



R I C H A R D S
O I L & G A S L I M I T E D

ANNUAL REPORT
2008



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 Richards Oil & Gas Limited (the “Company”) should be read in conjunction with the Company’s audited financial statements for the years ended December 31, 2008 and 2007 and the notes related thereto. All amounts are stated in Canadian dollars unless otherwise specified. This MD&A is based upon information available to, and is dated, April 7, 2009. Additional information relating to the Company can be viewed or downloaded at www.richardsoilandgas.com or on SEDAR at 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 noted, the financial information presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

2008 HIGHLIGHTS

- Increased average annual production volumes 35% to 201 BOE per day up from 149 BOE per day in 2007. Exit rate production also increased 25% to 213 BOE per day from 171 BOE per day in December 2007.
- The Company’s total proved plus probable reserves increased by 28% to 2,308 MBOE up from 1,805 MBOE in 2007. Total proved reserves increased by 15% to 1,329 MBOE. The Company’s reserve life index based on fourth quarter 2008 production levels is estimated at 12.5 years total proved and 20.6 for total proved plus probable reserves.
- Commenced natural gas production from the Company’s Thorsby property in December 2008.
- The Company’s 2008 drilling program recorded 100 percent success during the year with activity focused primarily on the Company’s Thorsby property. In 2008 the Company drilled 13 wells (12.0 net) of which 12 wells (11.6 net) were drilled at Thorsby. The remaining non-operated well was drilled at Lacombe. All of the wells drilled in 2008 targeted the highly predictable Horseshoe Canyon coals.

SELECTED FINANCIAL INFORMATION

\$ Amount except for per share information	Year ended December 31		
	2008	2007	Change
Production revenues	3,653,752	2,102,333	74%
Net loss	(2,553,207)	(15,556,641)	(84%)
Net loss per share	(0.035)	(0.29)	(88%)
Property and equipment additions	7,090,204	9,761,919	(27%)
Total assets	25,161,592	24,964,985	1%
Total liabilities	13,099,601	10,581,701	24%
Common shares outstanding – basic	72,661,602	72,661,602	nil%
Common shares outstanding – diluted	96,648,038	97,429,336	(1%)



SELECTED OPERATIONAL INFORMATION

	Year ended December 31		
	2008	2007	Change
Natural gas (mcf/day)	1,144	818	40%
Crude oil (bbl/day)	8	12	(33%)
Total (BOE/day)	201	149	35%
Exit rate (BOE/day)	213	171	25%
Natural gas price (\$/mcf)	\$8.07	\$6.34	27%
Oil price (\$/bbl)	\$76.40	\$43.01	77%
Royalties (\$/BOE)	\$6.81	\$7.20	(5%)
Operating expenses (\$/BOE)	\$20.04	\$18.36	9%
Operating netback (\$/BOE)	\$22.88	\$13.00	76%

OPERATIONS

Oil and gas production revenues increased to \$3,653,752 in 2008 from \$2,102,333 in 2007. This increase is primarily a result of higher natural gas production and higher natural gas prices received. Natural gas production increased as a result of additional well completions and a full year of production from the Company's Morningside area. The Company did experience decrease in oil production primarily due to natural declines and the shutting in of one well in late 2007 that was no longer producing economically.

Net production for 2008 was 201 BOE per day compared with 149 BOE per day for 2007. Exit rates for the months of December 2008, and 2007, were 213 and 171 BOE per day respectively. Subsequent to the end of 2008, production rates have risen to approximately 220 BOE per day.

Current production levels are considerably lower than expected primarily as a result of operational issues experienced at the Company's Thorsby property. Production from the Company's wells that targeted the Edmonton sand intervals have formation water entering the wellbores and therefore have inhibited gas flow. The Company is currently evaluating production alternatives to remove this water from the wellbores and re-configuring the gathering system to allow for the production of water in association with the natural gas.

The Company spent \$7,090,204 on capital expenditures during the year ended December 31, 2008. \$557,204 was spent on completion and test work on the Company's Ardley CBM prospective lands. The remainder of the 2008 capital expenditures were primarily spent on drilling and completion of 13 gross (12.0 net) Horseshoe Canyon CBM wells, and the construction of the gas processing facility at the Company's Thorsby area. Of the wells drilled and completed in 2008, seven gross wells, (7.0 net) were awaiting tie-in at December 31, 2008.

Richards Oil & Gas Limited has a significant land position with rights to the Ardley coals. From 2005 to early 2007 the Company committed capital of approximately \$13,540,000 and its technical expertise in an attempt to commercialize this resource. To date, the Company has not been successful in its attempt to commercialize this resource. Due to the higher costs and higher risk associated with the Ardley CBM resource, the Company has focused on developing the more profitable and predictable Horseshoe Canyon CBM resource. The Company will continue to hold these Ardley lands, subject to expiries, and will reactivate its investigation of this CBM resource if economic conditions and technical advances warrant further capital investments.



RESERVES

The increase in the Company's total proved plus probable reserves of 28% to 2,308 MBOE is primarily a result of the 2008 drilling and completion work on the Company's Thorsby property. As a result of the additional 12 gross wells drilled in 2008 at Thorsby, the lateral extent of the Horseshoe Canyon CBM formation on Company lands was substantiated and some additional reserves were also attributed to the various Edmonton sand intervals encountered. At December 31, 2008, 92 percent of the Company's reserves are attributable to the Horseshoe Canyon CBM. The remaining reserves are conventional in nature with 89 percent of those reserves now producing from the same wellbores as the Horseshoe Canyon CBM reserves.

