Kenartha Oil and Gas Company Limited
Balance Sheets
For the years ended March 31, 2008 and 2007

	2008	2007
ASSETS		
Current		
Cash	$ 573,609	$ 1,831,451
Accounts receivable	193,118	19,934
Deposits and advances	616,732	28,150
Prepaid expenses	-	4,050
Notes receivable (Note 2)	350,000	647,582
	1,733,459	2,531,167
Investments (Note 3)	800,000	692,000
Equipment (Note 4)	21,597	30,733
Natural gas properties (Note 5)	1,514,853	1,191,022
	$ 4,069,909	$ 4,444,922
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 166,524	$ 128,700
Future income taxes (Note 6)	323,055	347,055
	489,579	475,755
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)	6,438,344	6,438,344
Share subscription (Note 8)	33,000	-
Contributed surplus (Note 8)	42,500	-
Deficit	(2,933,514)	(2,469,177)
	3,580,330	3,969,167
	$ 4,069,909	$ 4,444,922

Kenartha Oil and Gas Company Limited
Statements of Operations and Retained earnings
For the Years Ended March 31, 2008 and 2007

	2008	2007
Revenue		
Sales of natural gas	$ 271,947	$ 183,950
Interest income	23,483	112,091
	295,430	296,041
Expenses		
Amortization	391,136	13,044
Director's fees	150,000	135,000
General and administrative	24,082	50,136
Professional fees	16,000	68,500
Rent	26,355	28,184
Management fees	22,613	-
Field supplies and maintenance	42,081	71,818
Production royalties	129,500	46,459
Interest expense	-	5,988
	801,767	419,129
Loss before income taxes	(506,337)	(123,088)
Future income tax recovery (Note 6)	(42,000)	(38,002)
Net loss	(464,337)	(85,086)
Deficit, beginning of year	(2,469,177)	(2,384,091)
Deficit, end of year	$ (2,933,514)	$ (2,469,177)
Net loss per share	$ (0.0450)	$ (0.0090)
Average weighted number of shares outstanding	11,244,221	9,411,828

Kenartha Oil and Gas Company Limited
Statements of Cash Flows
For the Years Ended March 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operating activities		
Net loss	$ (464,337)	$ (85,086)
Adjustments for items not affecting cash		
Amortization	391,136	13,044
Future income tax recovery	(42,000)	(38,002)
	(115,021)	(110,044)
Changes in non-cash components of working capital		
Increase in accounts receivable	(173,184)	(16,934)
Decrease in deposits and receivable	(588,582)	3,632
Decrease (increase) in prepaid expenses	4,050	(405)
Increase in accounts payable and accrued liabilities	37,824	30,857
Decrease in future income taxes	-	(39,887)
	(835,093)	(132,781)
Investment activities		
Increase (decrease) in notes receivable	297,582	(647,582)
Purchase of investments	(200,000)	(564,240)
Increase in natural gas properties	(705,831)	(1,758,417)
Repayment of advance	92,000	-
	(516,249)	(2,970,239)
Financing activities		
Decrease in notes payable	-	(178,500)
Proceeds on sale of working interest	-	935,000
Issuance of common shares	-	2,882,104
Share subscriptions	93,500	-
	93,500	3,638,604
Increase (decrease) in cash	(1,257,842)	535,584
Cash, beginning of year	1,831,451	1,295,867
Cash, end of year	$ 573,609	$ 1,831,451
Supplementary information:		
Interest paid	$ -	$ 5,988

1. Significant accounting policies

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Natural gas properties

All costs related to investments in resource properties are capitalized on a property-by-property basis. Such costs include acquisition costs and exploration and development expenditures, net of any recoveries. The costs related to a property from which there is production, together with the costs of equipment, will be depleted and amortized using the unit-of-production method. When there is little prospect of further work on a property being carried out by the Company or its partners or when a property is abandoned, the related property costs are written off. The amounts shown for natural gas properties represent costs incurred to date and are not intended to reflect present or future values.

