of tax rate changes	468	(15,420)
Total current income taxes (recovery)	62,869	(221,460)
Total future income taxes (recovery)	(156,400)	74,000
Total income tax recovery	$ (93,531)	$ (147,460)

The significant components of the Company's future income taxes assets and liabilities are as follows:

	2007	2006
Future income tax assets:		
Share issue costs	$ 7,597	$ 11,780
Future income tax liabilities		
Oil and gas interests and equipment	(87,597)	(214,180)
Net future income tax assets (liabilities)	$ (80,000)	$ (202,400)

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 expenditure renounced in 2007 resulted in a future tax liability of $34,000.

During the 2006 fiscal year, the Company issued common shares on a flow-through basis for gross proceeds of $415,000. 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 2006 resulted in a future tax liability of $145,000.

The Company has available for deduction against future taxable income resource expenditures of approximately $242,000.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

b) included in accrued liabilities at November 30, 2007 were $32,334 of oil and natural gas costs.

During the year ended November 30, 2006, the Company:

c) allocated $25,500 of deferred financing costs incurred in 2005 to issued share capital;

b) issued 100,000 common shares at a value of $15,000 for a finder's fee on the Pembina oil and natural gas interest;

c) recovered $15,000 of consulting fees expensed and recorded in the 2005 fiscal year as an obligation to issue shares; and

d) included in accrued liabilities at November 30, 2006 were $238,429 of oil and natural gas costs.

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, income taxes payable and receivable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

11. SEGMENTED INFORMATION

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

12. SUBSEQUENT EVENTS

Subsequent to November 30, 2007, the Company:

a) completed a private placement of 1,000,000 flow-through units for proceeds of $300,000. Each unit consists of one flow-through common shares and one non-flow through share purchase warrant. Each share purchase warrant is exercisable at $0.35 per share for a period of 24 months;

b) issued 62,500 common shares pursuant to the exercise of 62,500 share purchase warrants for subscriptions received in advance of $25,000;

c) issued 324,000 common shares pursuant to the exercise of 324,000 share purchase warrants at an exercise price of $0.40 per share;

d) of the balance of warrants outstanding at November 30, 2007 that were not exercised, 651,000 expired unexercised on December 9, 2007;

e) granted 500,000 stock options to directors, officers, and consultants of the Corporation. The options allow the holder to purchase one common share of the Corporation at an exercise price of $0.34 per option on or before December 18, 2012;

12. SUBSEQUENT EVENTS (cont'd…)

f) entered into an agreement to pay minimum consulting fees of $144,000 per annum to a company controlled by a director, starting January 1, 2008 and terminating December 31, 2009;

g) sold 480 gross, 240 net acres of crown leased lands in Viewfield Area of Saskatchewan for $790,000 to a junior oil and natural gas company; and

h) entered into a multi-well farm out of one of its oil and natural gas interest to a junior oil and natural gas company on 640 gross acres, 480 net acres in the Viewfield Area of Saskatchewan, with a commitment to drill 2 one mile horizontal Bakken wells subject to a gross overriding royalty of 20%.

i) issued 423,500 common shares pursuant to the exercise of 423,500 incentive stock options for gross proceeds of $63,375. 10,000 incentive stock options expired unexercised.