



# Q2 2008

## **RICHARDS OIL & GAS LIMITED MANAGEMENT DISCUSSION & ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

This management discussion and analysis of the results of operations and financial condition (“MD&A”) for the Company should be read in conjunction with the Company’s unaudited financial statements for the three and six month periods ended June 30, 2008 and the Company’s audited financial statements and MD&A for the year ended December 31, 2007. All amounts are stated in Canadian dollars unless otherwise specified. This MD&A is based upon information available to, and is dated, August 19, 2008. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Throughout this MD&A, BOE, or barrel of oil equivalent, is defined as 6 Mcf to 1 bbl. BOEs may be misleading particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Except where specifically noted, the financial information herein presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

### **Q2 2008 AND RECENT OPERATIONAL HIGHLIGHTS**

- Increased funds from operations from 2007 by \$640,575 and \$1,252,728 for the three month and six month periods ending June 30, 2008 respectively.
- Increased quarterly funds from operations to \$121,164, a 736% increase from Q1 2008 due to improved natural gas pricing, operational cost management, production stability and continued reduction of general and administrative costs.
- Increased average quarterly production volumes 79% to 204 boe per day up from 114 boe per day in the second quarter of 2007.
- Achieved record high operating netbacks of \$37.25 per boe in Q2 2008, a 126% increase from the \$16.51 per boe operating netback achieved in Q2 2007 due to reduced operating costs and improved pricing.
- Recompleted one well in the Morningside property adding approximately 200 mcf per day (net) of gas production in August 2008 from dry Horseshoe Canyon (“HSC”) sand zones.
- Maintained financial strength with working capital of \$2.5 million and increasing positive funds from operations.
- Expanded the Company’s financial flexibility by arranging a credit facility with the National Bank of Canada. This new credit facility will provide the Company up to \$4.0 million to accelerate the development of the Company’s HSC Coalbed Methane (“CBM”) properties and to execute on other opportunities.



## SELECTED FINANCIAL INFORMATION

\$ Amount except for per unit amounts	Three months	Three months	Six months	Six months
	ended June	ended June	ended June	ended June
	2008	2007	2008	2007
Production revenues	1,143,569	441,256	2,092,713	1,183,878
Funds from operations <sup>(1)</sup>	121,164	(519,411)	135,657	(1,117,071)
Net loss	(479,992)	(2,254,893)	(1,031,190)	(3,208,036)
Net loss per share	(0.007)	(0.06)	(0.01)	(0.08)
Property and equipment additions	245,261	565,233	1,740,338	1,360,528
Total assets	20,605,769	24,502,829	20,605,769	24,502,829
Total liabilities	7,080,395	7,651,879	7,080,395	7,651,879
Common shares outstanding – basic	72,661,602	41,411,602	72,661,602	41,411,602
Common shares outstanding – diluted	97,851,003	45,366,602	97,851,003	45,366,602

(1) See “Non-GAAP Measures”

## SELECTED OPERATIONAL INFORMATION

\$ Amount except for per unit amounts	Three months	Three months	Six months	Six months
	ended June	ended June	ended June	ended June
	2008	2007	2008	2007
Natural gas (mcf/day)	1,174	609	1,203	835
Oil and natural gas liquids (bbl/day)	8	12	10	13
Total (boe/day)	204	114	210	153
Total boe	18,541	10,391	38,241	27,768
Exit rate (boe/day)	215	82	215	82
Natural gas price (\$/mcf)	\$10.03	\$7.10	\$8.94	\$7.12
Oil price (\$/bbl)	\$100.38	\$40.60	\$78.40	\$40.82
Royalties (\$/boe)	\$6.35	\$4.43	\$6.98	\$9.14
Operating expenses (\$/boe)	\$18.08	\$21.53	\$18.03	\$15.93
Operating netback (\$/boe) <sup>(1)</sup>	\$37.25	\$16.51	\$29.71	\$17.57