The Company applies a “ceiling test” to the net book value of natural gas properties to ensure that such carrying value not exceed the estimated fair value of the properties. The carrying value is assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of the cost and market of unproved properties exceeds the carrying value. If the carrying value is assessed to not be recoverable, the calculation compares the carrying value to the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. Should the carrying value exceed this sum, an impairment loss is recognized. The cash flows are estimates using projected future product prices and costs and are discounted using the credit adjusted risk-free interest rate.

Amortization is calculated using the diminishing balance method over the useful life of the assets at 30% per annum.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

Stock based compensation

The Company accounts for stock-based compensation in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". This standard requires that stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting.

Flow-through shares

The Company will from time to time issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations, when the renunciations are made.

Earnings per share

Basic income per share is computed using the weighted average number of common shares outstanding during the year. Diluted income per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method.

Investments

The Company follows the cost method of accounting for its investments, written down for any impairment in value that is considered other than temporary.

Equipment

Equipment is recorded at cost. The Company provides for amortization using the declining balance method at rates designed to amortize the cost of the equipment over its estimated useful life. The annual amortization rates are as follows:

Equipment	20%
Pipeline	20%
Compressor	30%

Accounting changes

The CICA issued section 1506 of the CICA Handbook, *Accounting Changes*, which establishes criteria for changing accounting policies and describes how to apply changes in accounting policies, accounting estimates, and changes resulting from the correction of errors. These changes, including the related disclosure requirements, came into effect as of January 1, 2007 and did not impact our financial statements.

Recent accounting pronouncements - Canadian GAAP

Financial instruments

In January 2005, the CICA issued Handbook Section 3855, "Financial instruments - Recognition and Measurement" and "Section 3861, Financial Instruments - Disclosure and Presentation." Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Both sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2006 and will be adopted by the Company on August 1, 2007. Transitional provisions are complex and vary based on the type of financial instruments under the consideration. The effect on the Company's financial statements is not expected to be material.

Comprehensive income

CICA Handbook Section 1530, "Comprehensive Income," was issued in January 2005 to introduce new standards for reporting and presenting comprehensive income. Comprehensive income is the change in equity (net assets) of a company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except for changes resulting from investments by owners and distributions to owners. It applies to interim and annual financial statements for fiscal periods beginning on or after October 1, 2006 and will by adopted by the Company on August 1, 2007. Financial statements for prior periods will be required to be restated for certain comprehensive income items. The effect on the Company's financial statements is not expected to be material.

Equity

In January 2005, the CICA issued Handbook Section 3251, "Equity," which replaces Section 3250, "Surplus." It establishes standards for the presentation of equity and changes in equity during reporting periods beginning on or after October 1, 2006. Financial statements for prior periods are required to be restated for certain specified adjustments. For other adjustments, the adjusted amount must be presented in the opening balance of accumulated other comprehensive income. The Company adopted this Section on August 1, 2007. The effect on the Company's financial statements was not expected to be material.

2. Notes receivable

	2008	2007
Geotechnical Business solutions Inc.	$ -	$500,329
Eran Holdings Limited	350,000	147,253
	$350,000	$647,582

The amount due from Geotechnical Business Solutions Inc. was due on demand, for a period not to exceed 60 days, bearing interest at a rate of 6% compounded monthly. The note has been repaid in full, with interest, during the year.

The amount due from Eran Holdings Limited, is unsecured, non-interest bearing and due on demand.

The amount due from Erna Holdings Limited, in 2007 was due on demand, for a period not to exceed three months, bearing interest at a rate of 6% compounded monthly. The note was secured by an assignment of subscribed warrants. The note has been repaid in full, with interest, during the year.

3. Investments

	2008	2007
6,000,000 common shares (2007 – 4,000,000)	$ 800,000	$ 600,000
Advances, non-interest bearing, due on demand	-	92,000
	$ 800,000	$ 692,000

The Company’s investment in common shares of Millstream Mines Ltd. is recorded at cost of which 4,000,000 is flow-through. The Company holds 2,000,000 warrants, expiring December 31, 2008, to purchase an additional 2,000,000 common shares, at $0.25 per share.