Reserve information is based on an independent reserve evaluation report prepared by Sproule Unconventional Limited dated March 19, 2009, with an effective date of December 31, 2008. The report was prepared in accordance with the COGE Handbook and National Instrument 51-101 standards of disclosure for oil and gas activities. Complete NI 51-101 reserve disclosure will be filed on SEDAR in conjunction with the filing of the Company's 2008 audited financial statements and related MD&A.

OUTLOOK

Production challenges experienced on start-up at the Company's Thorsby property has resulted lower than expected initial production volumes negatively impacting the initial cash-flows from this property. These production challenges require additional and unexpected capital spending to rectify. The Company is addressing these production challenges in a very prudent and cost effective manner as significant capital outlays at Thorsby may not be economic given the current commodity price environment and therefore will not be considered until current and future natural gas prices recover significantly.

Recent market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. As a result of the current commodity price and credit environment, management has restricted capital and administrative spending and continues to monitor financing opportunities to fund its future prospects and commitments. Management is also considering farming out interests in its oil and gas properties, asset dispositions and strategic alternatives in an effort to preserve shareholder value.

Forward-Looking Statements

This MD&A contains forward-looking financial and operational information including production and capital expenditures 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.



RESULTS OF OPERATIONS

Revenues

\$ Amounts	Year ended December 31		
	2008	2007	Change
Natural gas revenues	3,378,264	1,892,161	79%
Oil revenues	236,455	183,765	29%
Natural gas liquids revenues	39,033	26,407	48%
Total production revenue	3,653,752	2,102,333	74%

Production

	Year ended December 31		
	2008	2007	Change
Natural gas (mcf/day)	1,144	818	40%
Oil (bbl/day)	8	12	(33%)
Natural gas liquids (bbl/day)	2	1	100%
Total (BOE/day)	201	149	35%

Average Sales Price

	Year ended December 31		
	2008	2007	Change
Natural gas (\$/mcf)	\$8.07	\$6.34	27%
Oil (\$/bbl)	\$76.40	\$43.01	77%

Average Benchmark Sales Price

	Year ended December 31		
	2008	2007	Change
AECO (daily) natural gas (\$/mcf)	\$8.14	\$6.45	26%
WTI crude oil (\$US/bbl)	\$99.65	\$72.31	38%
Bow River blend crude oil (\$CAD/bbl)	\$84.10	\$53.36	58%
Exchange rate (\$US/\$CAD)	1.06	1.07	1%

Production for the year ended December 31, 2008 averaged 201 BOE per day representing a 35% increase over the same period in 2007. This increase is primarily the result of additional well completions and a full year of production from the Company's Morningside area. The year over year decline in oil production is primarily a result of natural declines and the shutting in of one well in late 2007 that was no longer producing economically. 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 natural gas sales price for the year ended December 31, 2008 was \$8.07 per mcf, a 27% increase from the year end 2007 realized average sales price. This similar year over year natural gas price realized by the Company is consistent with the 26 percent increase witnessed in the changes in the year over year AECO (daily) natural gas market price.

Substantially all of the Company's production is natural gas and most of the natural gas sold by the Company is CBM, natural gas produced from coal formations. CBM is in all material respects the same as natural gas save for a variance in heating content and other elements contained within the produced gas stream. The Company currently receives pricing that typically averages 1% to 2% less than the weighted average of AECO (daily) natural gas market price which reflects the slightly lower heating content of CBM gas.



Royalties

\$ Amount except percentages	Year ended December 31		
	2008	2007	Change
Crown royalties	284,772	182,953	56%
Gross overriding and freehold royalties	215,375	209,658	3%
Total royalties	500,147	392,611	27%
Total royalties (\$/BOE)	\$6.81	\$7.20	(5%)
Average corporate royalty rate	14%	19%	(5%)

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 year ended December 31, 2008 the Company incurred total net royalty expenses of \$500,147 which represents 14% of total production revenues recorded or \$6.81 on a per BOE basis. This represents an increase of 27% in total royalties incurred from 2008 to 2007 and is consistent with the increase in total production of 35%. The increase in total royalties was primarily driven from increases in Crown royalties paid at the Company's Morningside area, an area which is primarily Crown land.

Alberta Royalty Changes

On January 1, 2009 the new royalties proposed by the government of Alberta come into effect. The Company's lower productivity CBM wells will benefit under the new royalty framework and as a result Crown royalties are expected to decline by up to 50% of the rates experienced in 2008. Under the new royalty framework, Crown royalty rates are determined by both productivity and natural gas prices. The Company's Crown royalty rate will remain below 2008 levels at prices up to \$9.50 per mcf.

Production levels increased in December 2008 as a result of the Company commencing production from its Thorsby area. The majority of the Company's production from the Thorsby area is from freehold lands and attracts a static royalty rate which, in the current natural gas pricing environment, is greater than the Crown royalty rate under the new royalty framework. After giving effect to the new Province of Alberta Crown royalty framework and the change in the Company's production mix, total royalty rates for the Company are expected to average 15 to 17 percent in 2009.

Operating Expenses

\$ Amount	Year ended December 31		
	2008	2007	Change
Operating expenses	1,472,958	1,000,946	47%
Operating expenses (\$/BOE)	\$20.04	\$18.36	9%

Operating costs for the year ended December 31, 2008 increased 47% over 2007 and totaled \$1,472,958. This increase in operating expenses was primarily due to increased production levels which increased 35% year over year. On a per BOE basis operating costs increased 9% to \$20.04 per BOE from the \$18.36 per BOE incurred in 2007. This increase in per BOE operating expenses is primarily the result of higher costs associated with government imposed well testing obligations on Horseshoe Canyon CBM production and increased third party per mcf compression charges. Already in 2009 the Company has undertaken specific field operating initiatives, that when combined with further anticipated production volume increases, will reduce the Company's per BOE operating costs.



