

**RYLAND OIL CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)  
FOR THE PERIOD ENDED  
DECEMBER 31, 2008**

**Notice to Reader**

**The accompanying unaudited interim consolidated financial statements of Ryland Oil Corporation (“the Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of the Company’s unaudited interim consolidated financial statements as at and for the nine months ended December 31, 2008.**

**RYLAND OIL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited)

	December 31, 2008	March 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 16,344,353	\$ 13,636,732
Receivables	<u>2,703,354</u>	<u>1,380,475</u>
	19,047,707	15,017,207
<b>Equipment</b>	10,326	3,985
<b>Oil and gas interests (Note 3)</b>	<u>94,323,857</u>	<u>44,790,180</u>
	<u>\$ 113,381,890</u>	<u>\$ 59,811,372</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payables and accrued liabilities	<u>\$ 16,727,272</u>	<u>\$ 1,629,578</u>
<b>Shareholders' equity</b>		
Capital stock (Note 4)	101,578,632	61,610,748
Contributed surplus (Note 4)	3,485,087	1,833,994
Deficit	<u>(8,409,101)</u>	<u>(5,262,948)</u>
	<u>96,654,618</u>	<u>58,181,794</u>
	<u>\$ 113,381,890</u>	<u>\$ 59,811,372</u>

**Nature of operations and basis of presentation** (Note 1)

**Contingencies** (Note 9)

**Subsequent events** (Note 12)

**On behalf of the Board:**

"Brian Tingle"

Brian Tingle

Director

"Gerald J. Shields"

Gerald J. Shields

Director

The accompanying notes are an integral part of these consolidated financial statements.

**RYLAND OIL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**NINE MONTHS ENDED DECEMBER 31, 2008**  
(unaudited)

	Three months ended December 31, 2008	Nine months ended December 31, 2008	Three months ended December 30, 2007	Nine months ended December 30, 2007
<b>REVENUE</b>				
Oil and gas	\$ 110,606	\$ 132,517	\$ -	\$ -
<b>DIRECT COSTS</b>				
Operating expenses	149,860	149,860	-	-
Royalties	2,769	2,769	-	-
	<u>152,629</u>	<u>152,629</u>	<u>-</u>	<u>-</u>
	(42,023)	(20,112)	-	-
<b>EXPENSES</b>				
Consulting	\$ 36,597	\$ 186,953	\$ 52,310	\$ 110,077
Insurance	196	128,273	(519)	150,518
Interest	12,544	16,866	2,793	19,029
Investor relations	202,719	296,627	4,189	12,211
Management fees	30,000	90,000	30,000	90,000
Office and general	44,630	106,449	29,121	88,182
Professional fees	173,350	383,079	106,435	259,275
Stock-based compensation	579,930	1,651,093	-	497,737
Transfer agent and filing fees	53,297	105,782	5,937	46,642
Travel and promotion	59,450	442,146	20,216	76,106
Wages, capitalized	(702,237)	(702,237)	-	-
Wages	296,479	836,468	105,285	258,568
	<u>(786,955)</u>	<u>(3,541,499)</u>	<u>(355,767)</u>	<u>(1,608,345)</u>
<b>Loss before other items</b>	<u>(828,978)</u>	<u>(3,561,611)</u>	<u>(355,767)</u>	<u>(1,608,345)</u>
<b>OTHER ITEMS</b>				
Interest income	94,670	354,032	72,401	302,535
Foreign exchange gain (loss)	87,983	61,426	(31,315)	54,500
	<u>182,653</u>	<u>415,458</u>	<u>41,086</u>	<u>357,035</u>
<b>Loss and comprehensive loss for the period</b>	<u>(646,325)</u>	<u>(3,146,153)</u>	<u>(314,681)</u>	<u>(1,251,310)</u>
<b>Deficit, beginning of period</b>	<u>(7,762,776)</u>	<u>(5,262,948)</u>	<u>(3,843,191)</u>	<u>(2,906,562)</u>
<b>Deficit, end of period</b>	<u>\$ (8,409,101)</u>	<u>\$ (8,409,101)</u>	<u>\$ (4,157,872)</u>	<u>\$ (4,157,872)</u>
<b>Basic and diluted earnings (loss) per share</b>				
	\$ 0.00	\$ 0.02	\$ 0.00	\$ 0.00
<b>Basic and diluted weighted average number of common shares outstanding</b>				
	178,096,986	165,244,506	118,906,433	110,278,500

