BERKLEY RESOURCES INC.

Interim Financial Statements

Nine Months Ended September 30, 2008

(unaudited)

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

The accompanying unaudited interim financial statement of the Company have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company and have not been reviewed by the Company's independent auditor.

BERKLEY RESOURCES INC.
BALANCE SHEETS
(Prepared by Management)

As at		September 30, 2008		December 31, 2007
		(unaudited)		*(audited)*
ASSETS				
Current Assets				
Cash and cash equivalents	$	227,447	$	47,057
Accounts receivable		327,038		247,372
Taxes recoverable		16,063		12,168
Prepaid expenses		19,980		6,120
		590,528		312,717
Oil and gas properties and equipment (Note 5)		4,862,611		5,456,007
Other property plant and equipment (Note 6)		1,590		3,048
	$	5,454,729	$	5,771,772
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	297,596	$	982,386
Due to related parties (Note 8)		54,688		14,261
		352,284		996,647
Asset Retirement Obligation		143,750		140,150
		496,034		1,136,797
SHAREHOLDERS' EQUITY				
Share Capital (Note 7)		12,770,032		12,347,593
Subscription Receivable (Note 7d)		(100,000)		-
Contributed Surplus		1,181,097		1,030,532
Deficit		(8,892,434)		(8,743,150)
		4,958,695		4,634,975
	$	5,454,729	$	5,771,772

Going concern (Note 1)
Commitment (Note 9)
Contingency (Note 10)
Subsequent Events (Note 11)

Approved by the Directors:

"Matt Wayrynen" Director *"Lindsay Gorrill"* Director

The accompanying notes are an integral part of these interim financial statements

BERKLEY RESOURCES INC.
STATEMENTS OF OPERATIONS
(Unaudited - Prepared by Management)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
OIL AND GAS REVENUE	$ 528,448	$ 317,129	$ 1,427,583	$ 1,243,670
Oil and gas production expenses				
Operating costs	261,008	323,904	662,486	818,585
Interest on loans	-	34,292	-	134,264
Amortization, depletion and accretion	132,200	240,100	401,600	754,900
	393,208	598,296	1,064,086	1,707,749
NET OIL AND GAS INCOME (LOSS)	135,240	(281,167)	363,497	(464,079)
GENERAL AND ADMINISTRATIVE EXPENSES				
Administrative, office services and premises	61,023	63,302	168,339	248,890
Stock based compensation	13,917	46,105	67,585	173,044
Management fees	40,500	126,278	151,500	241,401
Consulting fees	4,416	81,588	11,849	128,133
Professional fees	6,461	27,186	42,719	78,595
Finance fees on debt	-	37,052	-	134,247
Filing and transfer agent fees	4,817	12,646	18,144	28,820
Shareholder information	520	17,911	8,582	42,733
Amortization	486	514	1,458	1,542
	(132,140)	(412,582)	(470,176)	(1,077,405)
OTHER INCOME (EXPENSES)				
Interest expense	(45,800)	(21,876)	(46,081)	(62,957)
Write-down of receivable	-	-	-	(11,995)
Interest and other income	1,205	3,031	3,476	4,077
	(176,735)	(431,427)	(512,781)	(1,148,280)
INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS	(41,495)	(712,594)	(149,284)	(1,612,359)
Discontinued Operations	-	1,941,312	-	1,872,567
INCOME (LOSS) FOR THE PERIOD	$ (41,495)	$ 1,228,718	$ (149,284)	$ 260,208
BASIC AND DILUTED LOSS PER SHARE BEFORE DISCONTINUED OPERATIONS	$(0.00)	$(0.03)	$(0.01)	$(0.08)
BASIC AND DILUTED LOSS PER SHARE AFTER DISCONTINUED OPERATIONS	$(0.00)	$0.06	$(0.01)	$0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	23,764,651	21,048,782	22,228,250	19,596,026

BERKLEY RESOURCES INC.
STATEMENTS OF DEFICIT
(Unaudited - Prepared by Management)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
DEFICIT, beginning of period	$ (8,850,939)	$ (6,185,738)	$ (8,743,150)	$ (5,082,981)
Change in accounting policy	-	-	-	(134,247)
Gain (loss) for the period	(41,495)	1,228,718	(149,284)	260,208
DEFICIT, end of period	$ (8,892,434)	$ (4,957,020)	$ (8,892,434)	$ (4,957,020)