OPERATING NETBACKS

Year ended December 31, 2008

	Natural gas (\$/mcf)	Oil (\$/bbl)	Natural gas liquids (\$/bbl)	Total (\$/BOE)
Price	\$8.07	\$76.40	\$65.37	\$49.73
Net royalties	(\$1.08)	(\$9.96)	(\$27.32)	(\$6.81)
Operating expenses	(\$3.34)	(\$20.39)	(\$20.02)	(\$20.04)
Operating netback ⁽¹⁾	\$3.65	\$46.05	\$18.03	\$22.88

Note: Rounding has been applied to amounts within this table

Year ended December 31, 2007

	Natural gas (\$/mcf)	Oil (\$/bbl)	Natural gas liquids (\$/bbl)	Total (\$/BOE)
Price	\$6.34	\$43.01	\$52.19	\$38.56
Net royalties	(\$1.21)	(\$5.15)	(\$18.09)	(\$7.20)
Operating expenses	(\$3.05)	(\$19.44)	(\$17.14)	(\$18.36)
Operating netback ⁽¹⁾	\$2.08	\$18.42	\$16.96	\$13.00

Note: Rounding has been applied to amounts within this table

(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 years ended December 31, 2008 and 2007.

\$ Amount	Year ended December 31		
	2008	2007	Change
Net loss	(2,553,207)	(15,556,641)	(84%)
Add items not involving cash			
Stock-based compensation	220,054	453,683	(52%)
Depletion and amortization	1,679,341	15,513,870	(89%)
Accretion of asset retirement obligation	63,609	49,375	29%
Accretion of discount on convertible debentures	405,520	404,412	-%
Future income tax reduction	-	2,456,383	n/a
Funds from operations⁽¹⁾	(184,683)	(1,591,684)	(88%)
Asset retirement expenditures	-	(195,454)	n/a
Net change in non-cash working capital	72,909	(39,841)	n/a
Cash flow from operating activities	(111,774)	(1,826,979)	(88%)

(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 years ended December 31, 2008 and 2007.

\$ Amount	Year ended December 31		
	2008	2007	Change
Price	\$49.73	\$38.56	29%
Net royalties	(\$6.81)	(\$7.20)	(5%)
Operating expenses	(\$20.04)	(\$18.36)	9%
Operating netback ⁽¹⁾	\$22.88	\$13.00	76%
Net general and administrative expenses	(\$19.97)	(\$35.29)	(43%)
Interest and other income	\$1.87	\$5.38	(65%)
Interest and financing charges (cash basis)	(\$7.29)	(\$12.29)	(42%)
Funds from operations netback ⁽¹⁾	(\$2.51)	(\$29.20)	(91%)

(1) See "Non-GAAP Measures"

GENERAL AND ADMINISTRATIVE EXPENSES

\$ Amount	Year ended December 31		
	2008	2007	Change
Total general and administrative expenses incurred	1,767,169	2,403,434	(27%)
Less overhead recoveries	(235,396)	(209,362)	12%
Less capitalized overhead	(64,478)	(270,037)	(76%)
Net general and administrative expenses	1,467,295	1,924,035	(24%)
Net general and administrative expenses (\$/BOE)	\$19.97	\$35.29	(43%)

Net general and administrative expenses for the year ended December 31, 2008 totaled \$1,467,295 versus the \$1,924,035 incurred in 2007, a year over year reduction of 24%. This reduction in general and administrative expenses is a result of management's continued commitment to improve its administrative expense metrics.

STOCK-BASED COMPENSATION

\$ Amount	Year ended December 31		
	2008	2007	Change
Stock-based compensation	220,054	453,683	(52%)

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 \$220,054 for the year ended December 31, 2008 compared to \$453,683 recorded in 2007, a decrease of \$233,629 or 52%. The reduction in the year over year comparison is due primarily to the timing, number, original fair market value and age of the options. The main factor influencing this decrease in stock-based compensation is that the 2008 issues of options occurred when the Company's share price was considerably lower than in the past periods. This results in a lower fair market value of the options when issued which translates into lower stock-based compensation cost than in previous years. Age of options is also a factor as a large percentage of the Company's options are a over two years old meaning a large portion of SBC expense related to these options has already been incurred.

There are a total of 4,790,000 stock options outstanding at an average exercise price of \$0.67 per share at December 31, 2008.



INTEREST AND FINANCING CHARGES

\$ Amount	Year ended December 31		
	2008	2007	Change
Interest on convertible debenture	520,000	520,000	nil%
Interest expense	15,790	150,071	(90)
Interest and financing charges (cash basis)	535,790	670,071	(20%)
Accretion of discount on convertible debentures	405,520	404,412	nil%
Total	941,310	1,074,483	(12%)

Interest and financing charges for the year ended 2008 totaled \$941,310, versus \$1,074,483 for the year ended 2007 representing a reduction of \$133,173 or 12%. 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.

INCOME TAXES

The Company is currently not taxable, and the Company does not anticipate paying current income tax over the next several years. The Company's current tax rate is a combined Canadian federal and Alberta plus Saskatchewan provincial rate of 29.68%.

As at December 31, 2008 the oil and gas properties owned by the Company have a tax basis of approximately \$31,447,000 (2007 – \$24,528,000) available for future use as deductions from taxable income. Included in this tax basis are non-capital loss carry forwards of approximately \$15,311,000 (2007 – \$10,827,000) which expire in the years 2014 to 2028.

