

Unaudited Interim Consolidated Financial Statements of

Iteration Energy Ltd.

March 31, 2008 and 2007

Iteration Energy Ltd.

Consolidated Balance Sheets (unaudited)

As at

(in thousands of dollars)

	March 31, 2008	December 31, 2007
ASSETS (Note 5)		
Current		
Cash	\$1,223	\$1,230
Accounts receivable	61,220	16,062
Prepays and other current assets	7,092	2,640
	69,535	19,932
Property, plant and equipment (Notes 3 and 4)	906,017	285,354
Goodwill (Note 3)	231,141	33,899
	\$1,206,693	\$339,185
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 5)	\$164,040	\$50,370
Accounts payable and accrued liabilities (Note 6)	122,166	30,574
Income taxes payable (Note 9)	288	-
Stock based compensation payable (Note 8(d))	14,629	7,520
	301,123	88,464
Future income taxes (Note 3 and 9)	82,713	7,510
Leasehold inducements	312	199
Asset retirement obligations (Note 7)	33,755	18,897
	417,903	115,070
Commitments and contingencies (Notes 10, 11, and 12)		
Shareholders' equity		
Share capital (Note 8)	801,572	238,586
Warrants outstanding (Note 8(e))	3,934	3,934
Deficit	(16,716)	(18,405)
	788,790	224,115
	\$1,206,693	\$339,185

See accompanying notes to the unaudited interim consolidated financial statements.

Iteration Energy Ltd.

Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Deficit (unaudited)

For the three months ended March 31

<i>(in thousands of dollars, except per share amounts)</i>	2008	2007
Revenue		
Production revenue	\$55,564	\$23,744
Royalties	(11,679)	(4,857)
	43,885	18,887
Other production revenue	329	19
	44,214	18,906
Expenses		
Production	10,198	4,187
Transportation	1,469	729
General and administrative	2,277	1,091
Stock based compensation (Note 8(d))	7,110	4,500
Interest on current debt	1,112	472
Depletion, depreciation and accretion (Note 7)	21,554	12,996
	43,720	23,975
Income (loss) before the following	494	(5,069)
Recovery of investment tax credits	1,820	-
Income (loss) before income taxes	2,314	(5,069)
Income taxes (Note 9)		
Current income tax (recovery)	500	-
Future income tax recovery	125	(1,400)
	625	(1,400)
Net income (loss) and Comprehensive income (loss)	1,689	(3,669)
Deficit, beginning of period	(18,405)	(8,963)
Deficit, end of period	\$(16,716)	\$(12,632)
Basic and diluted income (loss) per common share (Note 8(f))	\$ 0.02	\$(0.06)

See accompanying notes to the unaudited interim consolidated financial statements

Iteration Energy Ltd.

Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31

<i>(in thousands of dollars)</i>	2008	2007
OPERATING ACTIVITIES		
Net income (loss)	\$1,689	\$(3,669)
Add (deduct) non-cash items:		
Depletion, depreciation and accretion (Note 7)	21,554	12,996
Recovery of investment tax credits	(1,820)	-
Future income tax recovery	125	(1,400)
Amortization of leasehold inducements	(54)	(33)
Stock based compensation (Note 8 (d))	7,110	4,500
Asset retirement expenditures	(93)	(15)
Funds from operations	28,511	12,379
Net change in non-cash operating working capital (Note 13)	15,135	6,444
	43,646	18,823
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	(62)	122
Acquisition of oil and gas properties	(1,556)	(354)
Additions to oil and gas properties	(40,156)	(40,003)
Additions to other capital assets	(40)	-
Net change in non-cash investing working capital (Note 13)	(3,483)	10,235
	(45,297)	(30,000)
FINANCING ACTIVITIES		
Increase in bank indebtedness	1,670	5,320
Common shares issued for cash	-	998
Share issue costs	(26)	(14)
Net change in non-cash financing working capital (Note 13)	-	1
	1,644	6,305
Decrease in cash	(7)	(4,872)
Cash, beginning of period	1,230	5,222
Cash, end of period	\$1,223	\$350

See Note 13 for supplemental disclosure

See accompanying notes to the unaudited interim consolidated financial statements

Iteration Energy Ltd.