(1) See “Non-GAAP Measures”

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking financial and operational information including production and capital expenditure projections. The projections are based on the Company's expectations and are subject to a number of risks and uncertainties that could materially affect the results. Actual results achieved during the forward-looking period may differ materially from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; competitive action by other companies; fluctuations in oil and gas prices; the ability to produce and transport crude oil and natural gas to markets; the result of exploration and development drilling and related activities; fluctuation in foreign currency exchange rates; the imprecision of reserve estimates; the ability of suppliers to meet commitments; actions by governmental authorities including increases in taxes; decisions or approvals of administrative tribunals; change in environmental and other regulations; risks associated with oil and gas operations; the weather in areas of operation; and other factors, many of which are beyond the control of Richards Oil & Gas Limited. The Company disclaims any intention or obligation to publicly update or revise any forward-looking statements or information whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.



## OPERATING NETBACKS

Three months ended June 30, 2008				
	Natural gas (\$/mcf)	Oil (\$/bbl)	Natural gas liquids (\$/bbl)	Total (\$/boe)
Price	\$10.03	\$100.38	\$79.26	\$61.68
Net royalties	(\$0.94)	(\$13.74)	(\$91.91)	(\$6.35)
Operating expenses	(\$3.01)	(\$18.07)	(\$17.92)	(\$18.08)
Operating netback <sup>(1)</sup>	\$6.08	\$68.57	(\$30.57)	\$37.25

Three months ended June 30, 2007				
	Natural gas (\$/mcf)	Oil (\$/bbl)	Natural gas liquids (\$/bbl)	Total (\$/boe)
Price	\$7.10	\$40.60	\$50.13	\$42.47
Net royalties	(\$0.71)	(\$4.14)	(\$21.17)	(\$4.43)
Operating expenses	(\$3.54)	(\$24.08)	(\$22.90)	(\$21.53)
Operating netback <sup>(1)</sup>	\$2.85	\$12.38	\$6.06	\$16.51

Six months ended June 30, 2008				
	Natural gas (\$/mcf)	Oil (\$/bbl)	Natural gas liquids (\$/bbl)	Total (\$/boe)
Price	\$8.94	\$78.40	\$74.80	\$54.72
Net royalties	(\$1.10)	(\$9.85)	(\$34.79)	(\$6.98)
Operating expenses	(\$3.01)	(\$17.68)	(\$18.16)	(\$18.03)
Operating netback <sup>(1)</sup>	\$4.83	\$50.87	\$21.85	\$29.71

Six months ended June 30, 2007				
	Natural gas (\$/mcf)	Oil (\$/bbl)	Natural gas liquids (\$/bbl)	Total (\$/boe)
Price	\$7.12	\$40.82	\$47.55	\$42.64
Net royalties	(\$1.59)	(\$3.91)	(\$12.97)	(\$9.14)
Operating expenses	(\$2.62)	(\$18.15)	(\$14.97)	(\$15.93)
Operating netback <sup>(1)</sup>	\$2.91	\$18.76	\$19.61	\$17.57

(1) See "Non-GAAP Measures"

## NET LOSS AND FUNDS FROM OPERATIONS

The following table reconciles the Company's net loss to the reported funds from operations for the three and six months ended June 30, 2008 and 2007.

\$ Amount	Three months ended June 2008	Three months ended June 2007	Change	Six months ended June 2008	Six months ended June 2007	Change
Net loss	<b>(479,992)</b>	(2,254,893)	(78%)	<b>(1,031,190)</b>	(3,208,036)	(67%)
Add items not involving cash						
Stock-based compensation	<b>111,951</b>	161,904	(31%)	<b>162,908</b>	247,154	(34%)
Depletion and amortization	<b>373,079</b>	2,422,559	(84%)	<b>771,880</b>	2,882,468	(73%)
Accretion of asset retirement obligation	<b>15,300</b>	10,988	39%	<b>30,407</b>	21,513	41%
Accretion of discount on convertible debentures	<b>100,826</b>	100,826	-%	<b>201,652</b>	200,544	1%
Future income tax reduction	-	(960,795)	n/a	-	(1,260,714)	n/a
Funds from operations <sup>(1)</sup>	<b>121,164</b>	(519,411)	123%	<b>135,657</b>	(1,117,071)	110%

(1) See "Non-GAAP Measures"



## NETBACK ANALYSIS

The following table summarizes the Company's operating netback and funds from operations on a boe basis for the three and six months ended June 30, 2008 and 2007.