CAPITAL EXPENDITURES

The Company spent \$7,090,204 on capital expenditures during the year ended December 31, 2008. \$557,204 was spent on completion and test work on the Company's Ardley CBM prospective lands. The remainder of the 2008 capital expenditures were primarily spent on drilling and completion of 13 gross (12.0 net) Horseshoe Canyon CBM wells, and the construction of the gas processing facility at the Company's Thorsby area. Of the wells drilled and completed in 2008, seven gross wells, (7.0 net) were awaiting tie-in at December 31, 2008.

The following table summarizes the Company's investment activities by types and compares the specific expenditure to the expenditures made in the previous year:

\$ Amount	Year ended December 31		
	2008	2007	Change
Land	45,156	253,125	(82%)
Geological and geophysical	64,733	201,231	(68%)
Drilling and completion	3,754,693	7,775,468	(52%)
Well equipment and facilities	3,214,970	1,558,726	106%
Disposition of oil and gas properties	-	(38,000)	n/a
Office equipment and leaseholds	10,652	11,369	(6%)
Total	7,090,204	9,761,919	(27%)



LIQUIDITY AND CAPITAL RESOURCES

Credit Facilities

The Company 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 consist 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 is the bank's prime lending rate plus 1.0 percent and for Facility B is the bank's prime lending rate plus 1.5 percent. Monthly principal repayments of Facility B commence one month after draw down and the repayment amount is calculated using the estimated half-life of the reserves being financed.

Pursuant to an interim review conducted in January 2009, the bank re-confirmed the borrowing bases at \$2,000,000 for Facility A and \$2,000,000 for Facility B and amended the per annum interest rate payable under the current credit facilities. The per annum interest rate for Facility A increased to the bank's prime lending rate plus 1.5 percent and for Facility B the per annum interest rate increased to the bank's prime lending rate plus 2.0 percent. The next scheduled review is to be completed on or before April 30, 2009. As the available borrowing bases of both facilities are based on the bank's interpretation of the Company's reserves, development prospects and future commodity prices, there can be no assurance that the amount of available facilities will not decrease at the next scheduled review on or before April 30, 2009.

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 December 31, 2008 the Company had drawn \$2,000,000 on its Facility B and was in compliance with the working capital covenant described above. At the date of this report, April 7, 2009 the Company had drawn \$1,675,000 on its Facility A and \$1,700,000 on its Facility B.

Capital Resources

At December 31, 2008, the Company has a net working capital deficit of \$3,168,682. The large working capital deficit is due to significant accounts payable and accrued liabilities balances associated with the large capital program in the last quarter of the year. The Company has at present total credit facilities of \$4,000,000 as described above.

Recent market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. As a result of the current commodity price and credit environment management has restricted capital and administrative spending and continues to monitor financing opportunities to fund its future prospects and commitments. Management is also considering farming out interests in its oil and gas properties, asset dispositions and strategic alternatives in an effort to continue operations.

Current capital resources available

\$ Amount

Capital resources

Working capital deficit at December 31, 2008	(3,168,682)
Credit facilities available at December 31, 2008	4,000,000
Total capital resources available	831,318



Capitalization

Outstanding Common Shares

Weighted average outstanding common shares		
- Basic and diluted at December 31, 2008	72,661,602	
Outstanding securities at December 31, 2008		Average price per share
- Common shares	72,661,602	-
- Common share options	4,790,000	\$0.67
- Common share warrants	15,625,007	\$0.40
- Shares issuable on conversion of convertible debentures	3,571,429	\$1.82

Total Market Capitalization

The Company's total market capitalization at December 31, 2008 was \$2.5 million.

\$ Amount except for per share information

Outstanding common shares at December 31, 2008	72,661,602
Common share price (<i>closing price on the TSX Venture exchange on December 31, 2008</i>)	\$0.035
Total market capitalization	2,543,000

As at April 7, 2009 the total issued and outstanding shares in the Company was 72,661,602.

OFF-BALANCE SHEET ARRANGEMENTS

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



QUARTERLY FINANCIAL SUMMARY

The Company's quarterly summaries for the most recent two-year period to date are as follows:

\$ Amount except for per unit amounts	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Sales – Natural gas (mcf/day)	1,149	1,023	1,174	1,232	946	655	609	1,065
Sales – Oil and natural gas liquids (bbls/day)	10	11	8	12	11	13	13	16
Sales – Total (BOE/day)	201	182	204	217	169	122	114	193
Average Natural gas price (\$/mcf)	\$6.64	\$7.65	\$10.03	\$7.90	\$5.96	\$4.92	\$7.10	\$7.13
Average Oil and natural gas liquids price (\$/bbl)	\$41.54	\$97.56	\$97.74	\$63.08	\$45.97	\$47.42	\$41.17	\$41.96
Total production revenue	738,427	822,612	1,143,569	949,144	565,369	353,086	441,256	742,622
Interest and other revenue	12,260	19,748	25,791	79,956	104,363	104,278	36,802	48,203
Royalty expense	108,089	125,021	117,730	149,307	90,233	48,754	46,004	207,620
EXPENSES								
Operating expense	403,386	379,919	335,236	354,417	338,615	219,898	223,707	218,726
General and administrative expenses	288,171	347,185	466,195	381,239	249,179	353,977	538,193	782,686
Stock-based compensation	18,623	38,523	111,951	50,957	54,037	152,492	161,904	85,250
Interest and financing charges	232,645	232,839	229,861	230,470	244,092	260,829	290,391	279,171
Depletion, amortization & accretion expense	497,167	443,496	388,379	413,908	390,271	318,993	283,547	470,434
Impairment of oil and gas properties	-	-	-	-	8,250,000	3,700,000	2,150,000	-
Future income tax reduction	-	-	-	-	(7,081)	(1,188,588)	(960,795)	(299,919)
Net income (loss)	(797,394)	(724,623)	(479,992)	(551,198)	(8,939,614)	(3,408,991)	(2,254,893)	(953,143)

Q4 2008 - Natural gas production volumes increased as new CBM wells were brought on production at the Company's Thorsby property. Lower general and administrative levels are a result of Company efforts to continually reduce general and administrative expenses.