Notes to the Unaudited Interim Consolidated Financial Statements Period Ended March 31, 2008 and 2007

(Tabular amounts in thousands of dollars, unless otherwise noted)

1. NATURE OF OPERATIONS

Iteration Energy Ltd. (“Iteration” or the “Company”) is a public company that trades on the Toronto Stock Exchange and is incorporated under the Business Corporations Act (Alberta). Iteration is engaged in the exploration, development and production of petroleum and natural gas in Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Iteration have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with those policies set out in the audited consolidated financial statements for the year ended December 31, 2007, except as disclosed below. These interim consolidated financial statements do not include all disclosures provided in the December 31 financial statements and should be read in conjunction with those financial statements.

Principles of Consolidation

These consolidated financial statements include the accounts of Iteration Energy Ltd., its wholly owned subsidiaries (Cyries Energy Inc, Iteration Energy Inc. and Cyries Wyoming Inc.) and its wholly owned partnerships (Iteration Energy and Iteration Energy Partnership 2007). All inter-company transactions are eliminated on consolidation.

Change in Accounting Policies

The CICA has issued several new accounting standards. 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 became effective January 1, 2008.

CICA 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 adoption of this standard did not have an impact on the Company's financial statements.

Section 1535 *Capital Disclosures*, 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 non-compliance. The new disclosures are provided in Note 14.

Sections 3862 *Financial Instruments – Disclosures*, and section 3863 *Financial Instruments – Presentation*, 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.

Section 3031 *Inventories*, requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in first-out inventory-costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost or net realizable value no longer exist, the amount of the write-down is to be reversed. This section is the Canadian Equivalent to International Reporting Standards IAS-2, *Inventories*. The adoption of this standard had no material impact on the Company's consolidated financial statements.

Future Accounting Policies

The Canadian Accounting Standards Board has now confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information following IFRS for the comparative period. The Company is currently evaluating the impact of adopting IFRS.

Effective January 1, 2009, the Company will be adopting the new CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which converges Canadian GAAP for goodwill and intangible assets with IFRS. The new standard provides more comprehensive guidance on intangible assets, particularly for internally developed intangible assets. The Company is still assessing the financial reporting impact of this standard.

3. ACQUISITIONS

Cyries Acquisition

On March 7, 2008, Iteration acquired Cyries Energy Inc ("Cyries"), by Plan of Arrangement, (the "Arrangement"). Under the Arrangement, Iteration issued 93,990,604 Iteration common shares to acquire the issued and outstanding common shares, warrants and performance shares of Cyries. The value attributed to each Iteration common share was \$5.99 per share, representing the volume weighted average trading price on the Toronto Stock Exchange for an Iteration common share for the period from February 27, 2008 to March 6, 2008. This period includes the three trading days before and after Iteration's announcement on March 3, 2008 of the increase in the exchange ratio.

Upon completion of the Arrangement, Cyries became a wholly owned subsidiary of Iteration with the existing Iteration shareholders, option holders and warrant holders holding approximately 47% of the combined entity. Although Cyries shareholders held 53% of the Iteration Common Shares on a diluted basis following the arrangement, the transaction has been accounted for as an acquisition of Cyries by Iteration, recognizing that Iteration is the surviving legal entity, Iteration paid a premium to acquire Cyries and Iteration's existing management and Board of Directors retained their positions. These financial statements incorporate the operations Iteration Energy Ltd., Iteration Energy Inc., Iteration Energy and Iteration Energy 2007 Partnership for the period from January 1 to March 31, 2008 and the operations of Cyries Energy Inc. for the period from March 8 to March 31, 2008.