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Price	\$61.68	\$42.47	45%	\$54.72	\$42.64	28%
Net royalties	(\$6.35)	(\$4.43)	43%	(\$6.98)	(\$9.14)	(24%)
Operating expenses	(\$18.08)	(\$21.53)	(16%)	(\$18.03)	(\$15.93)	13%
Operating netback	\$37.25	\$16.51	125%	\$29.71	\$17.57	69%
Net general and administrative expenses	(\$25.14)	(\$51.79)	(51%)	(\$22.16)	(\$47.57)	(53%)
Interest and other income	\$1.39	\$3.54	(61%)	\$2.77	\$3.06	(10%)
Interest and financing charges (cash basis)	(\$6.96)	(\$18.24)	(62%)	(\$6.76)	(\$13.29)	(49%)
Funds from operations netback	6.53	(49.98)	113%	3.55	(\$40.23)	109%

## RESULTS OF OPERATIONS

### Revenues

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Natural gas revenues	1,071,339	393,416	172%	1,956,898	1,077,078	82%
Oil revenues	64,748	44,338	46%	111,550	92,767	20%
Natural gas liquids revenues	7,482	3,502	114%	24,265	14,033	73%
Total production revenue	1,143,569	441,256	159%	2,092,713	1,183,878	77%

### Production

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Natural gas (mcf/day)	1,174	609	93%	1,203	835	44%
Oil (bbl/day)	7	12	(42%)	10	13	(23%)
Natural gas liquids (bbl/day)	1	1	-%	2	2	-%
Total (boe/day)	204	114	79%	210	153	37%

### Average Sales Price

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Natural gas (\$/mcf)	\$10.03	\$7.10	41%	\$8.94	\$7.12	26%
Oil (\$/bbl)	\$100.38	\$40.60	147%	\$78.40	\$40.82	92%

### Average Benchmark Sales Price

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
AECO (daily) natural gas (\$/mcf)	\$10.22	\$7.07	44%	\$9.06	\$7.23	26%
WTI crude oil (\$US/bbl)	\$123.98	\$65.03	91%	\$110.94	\$61.60	80%
Bow River blend crude oil (\$CAD/bbl)	\$104.38	\$50.78	106%	\$91.05	\$50.41	81%
Exchange rate (\$US/\$CAD)	1.010	1.098	(8%)	1.007	1.134	(11%)



Production for the three months ended June 30, 2008 averaged 204 boe per day representing a 79% increase over the same period in 2007. This increase is a result of the Company's continued success in bringing CBM natural gas production on-line throughout the latter half of 2007. Also contributing to this variance were lower than normal production volumes in the second quarter of 2007 as a result of workovers and operational issues experienced at the Company's Lacombe and Morningside properties respectively.

Production for the six months ended June 30, 2008 averaged 210 boe per day, a 37% increase compared to production of 153 boe per day for the six months period ended June 30, 2007. Consistent with the explanation above, this increase is a result of the Company's continued success in bringing CBM natural gas production on-line throughout the latter half of 2007. The year over year decline in oil production is primarily a result of natural declines and the shutting in of one well that was no longer economic. The Company has not hedged its production, and its crude oil, natural gas liquids and natural gas production is sold into spot markets.

The Company's realized average sales price for the three months ended June 30, 2008 was \$10.03 per mcf, a 41% increase from the average sales price received in the same period in 2007. This year over year increase in natural gas prices is consistent with the increase witnessed in market prices for AECO (daily) natural gas over the last year.

