

**PETROWORTH**  
*Driven to Discover*

**Audited Annual Financial Statements**

**For the Years  
Ended December 31, 2008 and 2007**

**PetroWorth Resources Inc.**  
**Annual Financial Statements**  
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McGovern, Hurley, Cunningham, LLP  
Chartered Accountants

**AUDITORS' REPORT**

To the Shareholders of  
**PetroWorth Resources Inc.**

We have audited the balance sheet of PetroWorth Resources Inc. as at December 31, 2008 and the statements of operations, comprehensive (loss) and deficit and cash flows for the year 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the year ended December 31, 2007 were audited by another firm of Chartered Accountants who expressed an opinion without reservation in their report dated April 11, 2008.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

*McGovern, Hurley, Cunningham, LLP*

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
April 14, 2009, except for Note 13,  
which is as at April 16, 2009

**PetroWorth Resources Inc.**  
**Balance Sheets**  
**As at December 31,**

	2008	2007
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 3,907,468	\$ 9,585,580
Investments	186,686	-
Sales tax receivable	690,309	494,405
Prepaid expenses and sundry assets (Note 12)	<u>609,932</u>	<u>713,601</u>
	5,394,395	10,793,586
Equipment (Note 7)	81,412	44,983
Natural gas exploration (Note 8)	<u>23,337,474</u>	<u>12,861,648</u>
	<u>\$ 28,813,281</u>	<u>\$ 23,700,217</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 11(c))	\$ 766,916	\$ 1,150,980
Future income taxes (Note 6(b))	<u>-</u>	<u>220,000</u>
	<u>\$ 766,916</u>	<u>1,370,980</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9(a))	\$ 34,196,515	\$ 26,725,207
Contributed surplus (Note 9(d))	5,665,737	5,164,120
(Deficit)	<u>(11,815,887)</u>	<u>(9,560,090)</u>
	<u>\$ 28,046,365</u>	<u>\$ 22,329,237</u>
	<u>\$ 28,813,281</u>	<u>\$ 23,700,217</u>

**Nature of operations and going concern** (Note 1)  
**Commitments and contingencies** (Notes 8 and 12)

Approved by the Board

Director Signed: "Neal Mednick"

Director Signed: "Amy Stephenson"

**PetroWorth Resources Inc.**  
**Statements of Operations, Comprehensive (loss) and Deficit**  
**For the Years Ended December 31,**

	2008	2007
<b>Operating Revenues</b>		
Revenues	\$ 209,143	\$ 104,491
Royalty expense	(47,340)	(20,342)
Production expense	(157,492)	(38,680)
	<u>4,311</u>	<u>45,469</u>
<b>Expenses</b>		
Professional fees	286,596	220,011
General and administrative	388,451	305,880
Travel and promotion	251,889	231,926
Consulting fees (Note 11(b))	203,342	726,958
Salaries and benefits (Note 11(a))	1,162,376	1,065,816
Stock-based compensation (Note 9(c))	643,947	5,064,488
Impairment of oil and gas properties (Note 8)	339,214	868,383
Depletion & depreciation	206,698	183,930
	<u>3,482,513</u>	<u>8,667,392</u>
<b>(Loss) before the following items</b>	(3,478,202)	(8,621,923)
Interest income on investments held-for-trading	269,810	232,500
Unrealized gain on investments held-for-trading	13,660	-
	<u>(3,194,732)</u>	<u>(8,389,423)</u>
<b>(Loss) before income taxes</b>	(3,194,732)	(8,389,423)
Future income tax recovery (Note 6(a))	938,935	1,042,000
	<u>(2,255,797)</u>	<u>(7,347,423)</u>
<b>Net (loss) and comprehensive (loss) for the year</b>	\$ (2,255,797)	\$ (7,347,423)
(Deficit), beginning of year	\$ (9,560,090)	\$ (2,212,667)
<b>(Deficit), end of year</b>	<u>\$ (11,815,887)</u>	<u>\$ (9,560,090)</u>
<b>Net (loss) per share: basic and diluted</b>	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>
Weighted average number of shares: basic and diluted	<u>39,882,284</u>	<u>32,927,204</u>

