

**Financial Statements of
Richards Oil & Gas Limited
June 30, 2009**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, part 4, subsection 4.3(3), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

RICHARDS OIL & GAS LIMITED
BALANCE SHEETS
(UNAUDITED)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 3,019	\$ 1,816,333
Accounts receivable	640,335	1,553,765
Prepaid expenses	136,954	109,380
	<u>780,308</u>	<u>3,479,478</u>
PROPERTY AND EQUIPMENT (note 4)	10,647,496	21,682,114
	<u>\$ 11,427,804</u>	<u>\$ 25,161,592</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,579,078	\$ 4,648,160
Credit facilities (note 5)	3,200,000	2,000,000
	<u>4,779,078</u>	<u>6,648,160</u>
CONVERTIBLE DEBENTURES (note 6)	5,656,786	5,456,242
ASSET RETIREMENT OBLIGATION (note 7)	1,028,467	995,516
	<u>11,464,331</u>	<u>13,099,918</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 8)	29,062,769	28,804,906
WARRANTS (note 8)	1,588,081	1,588,081
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (note 6)	1,435,822	1,435,822
CONTRIBUTED SURPLUS (note 10)	3,753,454	3,733,753
DEFICIT	(35,876,653)	(23,500,888)
	<u>(36,527)</u>	<u>12,061,674</u>
	<u>\$ 11,427,804</u>	<u>\$ 25,161,592</u>
GOING CONCERN (note 1)		
COMMITMENTS (note 13)		

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

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

	Three months ended		Six months ended	
	2009	2008	2009	2008
		June 30		June 30
REVENUE				
Production	346,632	1,143,569	879,927	2,092,713
Royalties	76,209	(117,730)	17,037	(267,037)
Interest and other	6,298	25,791	23,569	105,747
	<u>429,139</u>	<u>1,051,630</u>	<u>920,533</u>	<u>1,931,423</u>
EXPENSES				
Operating	387,474	335,236	788,243	689,653
General and administrative	321,801	466,195	653,317	847,434
Stock-based compensation	1,045	111,951	19,529	162,908
Interest and financing charges (note 11)	269,072	229,861	524,958	460,331
Depletion, amortization and accretion	323,266	388,379	810,251	802,287
Impairment of oil and gas properties (note 4)	-	-	10,500,000	-
	<u>1,302,658</u>	<u>1,531,622</u>	<u>13,296,298</u>	<u>2,962,613</u>
NET LOSS, before income taxes	(873,519)	(479,992)	(12,375,765)	(1,031,190)
Future income tax reduction	-	-	-	-
NET LOSS	(873,519)	(479,992)	(12,375,765)	(1,031,190)
DEFICIT, beginning of period	(35,003,134)	(21,498,879)	(23,500,888)	(20,947,681)
DEFICIT, end of period	(35,876,653)	(21,978,871)	(35,876,653)	(21,978,871)
Loss per share (note 9)				
Basic and diluted	(0.01)	(0.01)	(0.17)	(0.01)

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	
	2009	2008	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES				
Net loss for the period	(873,519)	(479,992)	(12,375,765)	(1,031,190)
Items not affecting cash				
Stock-based compensation	1,045	111,951	19,529	162,908
Depletion, amortization and accretion	323,266	388,379	810,251	802,287
Impairment of oil and gas properties	-	-	10,500,000	-
Accretion of discount on convertible debentures	100,826	100,826	200,544	201,652
Interest expense settled with shares (note 6)	129,994	-	257,863	-
	<u>(318,388)</u>	<u>121,164</u>	<u>(587,578)</u>	<u>135,657</u>
Net change in non-cash working capital (note 12)	(68,356)	175,190	(125,478)	(98,945)
	<u>(386,744)</u>	<u>296,354</u>	<u>(713,056)</u>	<u>36,712</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions of property and equipment	(253,550)	(245,261)	(654,510)	(1,740,338)
Dispositions of property and equipment	412,000		412,000	
Net Change in non-cash working capital (note 12)	413,647	(186,861)	(2,057,748)	(2,322,751)
	<u>572,097</u>	<u>(432,122)</u>	<u>(2,300,258)</u>	<u>(4,063,089)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in credit facility	(75,000)	-	1,200,000	-
	<u>(75,000)</u>	<u>-</u>	<u>1,200,000</u>	<u>-</u>
INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS	110,353	(135,768)	(1,813,314)	(4,026,377)
CASH and CASH EQUIVALENTS, BEGINNING of PERIOD	(107,334)	2,334,958	1,816,333	6,225,567
CASH and CASH EQUIVALENTS, END of PERIOD	3,019	2,199,190	3,019	2,199,190

The accompanying notes form an integral part of these financial statements

RICHARDS OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

1. GOING CONCERN

These financial statements of Richards Oil & Gas Limited (the "Company") have been prepared on the basis that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these financial statements, and that the Company will be able to continue its business activities.