The acquisition is being accounted for using the purchase method and the purchase price was allocated on a preliminary basis as follows:

(\$000's)	
Furniture and equipment	\$821
Property, plant and equipment	599,448
Goodwill	196,815
Debt assumed	(111,045)
Working capital deficiency	(20,333)
Future income tax liability	(77,081)
Asset retirement obligation	(14,275)
Total purchase price	\$574,350
Consideration was comprised of :	
Common shares	\$563,004
Transaction costs	\$11,346
Total consideration	\$574,350

Peace River Arch Partnership

On September 28, 2007, with an effective date of June 1, 2007, the Company purchased 100% of the partnership interests of the Peace River Arch partnership from an arms length third party for \$50,501,000. The partnership owns producing properties located in the Peace River Arch area of North West Alberta and the Manyberries area in South East Alberta. The results of operations for the Peace River Arch partnership have been included in the consolidated financial statements from the September 28, 2008 acquisition date.

The acquisition was accounted for by the purchase method and the purchase price was allocated as follows:

(\$000's)	
Property, plant and equipment	\$55,937
Goodwill	13,758
Future income tax liability	(11,863)
Asset retirement obligation	(6,775)
Total purchase price	\$51,057
Consideration was comprised of :	
Cash	\$51,057
Total consideration	\$51,057

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2008	December 31, 2007
	(\$000's)	(\$000's)
Oil and gas properties	\$1,108,209	\$467,281
Other	1,835	753
	1,110,044	468,034
Less accumulated depletion and depreciation	204,027	182,680
	\$906,017	\$285,354

At March 31, 2008, unproved properties and seismic expenditures amounting to \$111,475,000 (March 31, 2007: \$36,498,000) have been excluded from the depletion calculation. Future development costs on proven undeveloped reserves of \$35,540,000 (March 31, 2007: \$6,305,000) are included in the depletion calculation.

For the three months ended March 31, 2008, the Company capitalized \$770,000 (three months ended March 31, 2007: \$515,000) of overhead directly related to exploration and development activities.

5. BANK INDEBTEDNESS

The bank indebtedness represents the drawn portion of the following two credit facilities:

- a) A \$95 million credit facility that Iteration has established with a Canadian Chartered Bank. A general security agreement and a guarantee and postponement of claim have been provided as security. For \$75 million of the credit facility, the terms under which the Iteration may borrow are as follows:
 - i) Prime based loans bearing interest at the lender's prime bank rate;
 - ii) Bankers acceptances, bearing interest at the banker's acceptance rate plus an acceptance fee of 87.5 basis points per annum;
 - iii) Libor based loans in US currency bearing interest at the Libor rate plus 87.5 basis points per annum; and
 - iv) Letters of guarantee and letters of credit, bearing interest on the face amount at 87.5 basis points per annum, for financial guarantees, and 58.3 basis points per annum, for non-financial guarantees.

For the remaining \$20 million of the credit facility, the terms under which the Iteration may borrow are as follows:

- i) Prime based loans bearing interest at the lender's prime bank rate plus 50 basis points;
- ii) Bankers acceptances, bearing interest at the banker's acceptance rate plus an acceptance fee of 137.5 basis points per annum; and
- iii) Libor based loans in US currency bearing interest at the Libor rate plus 137.5 basis points per annum.

At March 31, 2008, \$52 million had been drawn against this facility (2007: \$50 million).

- b) In addition, Cyries has a demand, revolving operating credit facility provided by a syndicate of two Canadian banks. The credit facility is limited to \$175 million and consists of a \$160 million term operating facility and a \$15 million term working capital facility. The terms under which Cyries may borrow are as follows:
 - i) Prime based loans bearing interest at the lender's prime bank rate plus, depending on the ratio of funded debt to trailing cash flow, up to 50 basis points;
 - ii) Bankers acceptances, bearing interest at the banker's acceptance rate plus, depending on the ratio of funded debt to trailing cash flow, an acceptance fee of up to 137.5 basis points per annum; and
 - iii) Libor based loans in US currency bearing interest at the Libor rate plus, depending on the Cyries ratio of funded debt to trailing cash flow, an acceptance fee of up to 137.5 basis points per annum.

The credit facility is subject to periodic review and is secured by a \$250 million demand fixed and floating charge debenture over all of Cyries' assets.

