

**PETROMIN RESOURCES LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

## AUDITORS' REPORT

To the Shareholders of  
Petromin Resources Ltd.

We have audited the consolidated balance sheets of Petromin Resources Ltd. as at September 30, 2008 and 2007 and the consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

January 14, 2009



**PETROMIN RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30**

	2008	2007
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,266,143	\$ 426,122
Receivables	703,183	298,669
Prepaid expenses	<u>7,241</u>	<u>4,500</u>
	1,976,567	729,291
<b>Long-term investment (Note 4)</b>	491,137	-
<b>Equipment (Note 3)</b>	57,353	27,339
<b>Oil and gas properties (Note 5)</b>	<u>1,215,935</u>	<u>1,039,968</u>
	<u>\$ 3,740,992</u>	<u>\$ 1,796,598</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 860,486	\$ 431,868
Due to related parties (Note 9)	305,492	331,733
Loans payable (Note 7)	<u>-</u>	<u>30,000</u>
	1,165,978	793,601
<b>Asset retirement obligation (Note 6)</b>	<u>62,312</u>	<u>31,976</u>
	1,228,290	825,577
<b>Shareholders' equity</b>		
Capital stock (Note 8)	17,748,045	15,589,673
Contributed surplus	1,667,490	1,693,470
Subscriptions received in advance	-	30,000
Deficit	<u>(16,902,833)</u>	<u>(16,342,122)</u>
	<u>2,512,702</u>	<u>971,021</u>
	<u>\$ 3,740,992</u>	<u>\$ 1,796,598</u>

**Nature and continuance of operations (Note 1)**

**Commitments (Note 15)**

**Subsequent events (Note 16)**

**On behalf of the Board:**

\_\_\_\_\_  
 "A. Ross Gorrell"

Director

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 "Kenny Chan"

Director

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

**PETROMIN RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED SEPTEMBER 30**

	2008	2007
<b>REVENUE</b>		
Oil and gas revenue	\$ 3,120,008	\$ 1,940,369
<b>DIRECT COSTS</b>		
Production costs and royalties	<u>1,459,046</u>	<u>1,270,534</u>
	<u>1,660,962</u>	<u>669,835</u>
<b>EXPENSES</b>		
Accretion of asset retirement obligation	1,915	1,305
Consulting	683,006	490,229
Depletion and amortization	349,433	430,149
Listings and transfer agent fees	27,734	22,563
Management fees	64,500	78,000
Office and miscellaneous	111,017	106,388
Professional fees	144,739	20,361
Property investigation fees	136,771	388,000
Rent	109,623	17,758
Stock-based compensation	-	163,478
Travel and promotion	504,647	480,664
Wages and benefits	<u>79,798</u>	<u>-</u>
	<u>2,213,183</u>	<u>2,198,895</u>
<b>Loss before other items</b>	<u>(552,221)</u>	<u>(1,529,060)</u>
<b>OTHER ITEMS</b>		
Investment loss (Note 4)	(119,363)	-
Interest income	28,803	9,493
Other income (Note 9)	86,394	18,050
Foreign exchange gain (loss)	<u>(4,324)</u>	<u>579</u>
	<u>(8,490)</u>	<u>28,122</u>
<b>Loss before income tax recovery</b>	(560,711)	(1,500,938)
<b>Future income tax recovery (Note 10)</b>	-	65,100
<b>Loss for the year</b>	<u>\$ (560,711)</u>	<u>\$ (1,435,838)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>
<b>Weighted average number of common shares outstanding</b>	<u>57,750,631</u>	<u>50,270,176</u>