For the six months ended June 30, 2009, the Company reported a net loss of \$12,375,765 and incurred negative cash flow from operating activities of \$587,578. The Company also has a net working capital deficit of \$3,998,770 in relation to its available credit facilities of \$3,350,000 at June 30, 2009, and accordingly is in breach of 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 demand loan. On June 25, 2009 the Company received a notice of event of default letter from the bank for failure to comply with its covenants under the current loan agreement and as a result of this event of default, the bank has demanded the total amount due and owing under the credit facility be repaid immediately. The Company has also outlined its commitments in note 13. These conditions combined raise doubt about the Company's ability to continue as a going concern.

The future operation of the Company is dependent on its ability to successfully explore, develop and produce economically viable reserves and market natural gas products from its properties, raise capital and receive the continued financial support from its bank (see note 5). Recent market events, including disruptions in credit markets and other financial systems, the deterioration of global economic conditions and over-supply of natural gas in the North American marketplace have resulted in significant declines in natural gas prices. As a result of the current commodity price and credit environment, management has restricted capital and administrative spending and shut-in uneconomic production. Through 2009 management has exerted considerable effort in an attempt to secure financing to fund its future prospects and commitments, to farm out interests in its oil and gas properties, to dispose of certain assets and pursue strategic alternatives in an effort to continue operations. As at August 27, 2009, the date of these financial statements, no financing or material agreements have been signed nor can it be assured that such agreements will be reached.

To preserve liquidity the Company exercised its option to pay the interest obligation on its convertible debt due June 30, 2009 in common shares. As a result, \$257,863 in an interest liability was exchanged for the issuance of 5,157,248 common shares of the Company.

As outlined in the paragraphs above, the Company is doing everything within its powers and making every effort in an attempt to rectify this issue. To date, the bank has been supportive of these initiatives and as at the date of these financial statements has not forced the Company into a forbearance agreement. Without positive cash flows and the continued support of the bank, it is unlikely that the Company will be able to continue its activities and discharge its obligations.

Management of the Company believes that the going concern assumption is appropriate for these financial statements. If this assumption is not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

2. 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, 2008, except as noted below and should be read in conjunction with these statements.

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

3. CHANGES IN ACCOUNTING POLICIES AND POLICIES

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. At present the Company is actively monitoring and assessing the impact of convergence of Canadian GAAP and IFRS.

4. PROPERTY AND EQUIPMENT

\$ Amount	As at June 30, 2009	As at December 31, 2008
Capitalized costs – oil and natural gas properties	41,716,063	41,473,380
Capitalized costs – other assets	115,746	115,746
Accumulated Depletion and amortization	(31,184,313)	(19,907,012)
Net book value	10,647,496	21,682,114

At June 30, 2009, \$12,621,900 (December 31, 2008 - \$12,621,900) of future development costs were included in the costs subject to depletion.

In the first quarter of 2009, a ceiling test impairment loss of \$10,500,000 was recorded of oil and natural gas properties in the statements of operations and deficit and is included in accumulated depletion. The prices used in the ceiling test evaluation of the Company's oil and natural gas reserves at March 31, 2009 were:

Forecast Year	WTI Crude Oil (\$US/Barrel)	Edmonton par Price 40° API (\$CAD/Barrel)	Alberta AECO-C Spot (\$CAD/MMBtu)	Inflation Rate (%)	Exchange Rate (\$US/\$CAD)
2009	47.54	57.21	4.89	2.0	.800
2010	55.42	63.37	5.93	2.0	.850
2011	60.37	67.15	6.42	2.0	.875
2012	75.37	77.48	7.12	2.0	.950
2013	81.18	83.58	7.50	2.0	.950

Various Escalation Rates Thereafter

The Company performed a ceiling test calculation at June 30, 2009 and determined that no further ceiling test impairment loss was incurred.