The accompanying notes are an integral part of these consolidated financial statements.

**RYLAND OIL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS DECEMBER 31, 2008**  
(unaudited)

	Three months ended December 31, 2008	Nine months ended December 31, 2008	Three months ended December 31, 2007	Nine months ended December 31, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss and comprehensive loss for the period	\$ (646,325)	\$ (3,146,153)	\$ (314,681)	\$ (1,251,310)
Items not affecting cash:				
Stock-based compensation	579,930	1,651,093	-	497,737
Change in non-cash working capital items:				
Decrease (increase) in receivables	(1,737,453)	(1,322,879)	341,230	(712,067)
Increase (decrease) in accounts payable and accrued liabilities	<u>10,097,565</u>	<u>15,097,694</u>	<u>1,195,331</u>	<u>2,060,169</u>
Cash flows provided by operating activities	<u>8,293,717</u>	<u>12,279,755</u>	<u>1,221,880</u>	<u>594,529</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Deposit on acquisition of oil and gas property interests	200,000	-	(5,740,000)	(20,686,167)
Equipment acquired	(169)	(6,341)	(3,976)	(3,976)
Acquisition of oil and gas property interests	(1,527,795)	(12,034,744)	-	-
Deferred exploration costs	(24,464,124)	(37,498,933)	-	-
Repayment of assumed loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,864,000)</u>
Cash flows (used in) investing activities	<u>(25,792,088)</u>	<u>(49,540,018)</u>	<u>(5,743,976)</u>	<u>(38,554,143)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Common shares issued for cash	13,238,015	39,967,884	2,180,000	50,130,000
Common shares issued for debt	-	-	-	340,000
Share issue costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,338,763)</u>
Cash flows provided by financing activities	<u>13,238,015</u>	<u>39,967,884</u>	<u>2,180,000</u>	<u>48,131,237</u>
<b>Change in cash during the period</b>	(4,260,356)	2,707,621	(2,342,096)	10,171,623
<b>Cash, beginning of period</b>	<u>20,604,709</u>	<u>13,636,732</u>	<u>16,607,540</u>	<u>4,093,821</u>
<b>Cash, end of period</b>	\$ 16,344,353	\$ 16,344,353	\$ 14,265,444	\$ 14,265,444
<b>Cash paid for:</b>				
Income taxes	\$ -	\$ -	\$ -	\$ -
Interest	1,525	4,322	1,605	19,029

Supplemental disclosure with respect to cash flows: (Note 6)

The accompanying notes are an integral part of these consolidated financial statements.

**RYLAND OIL CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008  
(unaudited)

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**1. NATURE OF OPERATIONS, GOING CONCERN AND BASIS OF PRESENTATION**

The Company was incorporated under the laws of the Province of Ontario on April 25, 1975. The Company's business is the acquisition, exploration, development and production of oil and gas interests. To date, the Company has not earned significant revenues and it is presently considered to be in the exploration stage.

The Company is in the process of exploring and developing its oil and gas interests and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for oil and gas interests and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. In addition, the Company's projects may be subject to a number of risks, including changes in government relations related to oil and gas activities and economic instability.

**GOING CONCERN**

The Company's ability to continue as a going concern is dependant upon conducting successful exploration and the recovery of oil and gas and obtaining financing to fund its exploration efforts over the next year. Further to going concern matters described above, the Company has limited working capital. Management continues to explore sale of assets, debt financing and equity financing to continue its operations.