The advances were repaid during the year.

Millstream Mines Ltd. and Kenartha Oil and Gas Company Limited have common officers and some common board members.

Millstream Mines Ltd. is a public company reporting under the TSX Venture Exchange and its principal objective is to enhance and develop known mineral properties to production potential.

As a flow-through share investment, the tax cost of the shares is $nil. The fair value of the investment is impracticable to determine as the value is subject to the future financing and development results of the Millstream properties and is also affected by the liquidity and share price for a large block of shares.

4. Equipment

	Cost	**Accumulated Amortization**	**2008 Net**	**2007 Net**
Equipment	$ 4,807	$ 4,793	$ 18	$ 14
Pipeline	76,045	75,295	942	750
Compressor	195,445	174,612	29,773	20,833
	$ 276,297	$ 254,700	$30,733	$21,597

5. Natural gas properties

The Company entered into an agreement with Norfolk Oil & Gas Limited (NGO1) to earn a 49% working interest in certain gas wells to be drilled. To obtain the working interest the Company was required to finance the drilling costs of each individual well. The number of wells in which the Company acquired an interest was dependent on the amount of financing raised by the Company. Net profits from the wells are to be first allocated to repay the costs of drilling the wells (to both the Company and to its warrant holders as described below) and then to the respective working interests. The Company is evaluating and preparing the wells for production.

To finance the Company's participation in the project described above, the Company issued a private placement offering memorandum dated March 17, 2005, which offered 400 units in the share capital of the Company at $5,000 per unit; each unit consisting of 1,000 flow through common shares to be issued from the treasury of the Company and one full warrant. The offering was fully subscribed for in fiscal 2006. The Company renounced its claim for Canadian Exploration Expenses to the holders of the flow-through common shares effective December 31, 2005.

The warrants exercisable at $2,500 each provide the holders, on exercise, the right to repayment of their initial $5,000 investment from net profits of the project and , thereafter, to retain a pro-rata net profit interest royalty of up to 24% in each of the drilled wells that are purchased by capital raised under the offering memorandum. 374 warrants were exercised during the 2007 fiscal year for cash consideration of $935,000 resulting in the Company's working interest being reduced to 26.56% for this project. The Company has credited the proceeds on disposal of its working interest against the capitalized costs of the project until completion of the development stage of the project.

The fair value of the properties under development cannot be ascertained at this time due to the early stage of progress of the project.

Natural gas properties consist of:	Beginning Balance	Additions	Cumulative Total
Acquisiton costs	$ 1,191,022	$ 705,831	$ 1,896,853
Accumulated depletion	-	(382,000)	(382,000)
	$ 1,191,022	$ 323,831	$ 1,514,853

6. Income taxes

A reconciliation comparing income taxes calculated at the statutory rates to the amount provided in the accompanying financial statements is as follows:

	2008	2007
Combined federal and provincial income tax rates	36.1%	36.1%
Net loss before income taxes	$ (506,377)	$ (123,088)
Expected income taxes (recovery)	(183,000)	(44,459)
Non-deductible items	141,000	6,457
Future income tax recovery	$ (42,000)	$ (38,002)

The significant components of the Company's future income taxes at March 31, 2008 are as follows:

	2008	2007
Future income tax liability		
Temporary differences on renunciation of qualified exploration and development costs	$ 740,400	$ 722,400
Temporary difference on deferred proceeds on disposal working interest	(337,722)	(337,722)
Share issuance costs	(140,035)	(140,035)
Temporary differences due to equipment and resource deductions previously unrecognized	(114,308)	(114,308)
Non-capital loss carry-forwards previously unrecognized	(42,000)	-
Temporary difference on investment in flow-through shares	216,720	216,720
	$ 323,055	$ 347,055

The Company has approximately $484,000 tax loss carryforwards which may be applied to reduce taxable income of future years. These losses expire as follows:

2008	$ 42,000
2013	77,000
2014	323,000
2015	42,000
	$ 484,000

7. Related party transactions

(a) Production royalty expense includes $26,022 (2007 - $21,587) charged by a company for which a director of the company is an officer. The Company has been assigned a 12½% royalty on natural gas sales as an inducement with respect to financial assistance the Company provided to Kenartha Oil and Gas Company Limited in prior fiscal years.