Substantially all of the Company's production is natural gas the majority of which is CBM, natural gas produced from coal formations. CBM is in all material respects the same as natural gas except for a variance in heating content and other elements contained within the produced gas stream. The Company currently receives pricing that is approximately equal to the AECO (daily) natural gas market price.

### Royalties

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Crown royalties	47,003	(1,972)	2,484%	143,473	115,251	25%
Gross overriding and freehold royalties	70,727	47,976	47%	123,564	138,373	(11%)
Total net royalties	117,730	46,004	156%	267,037	253,624	5%
Net royalties (\$/boe)	\$6.35	\$4.43	43%	\$6.98	\$9.14	(24%)
Average corporate royalty rate	10%	10%	-%	13%	21%	(38%)

Royalties are paid to various government entities and other land, mineral rights and interest holders in respect of the Company's natural gas, natural gas liquids and oil production. For the second quarter of 2008 the Company incurred total net royalty expenses of \$117,730 which represents 10% of total production revenues recorded or \$6.35 on a per boe basis. This represents an increase of \$71,726, or 156% in total net royalties incurred from the second quarter of 2008 to the second quarter of 2007 which is due to increased production volumes and higher Crown royalty reference pricing. For the three months ended June 30, 2008 the Company's average corporate royalty rate was 10%, which is lower than the Company's typical average corporate royalty rate. In the second quarter of both 2007 and 2008 the Company received favourable royalty adjustments from the Alberta Crown reimbursing the Company for the capital component associated with the processing of Crown royalty natural gas volumes. These adjustment are not capable of being reasonably estimated, and therefore were not accrued in prior periods. Excluding the impact of this royalty adjustment, the average corporate royalty rate for the second quarter of 2008 would have been 17%.

Net royalties for the six months ended June 30, 2008 totaled \$267,037 which represents 13% of total production revenues recorded or \$6.98 on a per boe basis. This represents an increase of \$13,413, or 5% in total net royalties incurred from 2007 to 2008 which is also due to increased production volumes and higher crown royalty reference pricing. On a per boe basis, total net royalties declined 24% from \$9.14 per boe in 2007 to \$6.98 per boe in 2008. This year over year per boe reduction is primarily a result of reduced conventional natural gas production volumes from one well at the Company's Gadsby area that in early 2007 was burdened with high gross overriding royalties and also attracted a high Crown royalty rate as a result of its high initial production volumes.



### Alberta Royalty Changes

The Alberta government announced changes to royalties paid to the province effective January 1, 2009. The province has identified non-conventional resources, such as CBM and the oil sands, as future industries for Alberta and proposed changes to the royalty structure are designed to encourage further development in these key industries.

The Company's CBM well productivity currently averages 90 mcf per day. Based on the proposed changes, Crown royalties paid to the Alberta government will decline from a base rate of 11% in 2008 to 5% in 2009 and beyond. The 5% royalty rate would remain in effect at prices up to \$9.50 per mcf. At prices of \$9.50 per mcf the royalty rate would increase to the original 11%. As a result, Richards Oil & Gas Limited is expected to benefit immediately when the proposed changes are implemented in 2009 and will continue to benefit in a higher gas price environment up to a price of \$9.50 per mcf. A sensitivity case was run by Sproule Associates Limited on the 2007 year-end reserves which resulted in an overall increase of \$1.0 million (11%) in the Company's share of before tax net present value (proved plus probable reserves discounted at 10%).