There can be no assurance the Company will be able to raise sufficient funds as and when such funds are required.

These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

These interim financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"). The unaudited interim financial statements do not include all of the information and disclosures required by GAAP for audited financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in the unaudited interim financial statements. The unaudited financial statements should be read in conjunction with the Company's audited financial statements, including notes thereto, for the year ended March 31, 2008.

**2. CHANGES IN ACCOUNTING POLICIES**

*Financial instruments*

AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

**Recent accounting pronouncements (cont'd...)**

*Financial instruments (cont'd...)*

The principles in this section complement the principles for recognizing, measuring the presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3865, *Financial Instruments – Presentation*, and Section 3865, *Hedges*. (Note 10)

AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation*, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. CHANGES IN ACCOUNTING POLICIES (cont'd...)**

*Financial instruments (cont'd...)*

It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. (Note 10)

*Capital disclosures*

AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. (Note 11)

*Assessing going concern*

AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

**Recent accounting pronouncements**

*International financial reporting standards ("IFRS")*

In 2006, the 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 for the Company will be April 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011. 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.

**3. OIL AND GAS INTERESTS**

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	Canada	USA	Total
Balance, March 31, 2008	\$ 42,577,734	\$ 2,212,446	\$ 44,790,180
Acquisition costs	8,404,526	3,630,218	12,034,744
Drilling and completion costs	<u>37,498,933</u>	<u>-</u>	<u>37,498,933</u>
Balance, December 31, 2008	<u>\$ 88,481,193</u>	<u>\$ 5,842,664</u>	<u>\$ 94,323,857</u>

**Canadian properties**

*Pebble properties*

During the year ended March 31, 2008, the Company purchased oil and natural gas interests in Western Canada through the acquisition 100% of Pebble Petroleum Inc. ("Pebble Petroleum") a company related by virtue of a common director.

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The properties are exploration properties with no production and with no proven reserves. A gross overriding royalty ("GORR") of 7% is payable on the Canadian properties, and will be reduced to 4% after production of 100,000 barrels of gross production on a well by well basis.

**3. OIL AND GAS INTERESTS (cont'd...)**

**Canadian properties (cont'd...)**

*Pebble properties (cont'd...)*

Consideration for the purchase consisted of 25,000,000 common shares to be issued on a performance basis within five years as to 5,000,000 common shares upon the oil and gas interests sustaining 30 consecutive days of average gross production of 1,000 barrels per day, and 5,000,000 common shares for each incremental average daily production of 1,000 barrels for 30 consecutive days, to a maximum issuance of 25,000,000 common shares. The Company paid \$882,000 as a finder's fee, \$52,000 of related interest and \$769,760 (US\$724,000) in prospector fees for test wells drilled pursuant to the agreement. Additionally, \$1,553,000 was paid as spud fees, and a further US\$500,000 may become payable, pursuant to the agreement.

The Company purchased oil and gas interests and related net assets through the acquisition of Pebble as follows:

Cash	\$ 666,287
Receivables	97,822
Oil and gas properties	19,035,681
Accounts payable and accrued liabilities	(2,028,096)
Accrued interest	(686,920)
Loan payable	(17,199,659)
Shareholder deficiency	<u>114,886</u>
	<u>\$ 1</u>

In addition to the asset acquisition, the Company purchased additional oil and gas interests from government authorities. The Company also acquired a 100% working interest in proven productive and exploratory properties from a third party and the vendors have retained a GORR of between 1% and 2%.

The Company acquired all of the shares of Viceroy Resources Ltd. during the quarter ended December 31, 2008 for cash consideration of \$2,000,000. Viceroy holds oil and gas assets in the same area as the Companies Canadian land holdings.

**USA properties**

*Tacquard, Texas*

During the year ended March 31, 2007, the Company acquired a 10% interest in the SueAnn Tacquard #1 Well in Galveston County, Texas for \$204,557 (\$172,214 US).