The accompanying notes are an integral part of these interim financial statements

BERKLEY RESOURCES INC.
STATEMENTS OF CASH FLOWS
(Unaudited - Prepared by Management)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Loss for the period from continuing operations	$ (41,495)	$ (712,594)	$ (149,284)	$ (1,612,359)
Items not requiring cash in the year:				
Amortization, depletion and accretion	132,686	240,614	403,058	756,442
Finance fees on debt	-	37,052	-	134,247
Fair value of options issued for consulting services	2,319	-	4,689	-
Stock based compensation	13,917	46,105	67,585	173,044
	107,427	(388,823)	326,048	(548,626)
Net change in non-cash working capital balances for continuing operations:				
Accounts receivable	(94,058)	(89,050)	(79,666)	26,003
Taxes recoverable	(8,507)	(6,351)	(3,895)	(8)
Prepaid expenses	(17,250)	(23,079)	(13,860)	(17,696)
Accounts payable and accrued liabilities	(309,704)	(315,223)	(684,790)	(138,555)
Due to related parties	(74,007)	(169,994)	40,427	(58,920)
	(396,099)	(992,520)	(415,736)	(737,802)
INVESTING ACTIVITIES				
Oil and gas properties and equipment,net	(98,652)	(689,101)	(104,604)	(1,780,408)
Proceeds on disposal of partial interest in oil and gas property (Note 5)	300,000	-	300,000	-
Other property, plant and equipment	-	-	-	(378)
	201,348	(689,101)	195,396	(1,780,786)
FINANCING ACTIVITIES				
Issuance of common shares, net	500,730	1,645,910	500,730	1,645,910
Share subscription receivable	(100,000)	-	(100,000)	-
	400,730	1,645,910	400,730	1,645,910
Net cash increase (decrease) from continuing operations	205,979	(35,711)	180,390	(872,678)
Net cash increase (decrease) from discontinued operations	-	126,417	-	534,988
Cash, beginning of period	21,468	69,850	47,057	498,246
Cash, end of period	$ 227,447	$ 160,556	$ 227,447	$ 160,556

The accompanying notes are an integral part of these interim financial statements

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Berkley Resources Inc. (the "Company" or "Berkley") was created on the amalgamation of Fortune Island Mines Ltd., Kerry Mining Ltd. and Berkley Resources Ltd. under the Company Act (British Columbia) on July 18, 1986. The Company is in the business of acquisition, exploration, development and production from petroleum and natural gas interests in Alberta and Saskatchewan, Canada. The Company also rented commercial office space in a building it owned in Vancouver, Canada. The commercial rental operations have been discontinued as a result of the sale of the building during the year ended December 31, 2007 (Note 2).

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that Berkley will continue in operation for the foreseeable future in regards to its oil and gas operations and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Adverse conditions and events cast substantial doubt upon the validity of this assumption. The Company has incurred significant operating losses over the past several fiscal years and as at September 30, 2008, the Company does not have sufficient financial resources to meet its flow through expenditure requirements in 2008. As at September 30, 2008, the Company had working capital of $238,244 (December 31, 2007 – deficit working capital $683,930).

The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital through the issuance of treasury shares or debt and achieve profitable operations in the future. The Management of the Company has developed a strategy to address this uncertainty, including additional equity and/or debt financing; however, there are no assurances that any such financing can be obtained on favourable terms, if at all.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used.

NOTE 2 – DISCONTINUED OPERATIONS

During March 2007, the Company entered into an agreement to sell its real estate assets in Vancouver, British Columbia. Therefore the operations segment is disclosed as discontinued operations on the Statement of Operations and Comprehensive Loss. Rental property asset and liability amounts are now $nil and as such are no longer disclosed as *Assets of discontinued operations* and *Bank loans and liabilities of discontinued operations* respectively on the Balance Sheet.