As at March 31, 2008, \$112 million had been drawn against this facility.

Both facilities require monthly payments of interest only, calculated in arrears. In addition, there is a standby fee calculated at 10 basis points per annum on the undrawn balances. During the quarter ended March 31, 2008, the effective rate of interest on the indebtedness outstanding was 5.7% per annum (2007 – 6.0% per annum).

Subsequent to quarter end, these credit facilities were paid out and replaced by a syndicated facility with four Canadian Chartered banks. The syndicated facility provides for maximum borrowings of \$275 million. There are two components to the syndicated facility, a \$260 million term facility which can be used to fund the Company's capital program and matures on April 30, 2009. The maturity date of the facility may be extended for a period of 364 days, if requested by the lenders and accepted by the borrower. The second component is a \$15 million working capital revolving facility of \$15 million, which is payable on demand. Under the terms of the term facility, the Company may borrow by way of:

- i) Bankers acceptances in Canadian dollars bearing interest at the bankers acceptance rate plus a margin, ranging from 90 to 150 basis points, depending on the ratio of funded debt to trailing cashflow;
- ii) LIBOR based loans in United States dollars bearing interest at the LIBOR rate plus a margin, ranging from 90 to 150 basis points, depending on the ratio of funded debt to trailing cashflow;
- iii) Prime rate loans in Canadian dollars bearing interest at the Royal Bank of Canada prime rate should the ratio of funded debt to trailing cashflow be less than 2.5 to 1 and at Royal Bank of Canada prime plus 25 basis points should the ratio of funded debt to trailing cashflow be greater than 2.5 to 1; and
- iv) US Base Rate loans in United States dollars bearing interest at the Royal Bank of Canada US base rate should the ratio of funded debt to trailing cashflow be less than 2.5 to 1 and at Royal Bank of Canada prime plus 25 basis points should the ratio of funded debt to trailing cashflow be greater than 2.5 to 1.

The facility is secured by a \$500 million fixed and floating charge debenture.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities consist of the following:

	March 31, 2008 (\$000's)	December 31, 2007 (\$000's)
Trade accounts payable	\$102,469	\$22,143
Joint venture accounts payable	10,362	1,944
Royalties payable	9,335	6,487
Total	\$122,166	\$30,574

As at March 31, 2008, Cyries accounts payable included in the above total was \$74,682,000.

7. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the Company's net working interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company estimates that the undiscounted cash flows related to asset retirement obligations, adjusted for inflation, to be incurred over the estimated reserve life of the underlying assets (which is estimated to be from 2008 through 2036) will total approximately \$82,932,000 (December 31, 2007: \$39,281,000). The estimated fair value of the obligation at March 31, 2008 is \$33,755,000 (December 31, 2007: \$18,897,000) using a discount rate of six and one half percent and an inflation rate of two percent. As at March 31, 2008, no funds have been set aside to settle this obligation.

	Three Months Ended March 31, 2008 (\$000's)	Year ended December 31, 2007 (\$000's)
Balance, beginning of period	\$18,897	\$9,198
Liabilities incurred on acquisition of properties (note 3)	14,275	6,775
Increase in liabilities from drilling activity	309	2,262
Accretion expense	367	833
Settlement of liabilities	(93)	(171)
Balance, end of period	\$33,755	\$18,897

8. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares without par value.
Unlimited number of preferred shares issuable in series

(b) Common Shares Issued

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Number of Shares	Amount (\$000's)	Number of Shares	Amount (\$000's)
Balance, beginning of period	71,029,780	\$238,586	57,429,847	\$175,195
Shares issued on public offerings	-	-	12,977,400	67,892
Shares issued on corporate acquisition	93,990,604	563,004	-	-
Shares issued on exercise of warrants	-	-	278,333	1,039
Shares issued on exercise of stock options	-	-	344,200	998
Share issue costs, net of tax effect of \$ 8 (2007: \$1,262)	-	(18)	-	(2,795)
Tax benefits renounced on prior year flow through share offering	-	-	-	(3,743)
Balance, end of period	165,020,384	\$801,572	71,029,780	\$238,586

(c) Flow Through Shares

During 2006, the Company issued common shares on a flow-through basis for gross proceeds of \$12,075,000 to finance certain oil and gas expenditures to be incurred in 2007. The renouncement of these expenditures was made to the purchasers of these shares in 2007 and accordingly, share capital was reduced by the amount of the tax benefits associated with these expenditures (\$3,743,000).