**PetroWorth Resources Inc.**  
**Statements of Cash Flows**  
**For the Year Ended December 31,**

	2008	2007
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net (loss)	\$ (2,255,797)	\$ (7,347,423)
Adjustments for items not affecting cash		
Depletion, depreciation and accretion	206,699	183,930
Shares issued for services	105,000	798,875
Options exercised for services	-	72,800
Unrealized gain on investment held for trading	(13,660)	-
Impairment of oil and gas properties	339,214	868,383
Stock-based compensation (Note 9(c))	643,947	5,064,488
Future income tax recovery	(938,935)	(1,042,000)
	<u>(1,913,532)</u>	<u>(1,400,947)</u>
Changes in non-cash components of working capital		
Sales tax receivable	(195,904)	(329,164)
Prepaid expenses and sundry assets	103,669	(506,489)
Accounts payable and accrued liabilities	(42,243)	(60,457)
	<u>\$ (2,048,010)</u>	<u>\$ (2,297,057)</u>
<b>Investment activities</b>		
Natural gas exploration	\$ (11,003,867)	\$ (5,285,268)
Change in exploration accounts payable	(341,823)	470,802
Purchase of investments	(173,026)	-
Purchase of equipment	(54,300)	(4,608)
	<u>\$ (11,573,016)</u>	<u>\$ (4,819,074)</u>
<b>Financing activities</b>		
Issuance of common shares, net of share issue costs	\$ 9,412,131	\$ 12,317,055
Common shares repurchased	(1,500,217)	-
Exercise of warrants	-	3,749,066
Exercise of options	31,000	347,700
	<u>\$ 7,942,914</u>	<u>\$ 16,413,821</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>\$ (5,678,112)</b>	<b>\$ 9,297,690</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>\$ 9,585,580</b>	<b>\$ 287,890</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,907,468</b>	<b>\$ 9,585,580</b>
<b>Supplementary information:</b>		
Warrants issued for share issue costs	<u>\$ 251,673</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**1. Nature of operations and going concern**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on the basis that PetroWorth Resources Inc. ("PetroWorth" or the "Company") is a going concern and will realize assets and discharge liabilities in the normal course of operations for the foreseeable future. Presently the Company has minimal production and limited cash flows from operating activities. The Company currently relies on equity financing to pay for exploration activities, satisfy various commitments disclosed in Notes 8 and 12 and pay for overhead expenses. Therefore, the Company's ability to continue operations is dependant on identifying commercial oil and gas reserves, generating profitable operations and raising sufficient capital to complete planned exploration and development activities. The outcome of these matters cannot be predicted at this time.

These financial statements have been prepared in accordance with GAAP, within the reasonable limits of materiality and the framework of significant accounting policies described below.

**2. Significant accounting policies**

(a) Cash and equivalents

The Company defines cash and cash equivalents as cash and short-term investments with maturity dates of less than ninety days. The Company invests cash in term deposits maintained in high credit quality institutions. As at December 31, 2008, the cash and cash equivalents balance was comprised of \$12,558 and \$3,894,910 respectively (2007 - cash: (\$114,420) cash equivalents: \$9,700,000).

(b) Investments

Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing prices at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date. The Company's investments consist of shares of a publicly listed corporation and have been classified as held-for-trading.

(c) Natural Gas Properties

The Company accounts for crude oil and natural gas properties in accordance with the Canadian Institute of Chartered Accountants ("CICA") accounting guideline 16 on full cost accounting in the oil and gas industry. Under this method, all costs associated with the acquisition of, exploration for and the development of, natural gas and crude oil reserves, including asset retirement costs, are capitalized within a separate cost centre for each country in which the Company has oil and gas activities. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. All costs have been capitalized in a single Canadian cost centre. Capitalized costs are assessed at the end of each reporting period to determine if there has been an impairment. Any costs considered impaired are written-off and a corresponding loss is recognized in operations.

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**2. Significant accounting policies (Continued)**

Depletion and Depreciation

When a property is no longer in the exploration stage, costs accumulated within the property are depreciated, depleted and amortized using the unit-of-production method based on estimated gross proved reserves as determined by independent engineers. For purposes of this calculation, gas is converted to oil on an energy equivalent basis. Capitalized costs subject to depletion are net of equipment salvage values and include estimated future costs to be incurred in developing proved reserves. Proceeds from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss unless that deduction would result in a change to the rate of depreciation, depletion and amortization of 20 percent or greater in which case a gain or loss is recorded. Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or impairment has occurred.