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**3. OIL AND GAS INTERESTS (cont'd...)**

**USA properties (cont'd...)**

*Rover properties*

During the year ended March 31, 2008, the Company purchased additional oil and natural gas interests in the United States through the acquisition 100% of Pebble Petroleum Inc. ("Pebble Petroleum") and its wholly owned U.S. subsidiary, Rover Resources Inc. ("Rover Resources"). The properties are exploration properties with no production and with no proven reserves. A GORR of 10% is payable on the US properties, and will be reduced to 8% after production of 100,000 barrels of gross production on a well be well basis. As part of the acquisition the Company acquired oil and gas interests valued at \$885,000.

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
<b>Authorized</b>			
Unlimited common shares without par value			
<b>Issued and outstanding</b>			
As at March 31, 2008	144,109,993	61,610,748	1,833,994
Exercise of warrants	17,819,913	26,729,869	-
Issued for cash net of issue costs	31,646,200	13,247,015	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>1,651,093</u>
As at December 31, 2008	<u>193,576,106</u>	<u>\$ 101,587,632</u>	<u>\$ 3,845,087</u>

**Shareholder Rights**

The Company adopted a shareholder rights plan, designed to ensure that all shareholders are treated fairly and equitably in the event of a takeover bid.

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**5. STOCK OPTION PLAN**

The Company has a stock option plan (the "Plan") whereby the Board of Directors may, at its discretion, grant options to purchase common shares to senior officers, directors and employees (including part time) of the Company or any of its subsidiaries and to persons or companies engaged to provide ongoing management or consulting services for the Company or any of its subsidiaries. The Board of Directors may make up to 10% of the issued common shares available under the Plan, which number can be increased to other specified amounts if authorization is given by disinterested shareholders of the Company. Options may be granted under the Plan exercisable over a period not exceeding five years. The price at which options are to be exercisable must not be lower than the market price at the date of grant. Vesting periods are determined by the Board of Directors.

As at December 31, 2008, the Company had outstanding stock options as follows:

Number of Options	Exercise Price	Expiry Date
2,950,000	\$ 0.20	November 23, 2011
3,858,334	0.85	February 28, 2012
825,000	1.54	June 26, 2012
60,000	1.54	July 18, 2012
300,000	1.54	March 3, 2013
700,000	1.54	April 10, 2013
800,000	1.62	May 20, 2013
500,000	2.05	July 3, 2013
500,000	1.68	July 9, 2013
<u>500,000</u>	1.77	July 17, 2013
10,993,334		

Stock option transactions were as follows:

	Number of Options	Weighted Average Exercise Price
Balance, March 31, 2007	6,925,000	\$ 0.52
Options granted	1,185,000	1.54
Options exercised	<u>(66,666)</u>	0.36
Balance, March 31, 2008	<u>8,043,334</u>	0.71
Options cancelled	(50,000)	0.85
Options granted	<u>3,000,000</u>	1.71
Balance, December 31, 2008	<u>10,993,334</u>	0.98
Outstanding and exercisable	4,503,334	\$ 0.47

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During the nine months ended December 31, 2008, the Company granted 3,000,000 (2007 – 825,000) stock options with a fair value of \$3,691,606 (2007 - \$922,250) and a weighted average fair value of \$1.71 (2007 - \$1.54) per option. All of the stock options, with the exception of the 2,950,000 exercisable at \$0.20 which are all vested, vest as to one third after each of the next three years. For the nine months ended December 31, 2008, the Company recorded \$1,651,093 (2007 - \$497,737) as stock-based compensation.

The following weighted-average assumptions were used for the valuation of stock options granted during the periods:

	2008	2007
Risk-free interest rate	3.04 %	3.89 %
Expected life of options	4.46 years	5 years
Annualized volatility	97.49 %	101%
Dividend rate	0.00%	0.00%

**Warrants**

As at December 31, 2008, the Company had no outstanding share purchase warrants.