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

**PETROMIN RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (560,711)	\$ (1,435,838)
Items not involving cash:		
Accretion of asset retirement obligation	1,915	1,305
Depletion and amortization	349,433	430,149
Stock-based compensation	-	163,478
Investment loss	119,363	-
Future income tax recovery	-	(65,100)
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(404,514)	54,217
Increase in prepaid expenses	(2,741)	(4,500)
Increase (decrease) in accounts payable and accrued liabilities	597,181	(150,055)
Increase (decrease) in due to related parties	<u>(26,241)</u>	<u>247,022</u>
Net cash provided by (used in) operating activities	<u>73,685</u>	<u>(759,322)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in oil and gas properties	(651,664)	(206,169)
Acquisition of equipment	(43,892)	(3,766)
Long-term investment	<u>(610,500)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,306,056)</u>	<u>(209,935)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock for cash	2,102,392	841,750
Subscriptions received in advance	-	30,000
Repayment on loans payable	<u>(30,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>2,072,392</u>	<u>871,750</u>
<b>Change in cash during the year</b>	840,021	(97,507)
<b>Cash, beginning of year</b>	<u>426,122</u>	<u>523,629</u>
<b>Cash, end of year</b>	<u>\$ 1,266,143</u>	<u>\$ 426,122</u>

**Supplemental disclosure with respect to cash flows (Note12)**

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

**PETROMIN RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**YEARS ENDED SEPTEMBER 30**

	Common Stock		Subscriptions Received in Advance	Contributed Surplus	Deficit	Total
	Number	Amount				
<b>Balance, September 30, 2006</b>	49,822,374	\$ 14,813,023	\$ -	\$ 1,529,992	\$ (14,906,284)	\$ 1,436,731
Private placement	2,405,000	841,750	-	-	-	841,750
Subscriptions received in advance	-	-	30,000	-	-	30,000
Stock-based compensation	-	-	-	163,478	-	163,478
Tax benefit renounced to flow-through share subscribers	-	(65,100)	-	-	-	(65,100)
Loss for the year	-	-	-	-	(1,435,838)	(1,435,838)
<b>Balance, September 30, 2007</b>	52,227,374	15,589,673	30,000	1,693,470	(16,342,122)	971,021
Private placement	5,867,000	2,229,460	-	-	-	2,229,460
Share issue cost	-	(127,068)	-	-	-	(127,068)
Options exercised	200,000	30,000	(30,000)	-	-	-
Allocation of contributed surplus to share capital on options exercised	-	25,980	-	(25,980)	-	-
Loss for the year	-	-	-	-	560,711	(560,711)
<b>Balance, September 30, 2008</b>	58,294,374	\$ 17,748,045	\$ -	\$ 1,667,490	\$ (16,902,833)	\$ 2,512,702

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

**PETROMIN RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is incorporated under the laws of British Columbia and its principal business activities include the acquisition and development of oil and gas properties.

The Company is in the process of exploring and developing its oil and gas properties. The recoverability of the amounts shown for oil and gas properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

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	2008	2007
Working capital (deficiency)	\$ 810,589	\$ (64,310)
Deficit	(16,902,833)	(16,342,122)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

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

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, International King Jack Hydrocarbons Inc. and Far East Oil & Gas Ltd. All significant inter-company balances and transactions have been eliminated upon consolidation.

**Receivables**

Receivables are recorded at face value less any provisions for uncollectible accounts considered necessary.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Oil and gas properties**

The Company follows the full cost method of accounting for its oil and gas operations, whereby all costs of exploring for and developing oil and gas reserves are capitalized in cost centres on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, cost of production and gathering equipment and administrative charges directly related to acquisition, exploration and development activities. Proceeds from the disposal of oil and natural gas properties are applied against capitalized costs. Gains or losses are not recognized on disposals unless crediting the proceeds against capitalized costs would materially alter the rate of depletion.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized. However, for income tax purposes, the Company has no right to these expenses nor the related depletion allowance. The amounts shown for oil and gas properties represent costs to date and are not intended to reflect present or future values.

*Depletion*

The capitalized costs together with estimated future capital costs associated with the development of proven reserves are depleted and amortized using the unit-of-production method based on proven oil and natural gas reserves, before royalties, determined by the Company and independent engineers. For purposes of the depletion and amortization calculations, oil and natural gas reserves are converted to a common unit of measure based upon their relative energy content.