Ceiling Test

Under the full cost method of accounting, a limit is placed on the carrying amount of natural gas properties. A "ceiling test" is performed to recognize and measure impairment, if any. An impairment loss is recognized in operations when the carrying amount of natural gas properties is not recoverable and exceeds its fair value. The carrying amount of a property is not recoverable if it exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of: (a) the fair value of proved and probable reserves; and (b) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

(d) Asset retirement obligations

Asset retirement obligations include the costs related to the abandonment of oil and gas properties, dismantling and removing tangible equipment and returning the land to its original condition. The Company recognizes an asset retirement obligation ("ARO") in the period in which it is identified and a reasonable estimate of the fair value can be made. Fair value is estimated based on the present value of the estimated future cash outflow to abandon the asset, discounted at the Company's credit-adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding amount capitalized to mineral properties. The amount capitalized is charged to earnings through the depletion and depreciation of oil and gas properties. The ARO liability is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings. Revisions to the original estimated cost or the timing of the cash outflows may result in a change to the ARO. Actual costs incurred to settle the ARO reduce the long-term liability. Management is not aware of any significant asset retirement obligations.

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**2. Significant accounting policies (Continued)**

(e) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to natural gas reserves, the recoverability of expenditures and valuation of natural gas property (ceiling test) and equipment, asset retirement obligations, valuation of stock-based compensation, valuation of income tax accounts and valuation of contingencies. Actual results could differ from those reported. Management believes that the estimates are reasonable.

(f) Future income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future income tax assets and liabilities are recognized for estimated tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future tax liabilities and assets is recognized in operations in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

(g) Equipment

Equipment is recorded at cost. Amortization is calculated using the diminishing balance method over the useful life of the assets at the following annual rate:

Office furniture	20%
Computer hardware	30%

Leasehold improvements are recorded at cost. Amortization is calculated using the straight-line method over the term of the lease.

(h) Stock-based compensation

The Company has a stock option plan that allows employees, directors and consultants to be granted options to purchase common shares at a fixed price. The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, which requires a fair value based method of accounting be applied to all stock-based compensation arrangements. The fair value of each option is accounted for in operations, over the vesting period of the options, and the related credit is included in contributed surplus. See Note 9(c). The fair value of the options is estimated using the Black-Scholes option pricing model.

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**2. Significant accounting policies (Continued)**

Consideration paid upon the exercise of the stock options, together with corresponding amounts previously recognized in contributed surplus, are recorded as an increase to share capital. In the event that vested options expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

(i) Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to natural gas exploration.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

(j) Comprehensive (loss)

Comprehensive (loss), composed of net (loss) and other comprehensive (loss) is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive (loss) ("OCL") includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive (loss) are disclosed in the statement of operations and comprehensive (loss). Cumulative changes in OCL are included in accumulated other comprehensive Loss ("AOCL") which is presented as a new category in shareholders' equity. The Company does not currently have any OCL items or AOCL. Therefore, comprehensive loss is equal to net loss for the years ended December 31, 2008 and 2007.

(k) (Loss) per share

Basic (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted (loss) per share is calculated using the treasury stock method. In order to determine diluted (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted (loss) per share calculation. The diluted (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from options and warrants excluded from the computation of diluted loss per share because they were anti-dilutive for the year ended December 31, 2008 were 4,364,074 (2007 – 3,814,074) and 1,548,355 (2007 – 1,250,000), respectively.

(l) Revenue recognition

Revenue from oil and natural gas sales are recognized when persuasive evidence of a sale arrangement exists, the risks and rewards of ownership passes to the purchaser including delivery of the product, the selling price is fixed or determinable, and collectability is reasonably assured.

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**2. Significant accounting policies (Continued)**

(m) Project operating expenses

Operating costs include amounts incurred on extraction of production to surface, gathering, field processing, treating, field storage, transportation and taxes.

(n) Financial Instruments

Financial assets and liabilities including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in operations for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive (loss) until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in operations for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair values are recognized in other comprehensive (loss).

(o) Comparative figures

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

**3. Accounting Changes**

(a) Changes in accounting policies

The following accounting policy changes were adopted effective January 1, 2008:

(i) Capital Disclosures

CICA Handbook Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) summary quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied with such requirements, the consequences of such non-compliance. The Company has included disclosures recommended by the new handbook section in Note 10 to these financial statements.

