RICHARDS OIL & GAS LIMITED
BALANCE SHEETS
(UNAUDITED)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT		
Cash and cash equivalents	$ 2,199,190	$ 6,225,567
Accounts receivable	1,153,765	2,571,115
Prepaid expenses	113,843	103,546
	3,466,798	8,900,228
PROPERTY AND EQUIPMENT (note 3)	17,138,971	16,064,757
	$ 20,605,769	$ 24,964,985
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 965,274	$ 4,794,023
CONVERTIBLE DEBENTURES (note 4)	5,252,374	5,050,722
ASSET RETIREMENT OBLIGATION (note 5)	862,747	736,956
	7,080,395	10,581,701
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)	28,804,906	28,804,906
WARRANTS (note 6)	1,588,081	1,588,081
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (note 4)	1,435,822	1,435,822
CONTRIBUTED SURPLUS (note 8)	3,675,436	3,502,156
DEFICIT	(21,978,871)	(20,947,681)
	13,525,374	14,383,284
	$ 20,605,769	$ 24,964,985

COMMITMENTS (note 11)

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

RICHARDS OIL & GAS LIMITED
STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
REVENUE				
Production	$ 1,143,569	441,256	$ 2,092,713	1,183,878
Royalties	(117,730)	(46,004)	(267,037)	(253,624)
Interest and other	25,791	36,802	105,747	85,005
	1,051,630	432,054	1,931,423	1,015,259
EXPENSES				
Operating	335,236	223,707	689,653	442,433
General and administrative	466,195	538,193	847,434	1,320,879
Stock-based compensation	111,951	161,904	162,908	247,154
Interest and financing charges (note 9)	229,861	290,391	460,331	569,562
Depletion and amortization	373,079	272,559	771,880	732,468
Impairment of oil and gas properties	-	2,150,000	-	2,150,000
Accretion of asset retirement obligation	15,300	10,988	30,407	21,513
	1,531,622	3,647,742	2,962,613	5,484,009
NET LOSS, before income taxes	(479,992)	(3,215,688)	(1,031,190)	(4,468,750)
Future income tax reduction	-	960,795	-	1,260,714
NET LOSS	(479,992)	(2,254,893)	(1,031,190)	(3,208,036)
DEFICIT, beginning of period	(21,498,879)	(6,344,183)	(20,947,681)	(5,391,040)
DEFICIT, end of period	$ (21,978,871)	(8,599,076)	$(21,978,871)	(8,599,076)
Loss per share (note 7)				
Basic and diluted	$ (0.007)	$ (0.06)	$ (0.01)	$ (0.08)

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

RICHARDS OIL & GAS LIMITED
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES				
Net loss for the period	$ (479,992)	$ (2,254,893)	$ (1,031,190)	$ (3,208,036)
Items not affecting cash				
Stock-based compensation	111,951	161,904	162,908	247,154
Depletion and amortization	373,079	272,559	771,880	732,468
Impairment of oil and gas properties	-	2,150,000	-	2,150,000
Accretion of asset retirement obligation	15,300	10,988	30,407	21,513
Accretion of discount on convertible debentures	100,826	100,826	201,652	200,544
Future income tax reduction	-	(960,795)	-	(1,260,714)
Net change in non-cash working capital (note 10)	175,190	113,764	(98,945)	431,797
	296,354	(405,647)	36,712	$ (685,274)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions of property and equipment	(245,261)	(565,233)	(1,740,338)	(1,360,528)
Net Change in non-cash working capital (note 10)	(186,861)	(180,702)	(2,322,751)	(2,380,634)
	(432,122)	(745,935)	(4,063,089)	(3,741,162)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of share capital (net of costs)	-	129,423	-	227,319
	-	129,423	-	227,319
INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS	(135,768)	(1,022,159)	(4,026,377)	(4,199,117)
CASH and CASH EQUIVALENTS, BEGINNING of PERIOD	2,334,958	4,940,720	6,225,567	8,117,678
CASH and CASH EQUIVALENTS, END of PERIOD	$ 2,199,190	$ 3,918,561	$ 2,199,190	$ 3,918,561

The accompanying notes form an integral part of these financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements of Richards Oil & Gas Limited (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenues and expenses during the period. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality. These interim financial statements follow the same significant accounting policies as described and used in the financial statements of the Company for the year ended December 31, 2007, except as noted below and should be read in conjunction with these statements.

2. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008, The Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, "General Standards of Financial Statement Presentation"; Section 1535 "Capital Disclosures"; Section 3031 "Inventories"; Section 3862 "Financial Instruments – Disclosures", and Section 3863 Financial Instruments – Presentation". These standards have been applied prospectively and accordingly the prior period financial statements have not been restated.

CICA Section 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have an impact on the Company's financial statements.

CICA Section 1535 establishes standards for disclosing information regarding an entities capital and how it is managed. The section specifies the disclosure of i) an entities objectives, policies, and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such noncompliance.

CICA Sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation" which revises and enhances financial instruments disclosure requirements and leaves unchanged its presentation requirements. The objective of section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the Company is managing those risks. The purpose of section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows.

Future Accounting Policies

As of January 1, 2009, the Company will be required to adopt CICA Handbook Section 3064 Goodwill and Intangible Assets which replaces CICA Handbook Sections 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The Company is assessing the impact of this new standard on its financial statements; however, the adoption is not expected to have a material impact on its financial statements.

The Accounting Standards Board of the CICA has recently confirmed that in the year 2011 International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for publically accountable profit-oriented enterprises in Canada. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. While IFRS uses a principles based conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. At present the Company is actively monitoring and assessing the impact of convergence of Canadian GAAP and IFRS.

3. PROPERTY AND EQUIPMENT

$ Amount	As at June 30, 2008	As at December 31, 2007
Capitalized costs – oil and natural gas properties	36,023,951	34,187,334
Capitalized costs – other assets	114,571	105,095
Accumulated Depletion and amortization	(18,999,551)	(18,227,672)
Net book value	**17,138,971**	**16,064,757**

As at June 30, 2008, unproved property costs of $5,414,944 (December 31, 2007 – $4,883,891) were excluded from costs subject to depletion. At June 30, 2008, $11,036,477 (December 31, 2007 - $12,281,500) of future development costs were included in the costs subject to depletion.

The Company capitalizes the salaries of those employees directly involved in exploration activities. For the six months ended June 30, 2008, the Company capitalized $43,329 of salaries and $10,372 of stock-based compensation related to exploration staff.

4. CONVERTIBLE DEBENTURES

The following summarizes the Company's accounting for its Convertible Debentures:

$ Amount	Equity Component	Liability Component
Balance as at December 31, 2007	1,435,822	5,050,722
Accretion of non-cash interest expense	-	201,652
Balance as at June 30, 2008	1,435,822	5,252,374

5. ASSET RETIREMENT OBLIGATION

As at June 30, 2008 the Company has estimated undiscounted future costs related to the abandonment and restoration of its oil and gas properties to be $1,347,592 (December 31, 2007 - $1,155,194). These obligations are to be settled over an average of 6.5 years and have been discounted using a credit-adjusted risk free interest rate of 7.5% and inflation rate of 2.0%.

Changes to the asset retirement obligation were as follows:

$ Amount	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	736,956	564,548
Liabilities incurred during the period	95,384	318,487
Liabilities settled during the period	-	(195,454)
Accretion of asset retirement obligation during the period	30,407	49,375
Balance, end of period	**862,747**	**736,956**

6. SHARE CAPITAL

Authorized:
-Unlimited number of common voting shares

i) Changes in Common Share Capital

	Number	$ Amount
Balance as at December 31, 2007	**72,661,602**	**28,804,906**
Shares issued	-	-
Balance as at June 30, 2008	**72,661,602**	**28,804,906**

ii) Stock Options

The fair value of the stock options granted during the six months ended June 30, 2008 have been determined using the Black-Scholes option-pricing model using the following assumptions; dividend yield (nil), expected volatility (91% - 92%), market risk-free interest rate (2.88% - 3.45%), and expected life of 5 years. The fair value of the stock options is recorded as stock-based compensation with an offsetting credit to contributed surplus over the vesting period. For the six months ended June 30, 2008 the fair value of the options granted was $141,584 (2007 - $ 198,965).