(d) Stock Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and non-employees to acquire up to 10% of the issued and outstanding common shares. The dates on which options vest are set by the Board of Directors at the time of grant. The exercise price of an option granted is the closing price of the Company's stock on the last trading date prior to the grant date. The dates on which options expire are also set by the Board of Directors at the time of grant and cannot exceed ten years.

Outstanding stock options to acquire common shares through the stock option plan are as follows:

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
Outstanding, beginning of period	6,568,789	3.49	5,884,222	3.22
Granted	-	-	1,079,500	4.76
Exercised for shares	-	-	(344,200)	(2.90)
Exercised for cash	(2,866)	(4.38)	(667)	(4.90)
Forfeited	(6,000)	(5.26)	(50,066)	(4.49)
Outstanding, end of period	6,559,923	3.49	6,568,789	3.49
Options exercisable, end of period	4,772,656	3.04	3,236,062	3.11

The following table summarizes information about the stock options outstanding at March 31, 2008:

Range of exercise prices	Number outstanding March 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable March 31, 2008	Weighted average exercise price \$
\$2.00 - \$4.00	4,327,298	1.92	2.92	4,325,131	2.93
\$4.01 - \$5.00	2,029,000	3.09	4.54	383,433	4.31
\$5.01 - \$9.00	203,625	3.06	5.16	64,092	5.17
	6,559,923	2.32	3.49	4,772,656	3.07

The Company's stock option plan provides stock option holders the choice, upon exercise, to receive a cash payment in exchange for surrendering the option. The cash payment is equal to the appreciated value of the stock option as determined based on the difference between the option's exercise price and the Company's share price at the time of exercise. For the period ended March 31, 2008, stock based compensation expense of \$7,110,000 (March 31, 2007: \$4,500,000), was recognized based on the change in value of the outstanding stock options. The current period amounts were determined using the March 31, 2008 closing share price, as compared to the closing share price at December 31, 2007. Future fluctuations in the stock based compensation expense or recoveries are dependent on the movement of the Company's share price and the number of options outstanding. Based on the March 31, 2008 share price of \$6.02, had all of the 6,559,923 (December 31, 2007: 6,568,789) stock options outstanding been vested, aggregate stock based compensation expense and a corresponding liability of \$16,595,000 (December 31, 2007: \$8,424,300) would have been recognized. Of this amount, \$14,629,000 has been recognized as a liability at March 31, 2008 (December 31, 2007: \$7,520,000).

Subsequent to quarter end,

- 1) The Company issued 3.4 million options with a weighted average exercise price of \$5.94 per option to employees. The options vest 1/3 per year on the anniversary date of the grant, and have a four year term; and
- 2) 139,000 options with a weighted average exercise price of \$3.00 per option were exercised for cash.

(e) Warrants

On March 21, 2005, warrants to purchase 5,000,000 common shares at \$2.90 per share were issued to Iteration Energy Inc. shareholders. On May 7, 2005, all of the warrants vested. During 2007, a total of 278,333 warrants were exercised. The 4,721,667 remaining warrants expire on September 21, 2008.

At the upcoming 2008 Annual General Meeting, the Company is asking the approval of Shareholders to amend the terms of the warrants. The purpose of the amendment is to (i) enable the holders of the Warrants to realize the value of the Warrants without simultaneously diluting the current outstanding Common Shares and (ii) permit the Corporation to deduct the cash cost of the payments to Warrant holders. Iteration would not be able to deduct such costs in the event common shares were issued to holders upon the exercise of the Warrants. The proposed amendments are more fully discussed in the Information Circular that was distributed to the Company's shareholders regarding the Annual General Meeting.