RELATED PARTY TRANSACTIONS

During 2008, the Company paid \$35,675 for consulting services to a firm of which a director of the Company is the President. As at December 31, 2008, the Company owed \$98,368 to the same firm.

COMMITMENTS

The Company is committed to payments under an operating lease for office space over the next four years. The operating lease commitment, before operating costs, for the next four years are as follows; 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.

In December 2008, the CICA issued Section 1582 Business Combinations, replacing Section 1581. Section 1582 includes significant changes to the measurement of purchase consideration in a business combination. Under Section 1582, the fair value ascribed to shares issued as consideration in a business combination will be based on their market value at the date of exchange, as compared to the current standard which prescribes market price for a reasonable period of time before and after the date of acquisition. In addition, the majority of acquisition costs will likely have to be expensed. Current standards allow for the capitalization of these costs as part of the purchase price. Section 1582 also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently remeasured at each reporting date until settled. Currently, standards require only contingent liabilities that are payable to be recognized. Section 1582 also requires negative goodwill to be recognized in earnings rather than the current standard of deducting from non-currents assets in the purchase price allocation. Section 1582 will be effective for the Company on January 1, 2011, with prospective application.

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has recently confirmed that in the year 2011 International Financial Reporting Standards ("IFRS") will replace current 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.



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.

- 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.

BOE Presentation

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.

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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained in the annual report is consistent with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

KPMG LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit the financial statements and provide an independent opinion.

The audit committee of the Board of Directors has reviewed the financial statements including notes thereto, with management and KPMG LLP. The financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

(signed) "Brad Turner"

Brad Turner
President and Chief Executive Officer
April 7, 2009

(signed) "Lonn Bate"

Lonn Bate
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Richards Oil & Gas Limited

We have audited the balance sheets of Richards Oil & Gas Limited as at December 31, 2008 and 2007 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "KPMG LLP"

KPMG LLP
Chartered Accountants
April 7, 2009

RICHARDS OIL & GAS LIMITED
BALANCE SHEETS

As at December 31,	2008	2007
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,816,333	\$ 6,225,567
Accounts receivable	1,553,765	2,571,115
Prepaid expenses	109,380	103,546
	3,479,478	8,900,228
PROPERTY AND EQUIPMENT (note 5)	21,682,114	16,064,757
	\$ 25,161,592	\$ 24,964,985
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 4,648,160	\$ 4,794,023
Credit facility (note 6)	2,000,000	-
	6,648,160	4,794,023
CONVERTIBLE DEBENTURES (note 7)	5,456,242	5,050,722
ASSET RETIREMENT OBLIGATION (note 8)	995,516	736,956
	13,099,918	10,581,701
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 9)	28,804,906	28,804,906
WARRANTS (note 9)	1,588,081	1,588,081
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (note 7)	1,435,822	1,435,822
CONTRIBUTED SURPLUS (note 11)	3,733,753	3,502,156
DEFICIT	(23,500,888)	(20,947,681)
	12,061,674	14,383,284
	\$ 25,161,592	\$ 24,964,985

GOING CONCERN (note 2)

COMMITMENTS (note 15)

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

APPROVED BY THE BOARD OF DIRECTORS

(signed) *"Brian Moss"*

Brian Moss, Chairman of the Board of Directors

(signed) *"Lyell Farquharson"*

Lyell Farquharson, Director

RICHARDS OIL & GAS LIMITED

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended December 31,	2008	2007
REVENUE		
Production	\$ 3,653,752	\$ 2,102,333
Royalties	(500,147)	(392,611)
Interest and other	137,755	293,646
	<u>3,291,360</u>	<u>2,003,368</u>
EXPENSES		
Operating	1,472,958	1,000,946
General and administrative	1,467,295	1,924,035
Stock-based compensation	220,054	453,683
Interest and financing charges (note 13)	941,310	1,074,483
Depletion, amortization and accretion	1,742,950	1,463,245
Impairment of oil and gas properties (note 5)	-	14,100,000
	<u>5,844,567</u>	<u>20,016,392</u>
NET LOSS, before income taxes	(2,553,207)	(18,013,024)
Future income tax reduction (note 12)	-	2,456,383
NET LOSS AND COMPREHENSIVE LOSS	(2,553,207)	(15,556,641)
DEFICIT, beginning of year	<u>(20,947,681)</u>	<u>(5,391,040)</u>
DEFICIT, end of year	<u>\$ (23,500,888)</u>	<u>\$ (20,947,681)</u>
Loss per share (note 10)	<u>\$ (0.035)</u>	<u>\$ (0.29)</u>

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

RICHARDS OIL & GAS LIMITED
STATEMENTS OF CASH FLOWS

For the years ended December 31,	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss and comprehensive loss for the year	\$ (2,553,207)	\$ (15,556,641)
Items not affecting cash		
Stock-based compensation	220,054	453,683
Depletion, amortization and accretion	1,742,950	1,463,245
Impairment of oil and gas properties	-	14,100,000
Accretion of discount on convertible debentures	405,520	404,412
Future income tax reduction	-	(2,456,383)
Asset retirement expenditures	-	(195,454)
Net change in non-cash working capital (note 14)	72,909	(39,841)
	<u>(111,774)</u>	<u>(1,826,979)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions of property and equipment	(7,090,204)	(9,761,919)
Change in non-cash working capital (note 14)	792,744	50,490
	<u>(6,297,460)</u>	<u>(9,711,429)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital (net of costs)	-	9,646,297
Increase in credit facility	2,000,000	-
	<u>2,000,000</u>	<u>9,646,297</u>
DECREASE IN CASH and CASH EQUIVALENTS	(4,409,234)	(1,892,111)
CASH and CASH EQUIVALENTS, BEGINNING of YEAR	<u>6,225,567</u>	<u>8,117,678</u>
CASH and CASH EQUIVALENTS, END of YEAR	<u>\$ 1,816,333</u>	<u>\$ 6,225,567</u>