The number of stock options granted and their exercise prices are as follows:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2007	5,203,333	$ 0.91
Options granted	1,215,000	$ 0.16
Options expired	(793,333)	$ 1.17
Outstanding at June 30, 2008	**5,625,000**	**$ 0.71**
Exercisable at June 30, 2008	**4,189,163**	**$ 0.89**

The following summarizes details about the Company's stock option granted as at June 30, 2008:

	Options outstanding			Options vested		
Range of exercise price	Outstanding options	Remaining contract life	Weighted average exercise price	Vested options	Remaining contract life	Weighted average exercise price
$0.16 to $0.49	3,155,000	4.2	$0.23	1,727,497	4.0	$0.24
$0.50 to $0.99	910,000	2.9	$0.77	901,666	2.9	$0.77
$1.00 to $1.49	750,000	2.4	$1.42	750,000	2.4	$1.42
$1.50 to $1.99	460,000	2.6	$1.68	460,000	2.6	$1.68
$2.00 to $2.49	350,000	2.8	$2.16	350,000	2.8	$2.16
	5,625,000	**3.5**	**$0.71**	**4,189,163**	**3.2**	**$0.89**

iii) Warrants

The Company issued 15,625,007 warrants to the subscribers of the private placement financing that was completed on July 10, 2007. Each warrant shall entitle the holder thereof to acquire one common share at a price of $0.40 and will expire on July 10, 2009. This warrant grant represents the only warrants the Company has outstanding as at June 30, 2008.

When share purchase warrants are exercised the consideration received by the Company is recorded in the share capital account along with the fair value of the warrants previously recognized in the warrants account. The following table summarizes the changes in the warrants account:

$ Amount	Period ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	**1,588,081**	783,005
Fair value of warrants issued	-	1,588,081
Warrants exercised into common voting shares	-	(80,008)
Transfer of expired warrants to contributed surplus account	-	(702,997)
Balance, end of period	**1,588,081**	**1,588,081**

7. BASIC AND DILUTED LOSS PER SHARE AMOUNTS

Per share amounts have been calculated based on the weighted average number of shares outstanding. Basic and diluted loss per share for both is calculated as follows:

		Net Loss	Weighted average number of shares	Income / (Loss) per share
Three months ended	June 30, 2008	$ (479,992)	72,661,602	$ (0.007)
	June 30, 2007	$ (2,254,893)	41,330,523	$ (0.06)
Six months ended	June 30, 2008	$ (1,031,190)	72,661,602	$ (0.01)
	June 30, 2007	$ (3,208,036)	41,180,471	$ (0.08)

For the periods ended June 30, 2008 and June 30, 2007 the conversion of stock options, convertible debentures and warrants is anti-dilutive.

8. CONTRIBUTED SURPLUS

The following table summarizes the changes in the Company's contributed surplus account:

$ Amount	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of year	3,502,156	2,192,993
Stock-based compensation	173,280	606,166
Transfer of expired warrants from warrants account	-	702,997
Balance, end of period	**3,675,436**	**3,502,156**

9. INTEREST AND FINANCING CHARGES

The following table summarizes the components of interest and financing charges:

$ Amount	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Interest on convertible debenture	128,935	129,644	258,579	257,863
Accretion of discount on convertible debentures	100,826	100,826	201,652	200,544
Interest expense	100	59,921	100	111,155
Total	**229,861**	**290,391**	**460,331**	**569,562**