(b) Companies which are members of the controlling group, provides management services to the Company and makes certain payments on its behalf. Management fees and rent expenses of $48,967 (2007 - $28,184) have been charged in this respect. Included in accounts payable are amounts due to these companies totaling $2,294 (2007 – nil). These companies also charge the Company $70,750 (2007 - $116,369) for services provided in connection with the funding and administration of the Norfolk project that have been capitalized under natural gas properties.

8. Capital stock

a) Authorized

2,000,000 voting, redeemable (at 1/10th of 1 cent each) non-participating preference shares

Unlimited common shares

b) Issued

	Number of shares	Amount
Common shares		
Balance, March 31, 2006	8,295,790	$ 3,555,740
Common shares issued for cash	1,961,197	3,080,407
Share issue costs	-	(198,303)
Balance, March 31, 2007	10,256,987	6,437,844
1 – 10 stock dividend	1,025,698	-
Balance, March 31, 2008	11,282,685	$ 6,437,844
Preference shares		
Balance, March 31, 2006, 2007 and 2008	500,000	$ 500

c) Common shares

On November 24, 2006, the Company completed a private placement of 1,000,000 common shares at an issue price of $1.50 U.S.

On January 29, 2007, the Company offered a private placement of 1,000,000 common shares at an issue price of $1.25 U.S. 761,197 shares were taken up under this placement.

On February 23, 2007, the Company issued 200,000 common shares in return for services provided in the amount of $310,430.

d) Flow-through shares

In 2006 the Company issued through a private placement offering, as described in note 5,400,000 flow-through common shares at a price of $5.00 per share. Income tax exploration deductions in the amount of $2,000,000 were renounced to subscribers effective December 31, 2005.

The Company issued a private placement offering memorandum dated January 2, 2007, which offered 400 units in the share capital of the Company at $5,500 per unit; each unit consisting of 1,000 flow-through common shares to be issued for the treasury of the Company and one full warrant. During the year, $93,000 was received as a subscription for 17 units and 17,000 common shares were issued on May 22, 2008. The Company renounced its claim for Canadian Exploration Expenses to the holders of the flow-through common shares effective December 31, 2007.

The warrants are exercisable at $2,500 each, therefore are valued at $42,500 and credited to contributed surplus and provide the holders, on exercise, the right to repayment of $5,005 of their initial investment from net profits of the project, and thereafter to retain a pro-rata net profit interest royalty of up to 24% in each of the drilled wells that are purchased by capital raised under the offering memorandum. The Company's net profit interest will accordingly be reduced from 49% pro-rata on the exercise of the warrants. No warrants have been exercised for this project to the date of the Auditor's Report.

e) Stock option plan

The Company has a designated stock option plan ("DSOP") permitting the granting of options to officers, employees and consultants. The limit for the DSOP is 10% of the issued common shares and, for a single participant, 5% of the issued common shares. During the year, 825,000 options were issued to directors at a price of $0.80 per share, no options have been exercised as at March 31, 2008.

f) Stock dividend

In January 2007, the Company effected a one-for-ten stock split in the form of a special dividend to shareholders of record on April 30, 2007. The dividend is 1 common share for every 10 common shares of the Company owned as at the record date.

g) Share subscription

	2008	2007
Subscription of 17,000 flow-through common shares at a price of $5.50 per share, common shares issued May 22, 2008	$ 93,500	$ -
Accompanying warrants valued at $2,500 each	(42,500)	-
Future estimated income tax liability	(18,000)	-
	$ 33,000	$ -