### Operating Expenses

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Operating expenses	<b>335,236</b>	223,707	50%	<b>689,653</b>	442,433	56%
Operating expenses (\$/boe)	<b>\$18.08</b>	\$21.53	(16%)	<b>\$18.03</b>	\$15.93	13%

Operating expenses for the three months ended June 30, 2008 increased 50% over the same period in 2007 and totaled \$335,236. This increase was due primarily to the aforementioned increase in production levels. With an increase in production levels the Company can spread the fixed costs associated with operating the Company's properties over a larger production base and achieve greater operating economies of scale. The decrease in per boe operating expenses of 16% to \$18.08 per boe in second quarter of 2008 when compared to the \$21.53 per boe operating costs achieved in second quarter of 2007 is a result of the Company achieving these economies of scale on its Horseshoe Canyon CBM properties.

Operating costs per boe for the six months ended June 30, 2008 of \$18.03 per boe is higher than the \$15.93 per boe experienced in the six month period ended June 30, 2007 by \$2.10 per boe or 13%. This increase is a result of the reduced conventional natural gas production from the Company's Gadsby area. One well at Gadsby experienced high initial production volumes and as a result dramatically reduced the Company's per boe operating expense in early 2007.

### GENERAL AND ADMINISTRATIVE EXPENSES

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Total general and administrative expenses incurred	<b>502,222</b>	611,494	(18%)	<b>965,913</b>	1,481,156	(35%)
Less overhead recoveries	<b>(20,601)</b>	(12,667)	63%	<b>(75,150)</b>	(38,365)	96%
Less capitalized overhead	<b>(15,426)</b>	(60,632)	(75%)	<b>(43,329)</b>	(121,912)	(65%)
Net general and administrative expenses	<b>466,195</b>	538,193	(13%)	<b>847,434</b>	1,320,879	(36%)
Net general and administrative expenses (\$/boe)	<b>\$25.14</b>	\$51.79	(51%)	<b>\$22.16</b>	\$47.57	(53%)

Net general and administrative expenses for the three months ended June 30, 2008 totaled \$466,195 versus the \$538,193 incurred during the same period in 2007, representing a reduction of \$71,998 or 13%. This reduction in expenses from Q2 2007 is primarily a result of management's commitment to improve both its operating and administrative expense metrics. Net general and administrative expenses for the six months ended June 30, 2008 totaled \$847,434 versus \$1,320,879 for the comparable period in 2007. This decrease of \$473,445 or 36% is a result of one-time charges of \$217,000 relating to retiring allowances and severance costs associated with staffing changes incurred in 2007 and plus the cumulative effect of management's commitment to improve both its operating and administrative expense metrics.



### STOCK-BASED COMPENSATION

\$ Amount	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Stock-based compensation	111,951	161,904	(31%)	162,908	247,154	(34%)

The Company's stock-based compensation plan provides current employees, officers, directors, and consultants with the right to elect to receive common shares through the Company's stock option plan. Stock-based compensation expense totaled \$111,951 for the three months ended June 30, 2008 compared to \$161,904 recorded in the second quarter of 2007, a decrease of \$49,953 or 31%. The reduction in the year over year comparison is due primarily to the timing, number, original fair market value and age of the options. Most of the Company's options vest over a one year period and since most of the options have reached this first year vesting mark, the expense related to the small portion of options that vest over a two year period remains to be charged to the statement of operations and deficit.

At June 30, 2008 there are a total of 5,625,000 stock options outstanding at an average exercise price of \$0.71 per share. During the first six months of 2008, 793,333 stock options held by brokers plus consultants and officers no longer engaged with the Company expired.

### INTEREST AND FINANCING CHARGES

\$ Amount except percentages	Three months	Three months	Change	Six months	Six months	Change
	ended June	ended June		ended June	ended June	
	2008	2007		2008	2007	
Interest on convertible debenture	128,935	129,644	(1%)	258,579	257,863	-%
Interest expense	100	59,921	(100%)	100	111,155	(100%)
Interest and financing charges (cash basis)	129,035	189,565	(32%)	258,779	369,018	(30%)
Accretion of discount on convertible debentures	100,826	100,826	-%	201,652	200,544	1%
Total	229,861	290,391	(21%)	460,331	569,562	(19%)

Interest and financing charges for the three months ended June 30, 2008 totaled \$229,861, versus \$290,391 for the three months ended June 30, 2007 representing a reduction of \$60,530 or 21%. This reduction is due almost exclusively to interest expense related to Part XII.6 tax incurred in 2007, a result of the Company's flow through commitment in that year. In 2008 the Company no longer has any flow through commitments and accordingly does not incur any related interest expense charges.