5. CREDIT FACILITIES

The Company currently maintains two fully secured, demand credit facilities with a Canadian chartered bank. At December 31, 2008 the credit facilities in place for Richards Oil & Gas Limited consisted of a \$2,000,000 revolving operating demand loan ("Facility A") and a \$2,000,000 non-revolving acquisition / development demand loan ("Facility B"). The per annum interest rate for Facility A was the bank's prime lending rate plus 1.0 percent and for Facility B was the bank's prime lending rate plus 1.5 percent.

After completion of a borrowing base review effective April 30, 2009 by the bank revised the Company's credit facilities. Facility A was increased to \$2,500,000 and Facility B was not renewed. In place of the original Facility B, a \$1,100,000 demand loan facility was arranged. The per annum interest rate for Facility A is the bank's prime lending rate plus 1.5 percent and the per annum interest rate for the \$1,100,000 demand loan facility is the bank's prime lending rate plus 5.0 percent. The Company's credit facilities were reduced again on June 1, 2009 with Facility A being reduced to \$2,250,000 and the per annum interest rate

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

for Facility A was increased to the bank's prime lending rate plus 2.5 percent. The Company is presently obliged to repay \$50,000 per month on Facility A.

On June 25, 2009 the Company received a notice of event of default letter from the bank notifying the Company that it is in default under its loan agreement for failure to comply with certain covenants under the current loan agreement the Company has with the bank. As a result of this event of default, the bank has demanded the total amount due and owing under the loan agreement be repaid immediately. The Company is currently actively pursuing financing opportunities to fund its future prospects and commitments, farming out interests in its oil and gas properties, further asset dispositions and strategic alternatives to continue operations. To date the bank has been supportive of these initiatives and accordingly has not forced the Company into forbearance. At August 27, 2009 the Company had drawn \$2,100,000 on its Facility A and was fully drawn on its \$1,100,000 demand loan facility.

The credit facilities are secured by a single \$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. At June 30, 2009 the Company was not in compliance with the working capital covenant described above (note 1).

6. CONVERTIBLE DEBENTURES

On June 26, 2006 the Company issued \$6.5 million of 8.0% convertible unsecured subordinated debentures (the "Convertible Debentures") for net proceeds of \$5.9 million. The Convertible Debentures have an initial maturity date of June 26, 2011. The Convertible Debentures bear interest at 8.0% per annum which is paid semi-annually on June 30 and December 31 of each year and are subordinated to all other liabilities of the Company.

The Convertible Debentures are convertible at the option of the holder into common shares of the Company at any time after October 26, 2006 and prior to June 26, 2008 at a conversion price of \$1.65 per share. From June 26, 2008 until maturity, the conversion price increases by 10% per year. The Convertible Debentures are not redeemable by the Company before June 28, 2008 but may be redeemed in whole or in part at the option of the Company providing the Company's common shares are trading at not less than \$3.50 per share for 20 consecutive trading days ending five days prior to conversion. Redemptions and conversions entitle the holder to accrued and unpaid interest to and including the effective date.

At the option of the Company, the payment of the interest obligation on the Convertible Debentures may be settled in common shares. The number of common shares to be issued upon to satisfy the interest obligation will be calculated by dividing the interest obligation by the greater of; \$0.05 and, 95% of the weighted average trading price for 20 consecutive trading days ending five days prior to the date the interest obligation is due. For the interest payment due on June 30, 2009 the Company exercised its option to pay the interest due and payable in common shares. As a result, \$257,863 in interest payable was capitalized increasing Common Shares outstanding by 5,157,248.

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

<u>\$ Amount</u>	<u>Equity Component</u>	<u>Liability Component</u>
Balance as at December 31, 2008	1,435,822	5,456,242
Accretion of non-cash interest expense	-	200,544
<u>Balance as at June 30, 2009</u>	<u>1,435,822</u>	<u>5,656,786</u>

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

7. ASSET RETIREMENT OBLIGATION

As at June 30, 2009 the Company has estimated undiscounted future costs related to the abandonment and restoration of its oil and gas properties to be \$1,554,295 (December 31, 2008 - \$1,568,295). These obligations are to be settled over an average of 5.9 years and have been discounted using a credit-adjusted risk free interest rate of 6.0% and inflation rate of 2.0%.