Summarized financial information relating to the discontinued operations is as follows:

Operating results:

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Rental Revenue	$ -	$ 42,110	$ -	$ 166,911
Rental operations expenses				
Operating costs	-	46,011	-	153,409
Interest on bank loan	-	29,498	-	115,646
	-	75,509	-	269,055
Net Rental Loss Before Other Items	-	(33,399)	-	(102,144)
Gain on sale of assets	-	1,974,711	-	1,974,711
Net Rental Gain (Loss)	$ -	$ 1,941,312	$ -	$ 1,872,567

Cash flows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Operating activities				
Gain (Loss) for the period	$ -	$ 1,941,312	$ -	$ 1,872,567
Financing activities				
Deposit held on sale of building	-	(505,816)	-	-
Sale of building, net	-	2,040,033	-	2,040,033
Bank and other loans repaid	-	(3,349,112)	-	(3,377,612)
	-	(1,814,895)	-	(1,337,579)
Net cash increase from discontinued operations	$ -	$ 126,417	$ -	$ 534,988

NOTE 3 – BASIS OF PRESENTATION

These unaudited interim financial statements have been prepared in accordance with the instructions for the preparation of such financial statements contained in the CICA Handbook Section 1751. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such instructions. These unaudited financial statements should be read in conjunction with the Audited Financial Statements and Notes thereto for the fiscal year ended December 31, 2007.

In the opinion of the Company's management, all adjustments considered necessary for a fair presentation of these unaudited financial statements have been included and all such adjustments are of a normal recurring nature. Operating results for the nine month period ended September 30, 2008 are not necessarily indicative of the results that can be expected for the year ended December 31, 2008.

NOTE 4 – ACCOUNTING CHANGES

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a retrospective basis with no restatement of prior period financial statements:

i) CICA Section 1400 *General Standards of Financial Statement Presentation* provides revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern. The adoption of this standard did not have an impact on the Company's financial statements.

ii) CICA Section 1535 *Capital Disclosures* establishes standards for the disclosure of the Company's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirement and, if it has not complied, the consequences of such non-compliance. In addition, quantitative disclosures regarding capital are required. Please refer to Note 11, Capital Disclosures.

iii) CICA Section 3031 *Inventories* contains expanded guidance relating to measurement and disclosure of inventories. This standard provides guidance on the determination of cost and subsequent recognition as an expense, including any write-down to net realizable value and the reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also provides guidance on the cost formulae that are used to assign costs. The adoption of this standard did not have an impact on the Company's financial statements.

iv) CICA Section 3064 *Goodwill and Intangible Assets* replaces Section 3062 *Goodwill and Intangible Assets*, and Section 3450 *Research and Development Costs,* which also resulted in amendments to related guidance contained in AcG-11 *Enterprises in the Development Stage* and Section 1000 *Financial Statement Concepts.* These pronouncements and amendments affect the recognition and measurement of intangible assets that include deferred costs related to mineral property exploration. On January 1, 2009 the Company will adopt this standard, and management is currently assessing its impact on the Company's interim and annual financial statements for fiscal 2009.

NOTE 4 – ACCOUNTING CHANGES (continued)

v) CICA Section 3862 *Financial Instruments - Disclosures* and Section 3863 *Financial Instruments - Presentation* replaces Section 3861 *Financial Instruments - Disclosure and Presentation*. The objective of section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments to 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. Please refer to note 12, Financial Instruments.

vi) In 2006, the Accounting Standards Board of the CICA ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NOTE 5 – OIL AND GAS PROPERTIES AND EQUIPMENT

	September 30, 2008	**December 31, 2007**
Oil and gas properties and equipment, cost	$ 18,222,338	$ 18,417,734
Less: Accumulated amortization and depletion	(13,359,727)	(8,878,727)
Write-down of oil and gas properties	-	(4,083,000)
	$ 4,862,611	$ 5,456,007

Oil and gas properties and equipment includes the cost of unproven properties of approximately $937,985 at September 30, 2008 (December 31, 2007 - $1,108,931), which are currently not subject to depletion.

During the period, the Company announced that it sold a 25% participation in its Crossfield Project in an arm's length transaction for the sum of $300,000. The proceeds have been recorded as a reduction to Oil and Gas Properties and Equipment.