Subsequent to quarter end, 1,000,000 warrants were exercised and exchanged for common shares.

(f) Per Share Amounts

	Three months ended	
	March 31,	
	2008	2007
Weighted average common shares outstanding	90,572,381	57,548,405
Weighted average diluted common shares outstanding	95,066,572	57,548,405

The options and warrants outstanding for the three months ended March 31, 2007 had no dilutive effect as the Company realized a net loss during the period.

9. INCOME TAXES

The provision for future income taxes recorded in the financial statements differs from the amount that would be obtained by applying the statutory income tax rate to the loss before tax as follows:

(\$000's)	Three months ended March 31,	
	2008	2007
Income (loss) before income taxes	\$2,314	\$(5,069)
Statutory Canadian corporate tax rate	29.50%	32.12%
Anticipated tax expense (recovery)	\$683	\$(1,628)
Rate adjustment	(81)	57
Other	23	171
Income tax expense (recovery)	\$625	\$(1,400)

The Company's future income tax liability at March 31, 2008 and December 31, 2007 is comprised of the following:

(\$000's)	March 31,	December 31,
	2008	2007
Income tax rate (%)	26.50	29.50
Property, plant and equipment, having different income tax and accounting basis	\$96,569	\$10,228
Deferred partnership income	4,895	13,082
Scientific research pools	-	(5,301)
Non capital loss carry forwards	-	(730)
Share issue costs	(5,364)	(1,568)
Accrued stock based compensation	(3,877)	(2,218)
Asset retirement obligation	(8,945)	(5,575)
Unamortized leasehold inducements	(83)	(59)
Other	(482)	(349)
Future income tax liability	\$82,713	\$7,510

The current income tax expense of \$500,000 for the period ended March 31, 2008 (March 31, 2007: nil) relates to a provincial part 1 tax assessment.

10. OPERATING LEASES

The Company has entered into various operating leases with respect to its premises. The leases have various expiration dates between June 30, 2009 and September 30, 2012 and require the following future minimum lease payments, by calendar year (\$000's);

	\$000
2008	1,292
2009	1,354
2010	934
2011	934
2012	700

Included in the above totals are the lease costs associated with office space previously occupied by Cyries, which was sublet, subsequent to quarter end, on a full recovery flow through basis. As a result of the sublet, the Company will recover lease payments of approximately \$934 per annum commencing June 2008.

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to commodity prices and interest rate risk, as well as liquidity risk and credit risk.

a) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk and interest rate risk.

b) Commodity Price Risk

The Company's financial performance is closely linked to natural gas prices. A change of \$1.00 Cdn in natural gas prices at the wellhead would have the effect of changing earnings for the year by \$21 million.

From time to time, the Company employs the use of various financial instruments to manage these price exposures, and at this time, has entered into the following forward contract for the future physical delivery of crude oil:

Term	Volume (bbl/d)	Contract Price (USD /bbl)	Price Basis
Dec 1, 2008 – Nov 30, 2008	200	\$75.00 floor, \$90.20 ceiling	WTI

The Company considers the contract to be a future sales contract in the normal course of business at prices within a predetermined range with our current oil marketer, which will be satisfied by the future delivery of crude oil. The loss realized during the three months ended March 31, 2008 with respect to this contract was approximately USD \$141,000 and as at March 31, 2008, the estimated value of the remaining contract was a loss of USD \$585,000.

c) Interest Rate Risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Company's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Company's strategy is to manage interest rate risk within the current economic environment framework. If interest rates on the floating instrument were to change by 1.0% it is estimated that net income for the year would change by \$1.8 million.

d) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cashflows and external equity sources, as well as undrawn committed borrowing facilities to meet current spending forecasts. All of the trade liabilities mature in 2008 and the Company's bank loan is due on demand.

e) Counterparty Credit risk

Counterparty credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A small portion of the Company's production is currently sold through a joint venture partner to purchasers under normal industry sale and payment terms; the balance is sold to twenty four marketers also under normal industry terms. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

As at March 31, 2008 the Company has provided for \$773,000 of trade accounts receivable that in the estimation of the Company may be impaired.