*Ceiling test*

In applying the full cost method, the Company performs a ceiling test which restricts capitalized costs less accumulated depletion and amortization from exceeding the estimated undiscounted value of future net revenues from proved oil and natural gas reserves less estimated future removal and site restoration costs, general and administrative expenses, financing costs and income taxes. In calculating the ceiling test, the year end prices of oil and natural gas are used and all costs are assumed to be constant.

The Company periodically reviews the cost associated with undeveloped properties to determine whether the costs will be recoverable. If the results of the review indicate impairment has occurred, the cost of the property or the amount of the impairment is added to the full cost pool.

*Asset retirement obligations*

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the cost of the related long-lived asset.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment of long-lived assets**

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

**Long-term investment**

The Company accounts for its long-term investment over which it has significant influence on the equity basis of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received. The investment is written down when there is clear evidence that a decline in value that is other than temporary has occurred.

**Revenue recognition**

Revenue from the sale of oil and gas products is recognized upon the passage of title and when ultimate collection is reasonably assured.

**Foreign currency translation**

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses arising on translation are included in the statement of operations.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is being provided for annually using the declining balance method of amortization at the following rates:

Computer equipment	30%
Office equipment	20%
Leasehold improvements	20%

**Stock-based compensation**

The Company uses the fair value-based method of accounting for all awards of stock options and direct awards of stock.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**Financial instruments**

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of these new standards, the Company has classified its cash as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities, due to related parties and loans payable are classified as other financial liabilities, all of which are measured at amortized cost.

## **2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

### **New accounting policies**

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on October 1, 2007.

#### *Financial instruments*

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 13 to these consolidated financial statements.

#### *Capital disclosures*

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 14 to these consolidated financial statements.

### **Recent accounting pronouncements**

#### *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. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently assessing the impact of this new accounting pronouncement on its financial statements.

#### *Goodwill and intangible assets*

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets.

Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

**PETROMIN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

*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 October 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 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. EQUIPMENT**

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 60,451	\$ 46,608	\$ 13,843	\$ 57,724	\$ 40,675	\$ 17,049
Office equipment	18,738	7,460	11,278	15,354	5,064	10,290
Leasehold improvements	<u>37,781</u>	<u>5,549</u>	<u>32,232</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 116,970</u>	<u>\$ 59,617</u>	<u>\$ 57,353</u>	<u>\$ 73,078</u>	<u>\$ 45,739</u>	<u>\$ 27,339</u>

**4. LONG-TERM INVESTMENT**

On November 6, 2007, the Company subscribed to 40,000,000 units of a private placement in Terrawest Energy Corp. (“Terrawest”) at a price of \$0.015 per unit, each unit consisting of one common share and one common share purchase warrant, with each full warrant exercisable into one additional common share of Terrawest for a period of two years at a price of \$0.03 per share. On December 28, 2007, the Company purchased 700,000 preferred shares at a price of \$0.015 per share from preferred shareholders of Terrawest. Terrawest is a Canadian privately owned coalbed methane development company. As a result of the private placement and the purchase, the Company acquired a 24.85% ownership interest in the capital of Terrawest.

The investment in Terrawest has been accounted for using the equity method of accounting. The Company recognized an investment loss of \$119,363 in Terrawest for the period from November 6, 2007 to September 30, 2008.

**PETROMIN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**5. OIL AND GAS PROPERTIES**

	2008			2007		
	Canada	U.S.A.	Total	Canada	U.S.A.	Total
Balance, beginning of year	\$ 1,039,967	\$ 1	\$ 1,039,968	\$ 1,312,161	\$ 1	\$ 1,312,162
Deferred exploration and development costs	483,101	-	483,101	136,945	-	136,945
Asset retirement obligation	28,421	-	28,421	13,261	-	13,261
Depletion during the year	(335,555)	-	(335,555)	(422,400)	-	(422,400)
Balance, end of year	\$ 1,215,934	\$ 1	\$ 1,215,935	\$ 1,039,967	\$ 1	\$ 1,039,968

**Canadian properties**

**Frog Lake Prospect, Alberta**

The Company earned a 100% interest in petroleum and natural gas rights located in the Frog Lake First Nations area of Central Alberta by making cash payments totaling \$408,000 and incurring exploration costs of \$100,000. The property is subject to crown royalties, as well as to a 3% gross overriding royalty.