NOTE 6 – OTHER PROPERTY, PLANT AND EQUIPMENT

					September 30, 2008		December 31, 2007
		Cost		**Accumulated amortization**		**Net**		**Net**
Computer equipment	$	28,760	$	(28,607)	$	153	$	1,356
Furniture and fixtures		8,521		(7,085)		1,436		1,691
Truck		39,040		(39,039)		1		1
	$	76,321	$	(74,731)	$	1,590	$	3,048

NOTE 7 – SHARE CAPITAL

(a) Authorized

Unlimited common shares, without par value

	September 30, 2008			December 31, 2007		
Issued and fully paid:	Number of Shares		Amount	Number of Shares		Amount
Balance, beginning of period	21,451,608	$	12,347,593	18,857,608	$	11,577,934
Issued in the year for cash:						
Pursuant to private placements:						
- flow-through for cash	-		-	2,154,000		1,400,100
- non-flow-through for cash	2,800,000		504,000	440,000		264,000
Share issuance costs	-		(3,270)	-		(27,010)
Fair value of private placement Warrants	-		(78,291)	-		(4,400)
Future income taxes on renouncement of resource property expenditures	-		-	-		(870,259)
Future income taxes on share issue costs	-		-	-		7,228
Balance, end of period	24,251,608	$	12,770,032	21,451,608	$	12,347,593

On July 18, 2008, the Company closed a non-brokered private placement of 2,800,000 units at a price of $0.18 per unit for gross proceeds of $504,000. Each unit consists of one common share and one non-transferable share purchase warrant. Each share purchase warrant will entitle the holder to purchase one additional share at a price of $0.30 for one year. The fair value of the warrants was estimated to be $78,291. This fair value was estimated at the date of granting using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.10%, dividend yield of 0%, volatility factor of 73%, and an average life of one year.

NOTE 7 – SHARE CAPITAL (continued)

(b) Stock options

	September 30, 2008		December 31, 2007	
	Number of shares subject to option	Weighted average exercise price per share	Number of shares subject to option	Weighted average exercise price per share
Balance outstanding, beginning of year	2,550,500	$0.66	2,214,000	$0.68
Activity in the period:				
Granted	-	-	350,000	$0.55
Expired	(727,500)	$0.53		
Cancelled	(8,000)	$0.55	(13,500)	$0.70
Balance outstanding, end of period	1,815,000	$0.71	2,550,500	$0.66

A summary of stock options outstanding is as follows:

		Number of Shares Remaining Subject to Option at End of Period	
Exercise Price Per Share	**Expiry Date**	**September 30, 2008**	**December 31, 2007**
$0.52	September 19, 2008	-	580,500
$0.57	September 19, 2008	-	150,000
$0.81	October 19, 2009	200,000	200,000
$0.77	October 29, 2009	37,500	37,500
$0.90	December 23, 2010	637,500	637,500
$0.56	September 21, 2011	590,000	595,000
$0.55	July 4, 2012	350,000	350,000
		1,815,000	**2,550,500**

At the Company's AGM, the shareholders adopted a 2008 Stock Option Plan (the "Plan") which provides for the granting of options to acquire up to 4,290,321 shares. The Plan provides for the granting of options to employees and service providers, with no single optionee to be granted options in excess of 5% of the number of issued shares of the Company. All options are to be granted at fair value, and the term of the options granted is not to exceed five years. Options to acquire a total of 1,815,000 shares have been granted and are outstanding at September 30, 2008 under the Plan.

During the period, 727,500 stock options expired and 8,000 stock options were cancelled.

During the year ended December 31, 2007 the Company granted stock options for the purchase of up to 350,000 shares at a price of $0.55 per share exercisable on or before July 4, 2012 to directors, officers, employees and consultants of the Company. The fair value of the options charged to operations over the eighteen month vesting period was $69,583 to stock-based compensation and $11,597 to consulting expense. The fair value of the options granted was estimated at the date of granting using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 4.5%, dividend yield of 0%, volatility factor of 57%, and an average life of 3 years.

NOTE 7 – SHARE CAPITAL (continued)

(b) Stock options (continued)

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options which are fully transferable and freely traded. In addition, option valuation models require the input of highly subjective assumptions including estimated stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

(c) Warrants

During the nine month period ended September 30, 2008 there were 2,800,000 issued as per Note 7(a) and nil warrants exercised or expired. The total amount of share purchase warrants outstanding as of September 30, 2008 is 3,020,000.