Changes to the asset retirement obligation were as follows:

\$ Amount	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of period	995,516	736,956
Liabilities incurred during the period	-	194,951
Accretion of asset retirement obligation during the period	32,951	63,609
Balance, end of period	1,028,467	995,516

8. SHARE CAPITAL

Authorized:

-Unlimited number of common voting shares

i) Changes in Common Share Capital

	Number	\$ Amount
Balance as at December 31, 2008	72,661,602	28,804,906
Shares issued	5,157,248	257,863
Balance as at June 30, 2009	77,818,850	29,062,769

The Company issued 5,157,248 Common Shares as a result of exercising its option to satisfy its interest obligation due June 30, 2009. As a result, interest payable in the amount of \$257,863 was exchanged for Share Capital of the Company.

ii) Stock Options

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

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	4,790,000	\$ 0.67	5,203,333	\$ 0.91
Options granted	-	\$ -	1,215,000	\$ 0.16
Options expired	(1,945,000)	\$ 0.74	(1,628,333)	\$ 1.07
Outstanding at end of period	2,845,000	\$ 0.61	4,790,000	\$ 0.67
Exercisable at end of period	2,814,998	\$ 0.62	4,148,330	\$ 0.74

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

The following summarizes details about the Company's stock option granted as at June 30, 2009:

Range of exercise price	Options outstanding			Options vested		
	Outstanding options	Remaining contract life	Weighted average exercise price	Vested options	Remaining contract life	Weighted average exercise price
\$0.16 to \$0.49	1,945,000	3.5	\$0.21	1,914,998	3.5	\$0.21
\$0.50 to \$0.99	300,000	2.8	\$0.72	300,000	2.8	\$0.72
\$1.00 to \$1.49	100,000	1.4	\$1.31	100,000	1.4	\$1.31
\$1.50 to \$1.99	150,000	2.1	\$1.62	150,000	2.1	\$1.62
\$2.00 to \$2.49	350,000	1.8	\$2.16	350,000	1.8	\$2.16
	2,845,000	3.0	\$0.61	2,814,998	3.1	\$0.62

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, 2009. There were no warrants exercised subsequent to June 30, 2009.

9. 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, 2009	\$ (873,519)	72,718,275	\$ (0.01)
	June 30, 2008	\$ (479,992)	72,661,602	\$ (0.01)
Six months ended	June 30, 2009	\$ (12,375,765)	72,690,095	\$ (0.17)
	June 30, 2008	\$ (1,031,190)	72,661,602	\$ (0.01)

For the periods ended June 30, 2009 and June 30, 2008 the conversion of stock options, convertible debentures and warrants is anti-dilutive.

10. CONTRIBUTED SURPLUS

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

\$ Amount	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of year	3,733,753	3,502,156
Stock-based compensation	19,701	231,597
Transfer of expired warrants from warrants account		
Balance, end of period	3,753,454	3,733,753

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

11. INTEREST AND FINANCING CHARGES

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

\$ Amount	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Interest on convertible debenture	129,994	128,935	257,863	258,579
Accretion of discount on convertible debentures	100,826	100,826	200,544	201,652
Interest expense on credit facility	38,252	100	66,551	100
Total	269,072	229,861	524,958	460,331

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital comprised the following:

\$ Amount	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Accounts receivable	568,004	2,045,502	913,430	1,417,350
Prepaid expenses	9,130	18,035	(27,574)	(10,297)
Accounts payable and accrued liabilities	(231,843)	(2,075,208)	(3,069,082)	(3,828,749)
Net change	345,291	(11,671)	(2,183,226)	(2,421,696)
Net change by activity:				
Operating	(68,356)	175,190	(125,478)	(98,945)
Investing	413,647	(186,861)	(2,057,748)	(2,322,751)
Net change	345,291	(11,671)	(2,183,226)	(2,421,696)
Cash interest paid on part XII.6 tax	-	-	-	138,217

13. 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; 2009 - \$68,096, 2010 - \$140,415, 2011 - \$144,638 and 2012 - \$148,860.

14. 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.

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

15. 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 \$100,000.

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 meet 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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages liquidity by ensuring, as far as possible, that it will have sufficient liquidity under both normal and stressed commodity market and economic conditions.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as necessary. The Company operates a high percentage of its oil and gas properties, which allows for significant control over future expenditures. To support the capital spending program, the Company maintains two fully secured credit facilities, as outlined in Note 5.

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 the drawings on the Company's credit facility at June 30, 2009, a one percent change in the prevailing interest rate for its credit facility would result in an estimated annual change to net income of \$30,000.

16. SUBSEQUENT EVENTS

On July 10, 2009, all 15,625,007 share purchase warrants outstanding at June 30, 2009 expired unexercised.