As at March 31, 2008, the aging analysis of trade receivables is as follows:

	\$ thousands
Current	51,069
30 – 60 days	(639)
60 – 90 days	781
Greater than 90 days	10,009
Total	61,220

Included in the total are accounts receivable of Cyries at March 31, 2008 of \$39,165.

12. CONTINGENCIES

The Company is party to various lawsuits as at March 31, 2008. It is management's opinion that, based on the best currently available information, the amount of any potential exposure and the outcome of these lawsuits is not determinable at this time. As a result, no provisions for these items have been recorded in these financial statements.

Pursuant to a purchase and sale agreement, the Company has indemnified the purchaser of a former subsidiary company for up to \$1,000,000 of income tax and legal expenses incurred with respect to specifically identified income tax returns. The Company has accrued this obligation in the current financial statements and correspondingly increased the purchase price of related property, plant and equipment acquired as part of a series of transactions which occurred in conjunction with the disposition of the former subsidiary.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

13. SUPPLEMENTAL DISCLOSURE ON CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital were comprised of the following:

(\$000's)	Three months ended March 31,	
	2008	2007
Accounts receivable	\$(5,993)	\$(294)
Prepays and other current assets	986	215
Income taxes payable	288	-
Accounts payable and accrued liabilities	16,371	16,759
Net change	\$11,652	\$16,680

(\$000's)	Three months ended March 31,	
	2008	2007
Net change by activity:		
Operating	\$15,135	\$6,444
Investing	(3,483)	10,235
Financing	-	1
Net change	\$11,652	\$16,680

Additional information:

(\$000's)	Three months ended March 31,	
	2008	2007
Cash interest paid	\$1,112	\$472
Cash taxes paid	\$500	-

14. CAPITAL MANAGEMENT

The Company's principal business of the exploration, exploitation and development of oil and gas requires ongoing access to capital in order to allow the Company to successfully implement its growth strategy; and to provide adequate returns for shareholders and benefits for other stakeholders.

The Company defines capital as share capital; bank indebtedness; and cash and cash equivalents. The consolidated capital structure of the Company is as follows

	As at March 31, 2008		As At December 31, 2007	
	\$ thousands	%	\$ thousands	%
Cash	(1,223)	(0.1)	(1,230)	(0.4)
Bank indebtedness	164,040	16.9	50,370	17.2
Share capital	801,572	82.8	238,586	81.8
Warrants outstanding	3,934	0.4	3,934	1.4
Total	968,323	100.0	291,660	100.0

As at March 31, 2008, the Company had a bank credit facility that contained covenants which limit the amount of debt that can be incurred by the Company. As at March 31, 2008 and December 31, 2007, the Company has met those covenants.

15. FINANCIAL INSTRUMENTS

Section 3855 of the CICA Handbook requires the initial measure of all financial instruments at fair value with classification into one of five categories; loans and receivables; assets held to maturity; assets available for sale; other financial liabilities; and held for trading.

The Company has elected to classify its financial instruments as follows:

	March 31, 2008		December 31, 2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash ⁽¹⁾	1,223	1,223	1,230	1,230
Loans and receivables				
Accounts receivable ⁽¹⁾	61,220	61,220	16,062	16,062
Other financial liabilities				
Bank indebtedness ⁽¹⁾	164,040	164,040	50,370	50,370
Accounts payable and accrued liabilities ⁽¹⁾	122,166	122,166	30,574	30,574
Income taxes payable ⁽¹⁾	288	288	-	-
Stock based compensation payable ⁽¹⁾	14,629	14,629	7,520	7,520

(1) Due to the nature and/or short term maturity of these financial instruments, carrying value approximates fair value.

The carrying values of financial instruments included in current assets and current liabilities approximates their fair value, reflecting the short term maturity, normal trade credit terms, and/or the nature of these instruments.