A summary of share purchase warrants outstanding is as follows:

		Number of Warrants	
Exercise Price Per Share	**Expiry date**	**September 30, 2008**	**December 31, 2007**
$1.00	January 12, 2009	220,000	220,000
$0.30	July 16, 2009	2,800,000	-
		3,020,000	220,000

(d) Subscription receivable

As at September 30, 2008, $100,000 is outstanding from a related party for the issuance of 555,556 common shares at a price of $0.18 per share in relation to the private placement completed July 18, 2008. The Company is holding these shares pending settlement of the receivable.

NOTE 8 – RELATED PARTY TRANSACTIONS

The amount due to related parties consists of $47,514 (December 31, 2007 - $7,000) due to directors of the Company for directors fees, management fees and expense reimbursements and $7,174 (December 31, 2007 - $7,261) to Oniva International Services Corp. ("Oniva"), a private company owned by public companies having common directors that provides administrative services, office supplies and accounting services.

For the nine month period ended September 30, 2008 the following amounts were paid to related parties:

Management fees totaling $151,500 (2007 - $241,401) were paid or accrued to directors and their private companies in the period.

Consulting fees totaling $nil (2007 - $16,000) were paid to a former director and his spouse in the period. The commitment towards these fees was fulfilled in fiscal 2007.

Directors fees totaling $10,000 (2007 - $11,395) were paid to the directors of the company.

NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

Administrative services, office supplies and accounting charges totaling $64,921 (2007 - $86,428) were paid to Oniva. The Company takes part in a cost sharing arrangement to reimburse Oniva for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the Company, and to pay a percentage fee based on the total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party.

The transactions were in the normal course of operations and agreed to by the related party and the Company and have had been measured at the exchange amount.

NOTE 9 – COMMITMENT

As at September 30, 2008, $1,352,000 of eligible Canadian exploration expenditures had not yet been expended by the Company. The Company intends to spend this amount on qualifying expenditures by December 31, 2008. To the extent that the Company does not spend these funds on qualifying expenditures by this date there could be material adverse effect on the business, its financial condition and results of the operations.

NOTE 10 – CONTINGENCY

Earlier in the year, the Company received a default notice concerning amounts owing to its joint venture partner with respect to the Senex area operations. There were several items in this account that were in dispute. The Company is currently in negotiations to settle this dispute and expects a resolution during the fourth quarter of 2008.

NOTE 11 – CAPITAL DISCLOSURES

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the company may from time-to-time issue shares, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

There were no changes in the Company's approach to capital management since December 31, 2007.

NOTE 12 – FINANCIAL INSTRUMENTS

Fair value of Financial Assets and Liabilities

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and prepaid expenses, due to related parties, accounts payable and accrued liabilities. Cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of the instruments. The carrying value of accounts receivable, prepaid expenses, due to related parties and accounts payable and accrued liabilities approximated their fair values at September 30, 2008 due to their short-term nature.

Risks Associated with Financial Assets and Liabilities

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include credit risk, liquidity risk and market risk relating to commodity prices and interest rates. Market risk is the risk that the fair value (for assets or liabilities considered to be held-for trading and available for sale) or future cash flows (for assets or liabilities considered to be held-to-maturity, other financial liabilities, and loans and receivables) of a financial instrument will fluctuate due to movements in market prices. The objective of market risk management is to manage and control material market price exposures within acceptable limits, while maximizing returns. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

a) Market Risk

Commodity Price Risk - Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The prices that the Company receives for its crude oil and natural gas production may have a significant impact on its revenues and cash provided from operating activities. Any significant price decline in commodity prices would adversely affect the amount of funds available for capital reinvestment purposes. To date, the Company has not used derivative financial instruments to manage these risks.

Interest rate risk - Interest rate risk is the risk that cash flow from operating activities (before changes in non-cash working capital from operating activities) will fluctuate as a result of changes in market interest rates. The Company's cash and cash equivalents are currently held in highly liquid short-term investments and therefore management considers the interest rate risk to be minimal.

Currency risk - Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at September 30, 2008.

NOTE 12 – FINANCIAL INSTRUMENTS (continued)

b) Credit risk

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. All of the Company's production is currently sold through joint venture partners under normal industry sale and payment terms. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued by the partner. Collection of outstanding joint venture receivables is dependent on industry factors including commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

c) Liquidity risk

Liquidity risk arises through excess financial obligations over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient available reserves in order to meet its liquidity requirements at any point in time.