Warrant transactions were as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2007	33,300,000	\$ 0.17
Issued	58,823,529	1.50
Exercised	<u>(35,139,068)</u>	0.26
Balance, March 31, 2008	56,984,461	\$ 1.50
Exercised	(17,819,913)	1.50
Expired	<u>(39,164,548)</u>	1.50
Balance, December 31, 2008	Nil	\$ 0.00

**RYLAND OIL CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**6. SUPPLEMENTAL DISCLOSURE WITH REPECT TO CASH FLOWS**

During the nine months ended December 31, 2008, the Company entered into the following non-cash transactions:

- a) accrued in accounts payable and accrued liabilities \$38,560 of oil and gas interest acquisition costs.

During the nine months ended December 31, 2007, the Company entered into the following non-cash transactions:

- a) issued 2,023,529 common shares in exchange for \$1,720,000 subscriptions received in advance;
- b) applied deferred financing costs of \$62,631 to share issue costs;
- c) issued 400,000 units at \$0.85 per unit, in exchange for debt reduction of \$340,000.

**7. RELATED PARTY TRANSACTIONS**

During the period ended December 31, 2008, the Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$90,000 (2007 - \$90,000) to companies controlled by an officer and a director.

Included in accounts payable is \$Nil (March 31, 2008 - \$56,221) owed to companies controlled by an officer and a director.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**8. SEGMENT INFORMATION**

The Company operates in Canada and the United States, in one business segment being the acquisition exploration, development and production of oil and gas interests. The Company's capital assets are located as follows:

Canada	\$106,777,725
United States	<u>6,604,165</u>
	<u>\$113,381,890</u>

**9. CONTINGENCIES**

- a) The Company has been made aware of a legal action commenced in the District Court, City and County of Denver Colorado, against the Company's wholly owned subsidiary, Pebble Petroleum Inc., and others. The Company and Pebble have not been served with a summons and complaint. The plaintiffs allege that the defendants conspired to misappropriate confidential property information concerning certain oil and gas prospects. The Company believes that the claim is without merit and if and when Pebble is served, the Company intends to defend the action.

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**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, receivables, loan receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. Marketable securities are adjusted to fair value at each reporting period.

**Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash equivalents and short-term investments. Management believes that the credit risk concentration with respect to financial instruments included in cash equivalents and short-term investments is remote.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at December 31, 2008, the Company had a cash and cash equivalents balance of \$16,344,353 (March 31, 2008 - \$13,636,732) to settle current liabilities of \$16,727,272 (March 31, 2008 - \$1,629,578). All of the Company's financial liabilities are subject to normal trade terms. Short term receivables were \$2,703,354 (March 31, 2008 - \$1,380,475).

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of December 31, 2008, the Company has \$15,173,000 in investment-grade short-term investments.

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of oil and gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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**11. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**12. SUBSEQUENT EVENTS**

Subsequent to December 31, 2008, the Company:

- a. amalgamated Viceroy Resources Ltd. and Pebble Resources Inc., the surviving entity being Pebble.
- b. entered into a farm-out agreement with Triaxon Resources respecting an additional 53¼ sections of Pebble's acreage adjacent to the Flat Lake Bakken oil field in southeast Saskatchewan. Under the new agreement, TriAxon is required to spud two test wells and pay 100% of the costs to drill, complete and equip or abandon the test wells to earn a 50% working interest in the Bakken formation underlying the test well sections. After drilling the initial test wells, Triaxon has the continuing option to drill additional earning wells at locations of its choice on the remaining farm-out lands to earn on the same basis as the test wells. If any wells are subsequently drilled on acreage in which TriAxon has earned its 50% working interest, each of Pebble and TriAxon will be responsible for payment of 50% of the costs of such wells and hold a 50% working interest, subject to the provisions of the operating agreement between the parties.