During the year ended September 30, 2001, the Company assigned a 40% interest in its Frog Lake Prospect to Frog Lake Energy Resource Corp. ("FLERC"), a private company wholly-owned by the Frog Lake First Nation. The Company is also required to pay FLERC a 1% gross overriding royalty.

During the year ended September 30, 2004, the Company entered into a farm out agreement with 1079206 Alberta Ltd. ("Alberta"), whereby Alberta will earn 25% of the Company's interest in the farm out lands by paying the Company's share of drilling costs and completion costs of a second test well. The Company recovered \$200,000 during the year ended September 30, 2004 and Alberta earned its 25% interest.

During the year ended September 30, 2006, the Company entered into an agreement with a private Alberta company, Presto Energy Corp. ("Presto Energy"), whereby Presto Energy pays 40% of the drilling cost to earn a 20% working interest before payout, convertible to a 10% working interest after payout, in a third well drilled at Frog Lake.

**5. OIL AND GAS PROPERTIES (cont'd...)**

**Redwater North Prospect, Alberta**

The Company acquired a 100% working interest in a petroleum and natural gas lease located in the Redwater area of Alberta by paying acquisition costs of \$41,969. The property is subject to a 2% gross overriding royalty on the Company's share of value of production from the lands.

During the year ended September 30, 2004, the Company has farmed out its interest and the farmee has agreed to drill a number of wells to earn a working interest of 50% subject to overriding royalties payable to the Company.

Six wells have been completed before fiscal year 2008. For two of the six wells, the Company retains a gross overriding royalty with the option to convert to a 50% working interest in one well and a 25% working interest in the other well after payout. For the four additional wells, the Company retains various working interests ranging from approximately 12.5% to 25%.

In fiscal year 2008, three more wells were completed. For one of the three wells, the Company retains a 25% working interest and a gross overriding royalty reserved to the Company, convertible to a 12.5% working interest after payout. The other two wells were farmed out. The company retains an 11% gross overriding royalty.

**Calmar Prospect, Alberta**

The Company entered into a farm-out agreement in which the Company retains 20% of wellhead revenues on the earning well plus a 15% royalty on 80% of wellhead revenue until payout, converting to a 52% working interest after payout. The Company does not have a plan to further develop the property. Related capitalized costs are considered as impaired.

**Morningside Prospect, Alberta**

The Company has entered into farm-out agreements in which the Company retains overriding royalties ranging from 2% to 15% depending on the substance. The Company has the right to convert certain of the agreements into working interests after payout.

The Company is also the general partner of Petromin Morningside Limited Partnership ("the Partnership"). The Partnership owns a 32.222% interest in the Morningside prospect. The Partnership only receives royalty income, being 32.222% of 15% royalties.

**Gilby Prospect, Alberta**

The Company acquired a 66.67% interest in a full section spacing unit, of which the Company sold a 50% interest during the year ended September 30, 2003. During the year ended September 30, 2004, the Company farmed out its interest in the property retaining a 16.667% working interest and a gross overriding royalty of 15%. The well reached payout and the company converted its' overriding royalty to a 16.667% working interest in fiscal 2006. In fiscal 2008, a new well was completed in the property, in which the Company retains a 16.667% working interest.

**PETROMIN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**5. OIL AND GAS PROPERTIES (cont'd...)**

**Ceiling test**

During the year ended September 30, 2008, capitalized costs of \$333,697 (2007: \$Nil) are considered as impaired and included in depletion. The full cost ceiling test results as of September 30, 2008 resulted in no impairment of evaluated oil and gas properties. The future prices used in the September 30, 2008 ceiling test are as follows:

	Oil (Cdn\$/Bbl)	Gas (Cdn\$/MMcf)
2008	\$ 68.00	\$ 7.75
2009	70.00	8.00
2010	74.00	8.25
2011	78.00	8.50
2012	82.00	8.75

Prices received by the Company for oil and gas products may differ from the ones listed above because of purchase price variations, market conditions, quality differentials or marketing arrangements.