(ii) Financial Instruments - Disclosures

CICA Handbook Section 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", increased emphasis on disclosures that enable the user to evaluate: (i) the significance of financial instruments or the entity's financial position and performance and (ii) the nature and extent of risks arising from financial instruments the entity is exposed to during the period and at the balance sheet date, and how the entity manages those risks. The Company has included disclosures recommended by the new handbook section in Note 4 to these financial statements.

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**3. Accounting Changes (Continued)**

(iii) Financial Statement Presentation

CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. The Company has included disclosures recommended by the new handbook section in Note 1 to these financial statements.

(b) Future Accounting Changes

(i) Goodwill and Intangible Assets

CICA Handbook Section 3064 "Goodwill and Intangible Assets" will replace the existing Goodwill and Intangible Asset standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. This standard is effective for years beginning on or after January 1, 2009. The Company is currently in the process of evaluating the impact of this standard.

(ii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

(iii) International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standard Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that PetroWorth will be required to prepare IFRS financial statements for the interim period and fiscal years ending in 2011. The impact of this transition on the Company's financial statements has not yet been determined.

**4. Financial instruments**

The Company has designated its cash and cash equivalents and investments, as assets held for trading. Cash equivalents consist of 2 guaranteed investment certificates ("GIC") which have been invested with a reputable financial institution and bear interest at 0.75% and 4.25%. Sales tax receivable is designated as loans and receivables and accounts payable and accrued liabilities are designated as other liabilities. These financial instruments are initially measured at fair value. Receivables and accounts payable and accrued liabilities are subsequently measured on the basis of amortized cost using the effective interest rate method. Assets held for trading are revalued on the reporting date based on relevant market information and information about the financial instrument. These valuations are estimates and changes in assumptions could significantly affect the estimate.

The carrying value of cash equivalents, sales tax receivable, and accounts payable and accrued liabilities reflected in the balance sheet approximate fair value because of the limited term of these instruments.

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**4. Financial instruments (Continued)**

The carrying values of investments approximate their fair values as the investments have been adjusted to current market value.

- a) Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents are composed of financial instruments issued by large Canadian financial institutions with high investment-grade ratings maturing over various dates and management believes the risk of loss to be remote. Further, the Company limits its credit risk to any individual counterparty. The Company's receivables consist primarily of GST due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to sales tax receivable is remote.
  
- b) Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices and is comprised of three types of risk:
  - i) Interest rate risk arises because of changes in market interest rates. The Company's cash and cash equivalents, are subject to minimal risk if changes in value, have an original maturity of 90 days or less from the date of purchase and are readily convertible into cash.
  
  - ii) Capital risk arises because of a change in capital market conditions. The Company manages its capital with the objective of providing adequate capital resources for the Company. The capital structure of the Company consists of shareholder's equity and depends on the ability of the Company to raise ongoing capital.
  
  - ii) Currency risk arises because of changes in foreign exchange rates. Nearly all of the Company's current activities are priced in Canadian dollars.
  
  - iii) Other price risk arises because of changes in market prices other than those due to interest rates and currency changes. The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is the potential adverse impact on the Company's ability to raise new capital and generate earnings due to movement in the Company's equity price or general movement in the level of the stock market. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices of oil and natural gas in addition to individual equity movements and the stock market to determine appropriate courses of action to be taken by the Company.
  
- c) Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities as they fall due. The Company's investment policy is to invest its excess cash in high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operation. Accounts payable and accrued liabilities are all current. As at December 31, 2008, the Company had cash and cash equivalents balance of \$3,907,468 (2007 - \$9,585,580) to settle currently liabilities of \$766,916 (2007 - \$1,150,980). In addition the Company has various property commitments as reflected in Notes 8 and 12.

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

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**4. Financial instruments (Continued)**

d) Sensitivity analysis

- i) The Company's cash is measured at fair value. Financial instruments included in sales tax receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. As at December 31, 2008, the carrying and fair value amounts of the Company's financial instruments are the same. Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.
- ii) The Company has limited natural gas production in Alberta which is subject to increase or decrease in the market price of natural gas. The Company has not hedged its future natural gas sales. However, the Company's principal focus is in natural gas exploration in Atlantic Canada and fluctuation in natural gas price does not have a significant impact on the Company's financial results.

**5. Segmented information**

The Company operates in one industry segment and is engaged in the exploration of natural gas properties.