The accompanying notes form an integral part of these financial statements

RICHARDS OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF BUSINESS

Richards Oil & Gas Limited (the "Company") was incorporated under the Business Corporations Act (Alberta) on May 18, 2004. Richards Oil & Gas Limited is an oil and gas exploration company that specializes in the exploration, development and exploitation of coalbed methane properties. The Company has conventional oil and gas production in the provinces of Alberta and Saskatchewan and is actively exploring for, developing and producing from coalbed methane properties in Alberta.

2. GOING CONCERN

These financial statements 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 year ended December 31, 2008, the Company reported a net loss of \$2,553,207 and incurred negative cash flow from operating activities of \$111,774. The Company also has a net working capital deficit of \$3,168,682 in relation to currently its credit facilities of \$4,000,000 at December 31, 2008. The Company has also outlined its commitments in note 15. These conditions 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 lenders (see note 6). Recent market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. As a result of the current commodity price and credit environment management has restricted capital and administrative spending and continues to monitor financing opportunities to fund its future prospects and commitments. Management is also considering farming out interests in its oil and gas properties, other asset dispositions and strategic alternatives to continue operations. As at the date of these financial statements, no financing or other agreements have been signed nor can it be assured that such agreements will be reached, however, management believes the courses of action being taken will mitigate the conditions and events which could raise doubt about the validity of the going concern assumption used in preparing these financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates must often be made based on unsettled transactions and other events and a precise determination of many assets and liabilities is dependent upon future events. Actual results may differ from estimated amounts.

Joint Operations

Substantially all of the Company's operations are conducted jointly with others, and accordingly, the financial statements reflect only the Company's interest in such activities.

Cash and Cash Equivalents

Cash includes cash and short-term money market instruments with a maturity of less than three months.

Property and Equipment

The Company follows the full cost method of accounting for its oil and gas properties, whereby all costs associated with the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized. Costs include land acquisitions, drilling, well equipment, geological and geophysical, administrative and stock-based compensation expenses

RICHARDS OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

The accumulated costs, less the costs of unproved properties, are depleted and depreciated using the unit-of-production method based on total proved reserves before royalties as determined by independent reserves evaluators. For purposes of the depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These 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 impairment is added to the costs subject to depletion.

Net capitalized costs of the Company's oil and gas properties are subject to a ceiling test to ensure that capitalized costs do not exceed an estimate of future net revenues. This latter amount is the aggregate of expected undiscounted future net cash flows from proved reserves and costs of unproven properties. Future cash flows are estimated using expected future prices and costs. If the carrying amount is assessed to be not fully recoverable, the cost centre is written down to its fair value estimated as the present value (discounted at a risk free interest rate) of expected future cash flows, using forecast prices from proved and probable reserves and the value of unproved properties. The impairment in the carrying amount would be recognized and charged to current operations as additional depletion.

Asset Retirement Obligation

The fair value of the estimated asset retirement obligation is recognized in the balance sheet when incurred and a reasonable estimate of fair value can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire long-lived assets such as producing well sites and processing facilities. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Asset retirement costs for crude oil and natural gas assets are amortized using the unit-of-production method. Amortization of asset retirement costs is included in depletion, amortization and accretion expense. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion expense.

Convertible Debentures

Convertible debentures have been classified as debt, net of the fair value of the conversion feature at the date of issue, which is recorded as equity component of convertible debentures and classified as a part of shareholders' equity. Issue costs associated with the placement of the convertible debentures reduce the liability component of the convertible debenture balance. The debt portion of the convertible debentures, net of the conversion feature and the issue costs, is accreted up to its face value over its term using the effective interest rate method. The accretion to the convertible debentures and the interest paid are included in interest and financing charges. When convertible debentures are converted into common shares of the Company, that portion of the value of the conversion feature within shareholders' equity will be reclassified to common shares along with the principal amount converted.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using enacted or substantially enacted tax rates. The effect of changes in income tax rates on future income tax liabilities and assets is recognized in income for the period in which the change occurs.

Revenue Recognition

Revenue is recognized when goods have been delivered, when services have been performed, or when hydrocarbons have been produced and delivered and payment is reasonably assured.

RICHARDS OIL & GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Stock-Based Compensation

The Company follows the fair value method of valuing stock options. Under this method, compensation cost, attributable to stock options granted and issued to employees, contractors, officers and directors of the Company are measured at fair value at the date of grant and either capitalized or expensed over the vesting period with a corresponding increase to contributed surplus. Capitalized amounts are charged to earnings as depletion over the life of estimated reserves. When stock options are exercised for common shares, consideration paid by the stock option holders and contributed surplus associated with the stock options are recorded as share capital.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset to one entity and a financial liability or equity instrument to another entity. Upon initial recognition, all financial instruments, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its cash and cash equivalents as held for trading which is measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities, amounts outstanding under the credit facility and convertible debentures are classified as other liabilities which are measured at amortized cost determined using the effective interest rate.