### CAPITAL EXPENDITURES

The Company spent \$1,740,338 on capital expenditures during the six months ended June 30, 2008. \$511,142 was spent on completion and test work on the Company's Ardley CBM prospective lands. The remainder of the first quarter 2008 capital expenditures were primarily spent on drilling 6 gross (5.6 net) Horseshoe Canyon CBM wells, the completion of the gathering system in the Morningside area and planning the Thorsby infrastructure development which also involved acquiring several surface leases and pipeline right of ways.

The following table summarizes the Company's investment activities by types and compares the expenditures made on a year over year basis:

\$ Amount	Six months ended June 30		
	2008	2007	Change
Land	17,095	(7,902)	(36%)
Geological and geophysical	73,597	150,096	(90%)
Drilling and completion	1,551,135	1,145,090	111%
Well equipment and facilities	89,034	69,775	n/a
Office equipment and leaseholds	9,477	3,469	240%
Total	1,740,338	1,360,528	88%



## LIQUIDITY AND CAPITAL RESOURCES

### Share Capital

<b>Outstanding Common Shares</b>		
Weighted average outstanding common shares		
- Basic and diluted at June 30, 2008	72,661,602	
		Average price per share
Outstanding securities at June 30, 2008		
- Common shares	72,661,602	-
- Common share options	5,625,000	\$0.71
- Common share warrants	15,625,007	\$0.40
- Shares issuable on conversion of convertible debentures	3,939,394	\$1.82

### Total Market Capitalization

The Company's total market capitalization at June 30, 2008 was \$14.2 million.

\$ Amount except for per share information	
Outstanding common shares at June 30, 2008	72,661,602
Common share price (closing price on the TSX Venture exchange on June 30, 2008)	\$0.195
Total market capitalization	14,169,000

### Current Available Capital Resources

\$ Amount	
<b>Capital resources</b>	
Working capital at June 30, 2008	2,501,524
Credit facility available (subsequent to June 30, 2008)	4,000,000
Total capital resources available	6,501,524

The Company's total capital budget for 2008 is approximately \$6.8 million. The Company's current capital budget is expected to result in the drilling and completion of eight to ten net Horseshoe Canyon wells plus the tie in of these wells and an additional six current standing wells drilled in December 2007. It is anticipated that the Company will have adequate liquidity to fund this planned capital spending in 2008 through a combination of working capital, cash flow anticipated from operations and drawings on the Company's recently arranged \$4,000,000 credit facility. The Company continuously manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of altering capital spending activity levels. It is expected that the Company's increased natural gas production levels coupled with strengthening gas prices will provide adequate cash flow to sustain the Company through 2008 and into future years.

### Credit Facility

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 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. A fixed and floating charge demand debenture on the assets of the Company has been provided as security. As at August 19, 2008, \$nil was drawn on the operating demand loan and \$nil was drawn on the acquisition/development demand loan.



### Working Capital

The Company monitors its counterparty credit positions to mitigate any potential credit losses. All revenues are subject to normal collection risk. For activities conducted with joint venture partners, the Company collects its partners' share of capital and operating expenses on a monthly basis. At June 30, 2008, Richards Oil & Gas Limited had no material accounts receivable that it deemed uncollectible.

Accounts payable and accrued liabilities consist of amounts payable to suppliers relating to head office, field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize any off-balance sheet arrangements.