**6. ASSET RETIREMENT OBLIGATION**

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

As at September 30	2008	2007
Asset retirement obligation, beginning of year	\$ 31,976	\$ 17,410
Asset retirement obligation capitalized	28,421	13,261
Accretion expense	<u>1,915</u>	<u>1,305</u>
Asset retirement obligation, end of year	\$ 62,312	\$ 31,976

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$88,892 (2007 - \$56,410). The obligation was calculated using a credit-adjusted risk free discount rate of 10% (2007: 10%) and an inflation rate of 2.5% (2007: 2%). It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2009 and 2017.

**PETROMIN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. LOANS PAYABLE**

	2008	2007
Loans payable, bearing interest at 11% per annum, repayable October 10, 2007	\$ -	\$ 30,000

**8. CAPITAL STOCK**

During the year ended September 30, 2007, the Company issued 2,405,000 common shares at a price of \$0.35 per share for gross proceeds of \$841,750 pursuant to a private placement.

During the year ended September 30, 2008, the Company issued 5,867,000 common shares in the capital of the Company at a price of 0.38 per share for gross proceeds of \$2,229,460. Share issue costs of \$127,068 were incurred in relation to the private placement.

During the year ended September 30, 2008, the Company issued 200,000 common shares for proceeds of \$30,000 on the exercise of stock options (\$25,980, representing the fair market value of the stock options exercised, was allocated from contributed surplus to capital stock).

**Stock options**

The Company has a rolling stock option plan in place under which it is authorized to grant options up to 10% of the issued and outstanding common stock of the Company to executive officers and directors, employees and consultants. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant. The options can be granted for a maximum term of 5 years. The options vest immediately on the date of the grant or otherwise at the discretion of the Board. The plan must be approved each year at the annual general meeting of the shareholders.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, September 30, 2006	4,573,310	\$	0.24
Options granted	542,867		0.28
Options cancelled/expired	<u>(150,000)</u>		0.20
Balance, September 30, 2007	4,966,177		0.25
Options cancelled	(1,150,000)		0.30
Options exercised	<u>(200,000)</u>		0.15
Balance, September 30, 2008	3,616,177	\$	0.24
Number of options exercisable	3,616,177	\$	0.24

**PETROMIN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**8. CAPITAL STOCK (cont'd...)**

**Stock options (cont'd...)**

The following incentive stock options were outstanding and exercisable at September 30, 2008:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	200,000	0.15	September 30, 2009
	1,086,310	0.15	October 28, 2010
	355,000	0.20	March 24, 2011
	117,000	0.25	April 10, 2011
	900,000	0.30	April 18, 2011
	565,000	0.33	June 27, 2011
	250,000	0.26	October 2, 2011
	142,867	0.35	April 23, 2012

**Warrants**

The Company had no warrant transactions during the years ended September 30, 2008 and 2007.

**Stock-based compensation**

During the year ended September 30, 2008, the Company granted nil (2007 – 542,867) stock options. Stock-based compensation expense using the Black-Scholes option pricing model was \$Nil (2007 - \$163,478), which was also recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted was \$Nil (2007 - \$0.30) per option.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the years ended September 30:

	2008	2007
Risk-free interest rate	-	3.95%
Expected life of options	-	5 years
Annualized volatility	-	220%
Dividend rate	-	0.00%

**PETROMIN RESOURCES LTD.**  
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**9. RELATED PARTY TRANSACTIONS**

These financial statements include transactions with related parties as follows:

- a) Paid or accrued \$64,500 (2007 - \$78,000) in management fees to a director.
- b) Paid or accrued \$25,500 (2007 - \$Nil) in salaries to a director.
- c) Paid or accrued \$23,200 (2007 - \$Nil) in rent to a company controlled by a former director.
- d) Paid or accrued \$501,256 (2007 - \$363,011) in consulting fees to an officer, a company controlled by a former director and companies controlled by a director.
- e) Paid \$2,475 (2007 - \$4,125) in interest on loans payable to directors and officers.
- f) Repaid loans payable of \$30,000 (2007 - \$Nil) to directors and officers.
- g) Received or accrued \$86,394 in management fees from Terrawest Energy Corp. (Note 4).

The amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

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.

**10. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

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	2008	2007
Loss before income taxes	\$ (560,711)	\$ (1,500,938)
Income tax recovery at statutory rates	\$ 178,895	\$ 512,120
Non-deductible expenses	(173,850)	(547,446)
Recognized (unrecognized) benefit of non-capital loss carry-forwards	(5,045)	100,426
Income tax recovery	\$ -	\$ 65,100

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**PETROMIN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**10. INCOME TAXES (cont'd...)**

	2008	2007
Future income tax assets:		
Non-capital loss carryforwards	\$ 1,255,000	\$ 1,500,896
Financing costs	33,000	-
Cumulative exploration and development expenses	<u>1,963,000</u>	<u>2,638,057</u>
	3,251,000	4,138,953
Valuation allowance	<u>(3,251,000)</u>	<u>(4,138,953)</u>
	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$4,821,000. These losses, if not utilized, will expire through 2028. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have been offset by a valuation allowance and have not been recognized in these financial statements due to the uncertainty of their realizability.

**11. SEGMENTED INFORMATION**

As of September 30, 2008 and 2007, all of the Company's assets and operations are located in Canada, in the oil and gas industry.

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2008	2007
Cash paid during the year for interest	\$ 5,343	\$ 9,900
Cash paid during the year for income taxes	\$ -	\$ -

The significant non-cash transactions for the year ended September 30, 2008 includes allocation of \$25,980 for stock options exercised during the year to capital stock from contributed surplus.

The significant non-cash transactions for the year ended September 30, 2007 includes accounts payable of \$168,563 relating to oil and gas property expenditures.

### **13. FINANCIAL INSTRUMENTS**

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. Management, the Board of Directors and the Audit Committee monitor risk management activities and review the adequacy of such activities.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the balance sheet and arises from the Company's cash and accounts receivable.

The Company's cash is held through Canadian chartered banks, which are high-credit quality financial institutions. The Company's accounts receivable are primarily from customers operating in the petroleum and natural gas industry within Canada. The Company does not expect these customers to fail to meet their obligations.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations, and anticipating investing and financing activities. As at September 30, 2008, the Company had current assets of \$1,976,567 to settle current liabilities of \$1,165,978, which have contractual maturities of less than 30 days and are subject to normal trade terms.

#### *Market risk*

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

##### i) 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 certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks.

##### ii) Foreign exchange rate risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Asia by using the US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

##### iii) Commodity price risk

The Company's financial performance is closely linked to oil and natural gas prices. At September 30, 2008, the Company had not entered into any financial instrument contracts to reduce its exposure to fluctuations in either commodity prices.

**13. FINANCIAL INSTRUMENTS (cont'd...)**

*Sensitivity analysis*

The carrying value of cash, receivables, accounts payable and accrued liabilities, and due to related parties approximate their fair values due to the relatively short periods to maturities of these financial instruments.

Based on management's knowledge of and experience in the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk, liquidity risk or market risk.

**14. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard its assets while at the same time maintain investor, creditor and market confidence and to sustain future development of the business.

The oil and gas properties in which the Company currently has an interest have just begun commercial operation and are in ramp up phase and are currently incurring losses; as such the Company is dependent on external financing to fund its activities. In order to carry out current operations and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. 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.

The Company and its subsidiaries are not subject to externally imposed capital requirements.

**15. COMMITMENTS**

The Company entered into a lease agreement for its office premises commencing October 1, 2007 and ending September 30, 2012. Future lease payments are as follows:

2009	\$ 53,248
2010	\$ 53,248
2011	\$ 53,248
2012	\$ 53,248

**16. SUBSEQUENT EVENT**

On October 27, 2008 the Company granted 200,000 stock options to members of its International Advisory Board at the price of \$0.12 per share.