The Company nets all transaction costs incurred, in relation to the acquisition of a financial asset or liability, against the related financial asset or liability. Amounts outstanding under the credit facility are presented net of deferred interest payments, with interest recognized in earnings on an effective interest basis.

Share Purchase Warrants

The Company estimates the fair value of share purchase warrants when the share purchase warrants are issued. Fair value is estimated using the Black-Scholes option-pricing model. When exercised, the fair value is added to share capital to represent the cost to the Company of issuing the warrants.

Flow-Through Shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers when the flow-through shares are issued. To recognize the foregone tax benefits to the Company, share capital is reduced and future income taxes are increased in the period when the Company files the renouncement with the appropriate tax authorities.

Per Share Amounts

Basic per share amounts are calculated by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if stock options, warrants and convertible debentures were converted or exercised. The treasury stock method is used to determine the dilutive effect of these dilutive securities. Under the treasury stock method, only proceeds received from the exercise of "in the money" stock options, warrants and convertible debentures are used to determine the impact on the diluted per share calculations.

Use of Estimates

The amounts recorded for depletion and amortization of property and equipment, stock-based compensation, share purchase warrants, income taxes and the asset retirement obligation, are based on estimates. The ceiling test is based on estimates of oil and natural gas reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates and those related to future cash flows used to assess impairment are subject to change and the impact on future financial statements resulting from changes in such estimates could be significant.

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

4. CHANGES IN ACCOUNTING POLICIES AND PRACTICES

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.

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.

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RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

5. PROPERTY AND EQUIPMENT

\$ Amount	As at December 31, 2008	As at December 31, 2007
Capitalized costs – oil and natural gas properties	41,473,380	34,187,334
Capitalized costs – other assets	115,746	105,095
Accumulated depletion and amortization	(19,907,012)	(18,227,672)
Net book value	21,682,114	16,064,757

As at December 31, 2008, unproved property costs of \$nil (December 31, 2007 – \$4,883,891) were excluded from costs subject to depletion. At December 31, 2008, \$12,621,900 (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 year ended December 31, 2008, the Company capitalized \$64,478 of salaries and \$11,544 of stock-based compensation related to exploration staff.

No impairment was required to be recognized for the year ended December 31, 2008 (December 31, 2007 - \$14,100,000). The prices used in the ceiling test evaluation of the Company's oil and natural gas reserves at December 31, 2008 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	53.73	65.35	6.82	2.0	.800
2010	63.41	72.78	7.56	2.0	.850
2011	69.53	79.95	7.84	2.0	.850
2012	79.59	86.57	8.38	2.0	.900
2013	92.01	94.97	9.20	2.0	.950

Various Escalation Rates Thereafter

6. CREDIT FACILITIES

The Company 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 consist 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 is the bank's prime lending rate plus 1.0 percent and for Facility B is the bank's prime lending rate plus 1.5 percent. Monthly principal repayments of Facility B commence one month after draw down and the repayment amount is calculated using the estimated half-life of the reserves being financed.

Both Facility A and Facility B 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 December 31, 2008 the Company had drawn \$2,000,000 on its Facility B and was in compliance with the working capital covenant described above.

Pursuant to an interim review conducted in January 2009, the bank re-confirmed the borrowing bases at \$2,000,000 for Facility A and \$2,000,000 for Facility B and amended the per annum interest rate payable under the current credit facilities. The per annum interest rate for Facility A increased to the bank's prime lending rate plus 1.5 percent and for Facility B the per annum interest rate increased to the bank's prime lending rate plus 2.0 percent. At April 7, 2009 the Company had drawn \$1,675,000 on its Facility A and \$1,700,000 on its Facility B.

The next scheduled review is to be completed on or before April 30, 2009. As the available borrowing bases of both facilities are based on the bank's interpretation of the Company's reserves, development prospects and future commodity prices, there can be no assurance that the amount of available facilities will not decrease at the next scheduled review on or before April 30, 2009.

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

7. 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 were 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 interest and the repayment of the principal amount of the Convertible Debentures may be settled in common shares. The number of common shares to be issued upon redemption by the Company will be calculated by dividing the interest or principal by 95% of the weighted average trading price for 20 consecutive trading days ending five days prior to the date the obligation is due.

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	-	405,520
Balance as at December 31, 2008	1,435,822	5,456,242

8. ASSET RETIREMENT OBLIGATION

As at December 31, 2008 the Company has estimated undiscounted future costs related to the abandonment and restoration of its oil and gas properties to be \$1,568,295 (December 31, 2007 - \$1,155,194). These obligations are to be settled over an average of 6.3 years and have been discounted using a credit-adjusted risk free interest rate of 6.0% to 10.0% and inflation rate of 2.0%.

Changes to the asset retirement obligation were as follows:

\$ Amount	2008	2007
Balance, beginning of year	736,956	564,548
Liabilities incurred during the year	194,951	318,487
Liabilities settled during the year	-	(195,454)
Accretion of asset retirement obligation during the year	63,609	49,375
Balance, end of year	995,516	736,956

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

9. SHARE CAPITAL

Authorized:

-Unlimited number of common voting shares

i) Changes in Common Share Capital

	Number	\$ Amount
Balance as at December 31, 2006	40,991,964	21,712,192
Shares issued	31,250,000	8,411,919
Share issuance costs (net of future tax of \$178,490)	-	(402,532)
Warrants exercised for cash	419,638	227,319
Transfer from warrants account on exercise	-	80,008
Tax effect of flow-through share renouncements	-	(1,224,000)
Balance as at December 31, 2007 and 2008	72,661,602	28,804,906

ii) Stock Options

On October 2, 2004 the Company adopted a stock option plan whereby options may be granted from time to time to directors, officers, employees, and consultants to the Company. Under the terms of the original stock option plan common shares to be reserved for issuance as stock options are not to exceed 10% of the common shares outstanding and no one individual is allowed to hold stock options that if exercised would entitle the holder to acquire more than 5% of the outstanding common shares of the Company in any one year period. One third of the stock options issued under the original stock option plan vested immediately and one third on each of the first and second anniversary dates of the grant. On June 29, 2006 the vesting provisions of the original stock option plan were amended. Under the amended stock option plan all grants, except those issued to consultants to the Company, will vest one half of the stock options issued immediately and the remaining half on the first anniversary date of the grant. All stock options granted by the Company have a five year term.