### QUARTERLY FINANCIAL SUMMARY

\$ Amount except for per unit amounts	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Sales – Natural gas (mcf/day)	1,174	1,232	946	655	609	1,065	699	481
Sales – Oil and natural gas liquids (bbls/day)	8	12	11	13	13	16	19	22
Sales – Total (boe/day)	204	217	169	122	114	193	136	102
Average Natural gas price (\$/mcf)	\$10.03	\$7.90	\$5.96	\$4.92	\$7.10	\$7.13	\$6.53	\$5.61
Average Oil and natural gas liquids price (\$/bbl)	\$97.74	\$63.08	\$45.97	\$47.42	\$41.17	\$41.96	\$38.09	\$49.89
Total production revenue	1,143,569	949,144	565,369	353,086	441,256	742,622	486,243	347,720
Interest and other revenue	25,791	79,956	104,363	104,278	36,802	48,203	39,209	48,184
Royalty expense, net of ARTC	117,730	149,307	90,233	48,754	46,004	207,620	106,854	67,434
<b>EXPENSES</b>								
Operating expense	335,236	354,417	338,615	219,898	223,707	218,726	204,160	214,488
General and administrative expenses	466,195	381,239	249,179	353,977	538,193	782,686	560,828	895,582
Stock-based compensation	111,951	50,957	54,037	152,492	161,904	85,250	535,833	287,046
Interest and financing charges	229,861	230,470	244,092	260,829	290,391	279,171	121,939	334,791
Depletion, amortization & accretion expense	388,379	413,908	390,271	318,993	283,547	470,434	357,693	134,417
Impairment of oil and gas properties	-	-	8,250,000	3,700,000	2,150,000	-	1,725,000	-
Future income tax reduction	-	-	(7,081)	(1,188,588)	(960,795)	(299,919)	(631,088)	(196,617)
Net income (loss)	(479,992)	(551,198)	(8,939,614)	(3,408,991)	(2,254,893)	(953,143)	(2,455,767)	(1,341,237)

### 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.

### NEW 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 Generally Accepted Accounting Principles ("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.

#### **ADVISORIES**

##### **Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their assessment, that the disclosure controls and procedures in place are effective to provide reasonable assurance that material information related to Richards Oil & Gas Limited is made known to them. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures are effective, except for the material weaknesses in design of the internal controls noted below, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable assurance, not absolute assurance, that the objectives of the control system are met.



### **Internal Controls over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer of Richards Oil & Gas Limited are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has identified certain weaknesses that it considers necessary to disclose in order to present an accurate and complete picture of the condition of the design of the Company's internal controls over financial reporting as required by Canadian Securities Administrators' Notice 52-316.

- i. The Company is not able to achieve appropriate segregation of incompatible accounting duties, with its current accounting staff complement.
- ii. The Company does not have a sufficient number of financial accounting personnel with the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise.

Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting, through the review of financial accounting processes, financial disclosures and communication with the external auditors. The Company does not believe that the additional costs to hire additional personnel to mitigate these weaknesses are justifiable at this stage in the Company's development.

### **Non-GAAP Measures**

The Company's management uses and reports certain non-GAAP measures in the evaluation of operating and financial performance. Specifically, this MD&A contains the terms "operating netback" and "funds from operations" which the Company views as non-GAAP measures of operating and financial performance. These measurements should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of the Company's performance. The Company's determination of funds from operations and operating netback may not be comparable to that reported by other companies. Richards Oil & Gas Limited's peer companies in the oil and gas industry use the same definitions and for consistency the Company will continue to report in this manner.

Funds from operations are determined as operating cash flows before working capital adjustments and abandonment expenditures. Funds from operations is used by the Company to analyze operating performance, leverage and liquidity. Readers should refer to the "NET LOSS AND FUNDS FROM OPERATIONS" section of the MD&A for a reconciliation of funds from operations.

The Company uses the term Operating Netbacks to evaluate operational performance of the Company. Operating netback, which is calculated as average unit sales price less royalties, and operating expenses, represents the operating cash margin for every barrel oil equivalent sold. Readers should refer to the "OPERATING NETBACKS" section of the MD&A for the calculations of operating netbacks.