**6. Future income taxes**

(a) Provision for income taxes:

Major items causing the Company's income tax rate to differ from the Canadian statutory rates of approximately 33.5% (2007 – 32.5%) are as follows:

	<u>2008</u>	<u>2007</u>
	\$	\$
(Loss) before income taxes	<u>(3,194,732)</u>	<u>(8,389,423)</u>
Expected income tax (recovery)	(1,070,000)	(2,726,000)
Adjustments to benefit resulting from:		
Stock-based compensation	185,000	1,646,000
Share issue costs	-	(9,000)
Change in tax rates	125,000	-
Other	<u>(206,935)</u>	<u>47,000</u>
	(966,935)	(1,042,000)
Change in valuation allowance	<u>28,000</u>	-
Future income tax (recovery)	<u>(938,935)</u>	<u>(1,042,000)</u>

**PetroWorth Resources Inc.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

**6. Future income taxes (Continued)**

(b) The future income tax assets (liabilities) consist of the following temporary differences:

	<u>2008</u>	<u>2007</u>
	\$	\$
Equipment	20,000	14,000
Natural gas properties	(2,108,000)	(2,287,000)
Share issue costs	164,000	37,000
Non-capital losses	1,952,000	2,016,000
Valuation allowance	(28,000)	-
Total future income tax (liability)	<u>-</u>	<u>(220,000)</u>

(c) The Company has approximately \$16,015,000 of Canadian exploration and development expenditures which, under certain circumstances, may be utilized to reduce taxable income of future years.

As at December 31, 2008, the Company has approximately \$6,778,000 of non-capital losses in Canada, which can be used to reduce taxable income of future years and expire as follows:

	\$
2013	291,000
2014	810,000
2025	1,643,000
2026	1,024,000
2027	3,010,000
	<u><b>6,778,000</b></u>

**7. Equipment**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Office furniture	41,657	22,543	19,114
Computer hardware	82,363	54,031	28,332
Leasehold improvements	39,960	5,994	33,966
<b>Balance, December 31, 2008</b>	<b>163,980</b>	<b>82,568</b>	<b>81,412</b>

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Computer hardware	71,044	46,202	24,842
Office furniture	38,635	18,494	20,141
<b>Balance, December 31, 2007</b>	<b>109,679</b>	<b>64,696</b>	<b>44,983</b>

**PetroWorth Resources Inc.**  
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**8. Natural gas exploration**

The Company was founded to operate as a natural gas exploration, development and production company.

Prince Edward Island ("PEI")

On May 30, 2003, the Company secured a 100% interest in Oil and Natural Gas Permit No. 03-01 on PEI. The permit has a six-year term with an annual rental of \$8,809 and a commitment of \$256,000 for exploratory work.

On July 1, 2003, the Company secured a 100% interest in the Oil and Natural Gas permit No. 03-02 on PEI, adjacent to Permit No. 03-01. The permit has a term of six years with an annual rental of \$17,624 and a commitment of \$1,391,000 for exploratory work.

On December 17, 2004, the Company secured a 100% interest in Oil and Natural Gas Permit No. 04-05 on PEI. The permit has a six-year term with an annual rental of \$13,329 and a commitment of \$185,000 for exploratory work.

On December 17, 2004, the Company also secured a 100% interest in Oil and Natural Gas Permit No. 04-06 on PEI. The permit has a six-year term with an annual rental of \$2,136 and a commitment of \$265,000 for exploratory work.

On December 17, 2004, the Company also secured a 100% interest in Oil and Natural Gas Permit No. 04-07 on PEI. The permit has a six-year term with an annual rental of \$2,142 and a commitment of \$105,000 for exploratory work.

On December 17, 2004, the Company also secured a 100% interest in Oil and Natural Gas Permit No. 04-08 on PEI. The permit has a six-year term with an annual rental of \$342 and a commitment of \$600,000 for exploratory work.

The permits were obtained under the laws of the Province of PEI. The Company has the exclusive right to explore the properties for up to six years so long as the Company has complied with the provisions of the permits and paid the annual rental.