The fair value of the stock options granted during the year ended December 31, 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 year ended December 31, 2008 the fair value of the options granted was \$140,118 (2007 - \$470,892).

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

	Year ended December 31, 2008		Year ended December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	5,203,333	\$ 0.91	3,706,970	\$ 1.32
Options granted	1,215,000	\$ 0.16	2,155,000	\$ 0.34
Options expired	(1,628,333)	\$ 1.07	(658,637)	\$ 1.33
Outstanding at end of year	4,790,000	\$ 0.67	5,203,333	\$ 0.91
Exercisable at end of year	4,771,664	\$ 0.67	4,179,998	\$ 1.05

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

The following summarizes details about the Company's stock option granted as at December 31, 2008:

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	2,970,000	2.8	\$0.22	2,951,664	2.8	\$0.22
\$0.50 to \$0.99	610,000	1.7	\$0.75	610,000	1.8	\$0.75
\$1.00 to \$1.49	400,000	0.9	\$1.41	400,000	0.9	\$1.41
\$1.50 to \$1.99	460,000	1.1	\$1.68	460,000	1.1	\$1.68
\$2.00 to \$2.49	350,000	1.3	\$2.16	350,000	1.3	\$2.16
	4,790,000	2.3	\$0.67	4,771,664	2.3	\$0.67

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 entitles 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 December 31, 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	Year ended December 31, 2008	Year ended December 31, 2007
Balance, beginning of year	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 year	1,588,081	1,588,081

10. 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 and comprehensive loss	Weighted average number of shares	Loss per share
Year ended:	December 31, 2008	\$ (2,553,207)	72,661,602	\$ (0.035)
	December 31, 2007	\$ (15,556,641)	53,540,137	\$ (0.29)

For the years ended December 31, 2008 and December 31, 2007 the conversion of stock options, convertible debentures and warrants is anti-dilutive.

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

11. CONTRIBUTED SURPLUS

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

\$ Amount	Year ended December 31, 2008	Year ended December 31, 2007
Balance, beginning of year	3,502,156	2,192,993
Stock-based compensation	231,597	606,166
Transfer of expired warrants from warrants account	-	702,997
Balance, end of year	3,733,753	3,502,156

12. INCOME TAXES

The provision for current and future income taxes differs from the result which would be obtained by applying the combined federal and provincial statutory tax rates to net loss before income taxes. This difference results from the following:

\$ Amount	Year ended December 31, 2008	Year ended December 31, 2007
Net loss, before income taxes	(2,553,207)	(18,013,024)
Statutory rates	29.68%	32.60%
Expected income tax provision (recovery) computed at statutory rates	(757,792)	(5,872,246)
Effect on income tax of:		
Stock-based compensation	65,312	147,901
Valuation allowance	497,680	2,189,953
Change in income tax rate and other	194,800	1,078,009
Future income taxes	-	(2,456,383)

As at December 31, 2008 the Company has non-capital loss carry-forwards of approximately \$15,311,000 (2007 – \$10,827,000) which expire in the years 2014 to 2028.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

\$ Amount	Year ended December 31, 2008	Year ended December 31, 2007
Future income tax liabilities:		
Property and equipment	(1,593,916)	(1,730,306)
Future income tax assets:		
Asset retirement obligation	259,676	195,285
Share issue costs	221,928	407,415
Non-capital losses	3,799,944	3,317,559
Valuation allowance	(2,687,632)	(2,189,953)
Future income tax (liability) asset	-	-

RICHARDS OIL & GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

13. INTEREST AND FINANCING CHARGES

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

\$ Amount	Year ended December 31, 2008	Year ended December 31, 2007
Interest on convertible debenture	520,000	520,000
Accretion of discount on convertible debentures	405,520	404,412
Interest on credit facility	15,790	-
Interest expense – Part XII.6 tax	-	150,071
Total	941,310	1,074,483

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital comprised the following:

\$ Amount	Year ended December 31, 2008	Year ended December 31, 2007
Accounts receivable	1,017,350	(1,583,972)
Prepaid expenses	(5,834)	(52,571)
Accounts payable and accrued liabilities	(145,863)	1,647,192
Net change	865,653	10,649
Net change by activity:		
Operating	72,909	(39,841)
Investing	792,744	50,490
Net change	865,653	10,649
Cash interest paid on part XII.6 tax	-	121,607

15. COMMITMENTS

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

16. RELATED PARTY TRANSACTIONS

During 2008, the Company paid \$35,675 for consulting services to a firm of which a director of the Company is the President. As at December 31, 2008, the Company owed \$98,368 to the same firm.

17. 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, sell or farm-out interests on its oil and gas properties 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 YEARS ENDED DECEMBER 31, 2008 AND 2007

18. 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.

As at December 31, 2008 the Company had \$451,574 in accounts receivable that were past due. At December 31, 2008, Richards Oil & Gas Limited had no material accounts receivable that it deemed uncollectible.

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 6.

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 December 31, 2008, a one percent change in the prevailing interest rate for its credit facility would result in an estimated annual change to net income of \$20,000.