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital comprised the following:

$ Amount	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Accounts receivable	2,045,502	399,346	1,417,350	474,593
Prepaid expenses	18,035	2,081	(10,297)	(22,440)
Accounts payable and accrued liabilities	(2,075,208)	(468,365)	(3,828,749)	(2,400,990)
Net change	(11,671)	(66,938)	(2,421,696)	(1,948,837)
Net change by activity:				
Operating	175,190	113,764	(98,945)	431,797
Investing	(186 861)	(180,702)	(2,322,751)	(2,380,634)
Net change	(11,671)	(66,938)	(2,421,696)	(1,948,837)
Cash interest paid on part XII.6 tax	-	-	138,217	121,607

11. COMMITMENTS

The Company is committed to payments under an operating lease for office space over the next five years. The operating lease commitment, before operating costs, for the next five years are as follows; 2008 - $66,512, 2009 - $136,192, 2010 - $140,415, 2011 - $144,638 and 2012 - $148,860.

12. CAPITAL STRUCTURE POLICIES

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas properties. The Company considers its capital structure to include shareholders' equity, convertible debt, available capacity under its credit facility and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage its current and projected debt levels. Aside from the financial-based covenant requiring the Company to maintain a working capital ratio of no less than 1:1 associated with the Company's credit facility, the Company has no other externally imposed capital requirements.

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Commodity Price Risk Management
The Company's financial performance is closely linked to natural gas prices. While the Company may employ the use of financial instruments in the future to manage these price exposures, the Company has not used any such instruments to hedge its production, and its crude oil, natural gas liquids and natural gas production is sold into spot markets. A $0.25 per mcf change in the price of natural gas received by the Company is expected to impact the annual net loss by approximately $110,000.

Fair Value of Financial Instruments
The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The fair values of financial assets, liabilities, and convertible debentures that are included in the balance sheet approximate their carrying amounts.

Credit Risk
A substantial portion of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations, and arises principally from the Company's receivables from joint interest partners and petroleum and natural gas marketers.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint interest receivables are typically collected within one to two months of the joint interest bill being issued to the partner. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures and payment of cash advances prior to expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances are dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners. However the Company does have the ability to withhold production from joint interest partners in the event of non-payment.

At June 30, 2008, Richards Oil & Gas Limited had no material accounts receivable that it deemed uncollectible.

Foreign Currency Exchange Risk
The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices. Price fluctuations can affect the fair value and future cash flows. However, given the indirect influence of currency fluctuations, the impact of currency rate changes cannot be accurately determined.

Interest Rate Risk
The Company is exposed to interest rate risk to the extent that its credit facility is at a floating rate of interest. With no drawings on the Company's credit facility, a one percent change in the prevailing interest rate for its credit facility would result in an estimated annual change to net income of $nil.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Company terminated its previous $1,500,000 financing commitment with a Canadian chartered bank and replaced it with a credit facility with a different Canadian chartered bank. The primary credit facility now in place for Richards Oil & Gas Limited (Facility A) consists of a $2,000,000 revolving operating demand loan. The interest rate is the bank's prime lending rate plus 1.0 percent per annum with interest payable monthly. The Company has also established a second credit facility consisting of a $2,000,000 non-revolving acquisition / development demand loan. This loan facility bears interest at the bank's prime lending rate plus 1.5 percent per annum, with interest payable monthly and would be repayable over the estimated half-life of the reserves being financed. As at August 19, 2008, $nil was drawn on the operating demand loan and $nil was drawn on the acquisition/development demand loan.

Both the revolving operating demand loan and the non-revolving acquisition/development demand loan are secured by a $10,000,000 fixed and floating charge demand debenture with a floating charge over the assets of the Company. The facilities are subject to a financial-based covenant requiring the Company to maintain a working capital ratio (adjusted for the undrawn portion of Facility A) of no less than 1:1.