On May 10, 2007, the Company entered into a data exchange and option agreement with Corridor Resources Inc. Under the terms of the agreement each of Corridor and the Company made available to the other parties seismic information relating to certain properties in PEI and in New Brunswick. The agreement also gave Corridor the option to farm-in on the Company's PEI exploration license 03-02 whereby Corridor will pay 100% of the cost of drilling and completion of an exploration well to a minimum ("commitment well"). Provided the commitment well was drilled, Corridor would have had the option to drill the second and third exploratory wells on the Company's PEI licenses at 50% of the cost of drilling and completion prior to October 1, 2008 to earn a 50% working interest in the licenses. Corridor had completed the first exploratory well known as New Harmony #1 in October 2007. Corridor did not exercise their option to drill the two additional wells on the Company's PEI licenses which expired in October 2008. On July 30, 2008, the agreement was revised. Under the terms of the revised agreement PetroWorth will finance 100% of the costs of fracturing and testing the initial two zones in the Green Gables #3 well to a maximum cost of \$2 million to earn a 10% working interest in Corridor's Green Gables license 04-03.

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**8. Natural gas exploration (Continued)**

Nova Scotia

On January 15, 2004, the Company secured a 100% interest in the Exploration Agreement No. 04-01-15-01 in Cumberland/Colchester counties of Nova Scotia for a term of three years with an annual rental of \$3,000. This permit expired on January 15, 2007. The Company did not fulfill the work commitment of \$1,200,000 and forfeited a bond of \$60,000.

On July 15, 2004, the Company secured a 100% interest in the Exploration Agreement No. 04-07-15-03 in Victoria counties of Nova Scotia for a term of three years with an annual rental of \$18,635. In August 2007, the Nova Scotia Department of Energy extended the Exploration Agreement for a further three years, contingent upon the Company meeting its annual work commitment. The Company has put up a deposit of \$300,000. The Company has the right to explore the properties until July 15, 2010 so long as the Company has complied with the provisions of the permits, paid the annual rental of \$18,635 and expends a total of \$4,500,000 of which \$1,500,000 must be spent prior to July 15, 2009.

New Brunswick

On October 26, 2004, the Company secured a 100% interest in New Brunswick Permit No. ONG/lic 04-06. The permit had a three-year term with an annual rental of \$2,049 and a commitment of \$325,000 of exploratory work. During the year ended December 31, 2007, this permit was converted into lease ONG/07-06 which has a 5-year term and an annual rental of \$54,640.

On November 3, 2006, the Company secured a 100% interest in New Brunswick Permit No. ONG/lic 06-05. The permit has a three-year term commencing August 15, 2006 with an annual rental of \$108 and a commitment of \$125,563 for exploratory work.

On November 3, 2006, the Company secured a 100% interest in New Brunswick Permit No. ONG/lic 06-06. The permit has a three-year term commencing August 15, 2006 with an annual rental of \$323 and a commitment of \$376,688 for exploratory work.

On August 30, 2007, the Company secured a 100% interest in New Brunswick Permit No. ONG/lic 07-01. The permit has a three-year term commencing August 14, 2007 with an annual rental of \$5,387 and a commitment of \$1,152,756 for exploratory work.

The permits were obtained under the laws of the Province of New Brunswick. The Company has the exclusive right to explore the properties for up to three years so long as the Company has complied with the provisions of the permits, paid the annual rental and fulfill the work commitment.

During the year ended December 31, 2008, the total capitalized natural gas exploration and development expenditures were \$11,003,867 (2007 - \$5,285,268), which can be summarized as follows:

	<b>2008</b>	<b>2007</b>
Alberta	168,502	1,203,428
New Brunswick	8,553,928	3,662,539
Nova Scotia	232,277	207,922
Prince Edward Island	2,013,040	161,267
General Exploration	36,120	50,112
<b>Total</b>	<b>11,003,867</b>	<b>5,285,268</b>

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**8. Natural gas exploration (Continued)**

This amount includes insurance costs of \$15,164 (2007 - \$23,497), geological and environmental consulting cost of \$438,241 (\$2007 - \$262,334) and travel cost of \$25,109 (2007 - \$Nil). No general and administrative costs are capitalized.

The Company performed a ceiling test calculation at December 31, 2008 resulting in undiscounted cash flows from proved reserves not exceeding the carrying value of its oil and gas assets. Consequently, the Company performed stage two of the ceiling test assessing whether discounted future cash flows from the production of proved plus probable reserves exceeded the carrying value of its oil and natural gas properties. As a result of performing this test, a ceiling test impairment loss of \$339,214 (2007 - \$868,383) has been recorded as an impairment of oil and natural gas properties in the statements of operations, comprehensive (loss) and deficit. The prices used in the ceiling test evaluation of the Company's oil and natural gas reserves at December 31, 2008 were:

Forecast year	WTI Crude Oil	Edmonton par Price 40° API	Alberta AECO-C Spot	Inflation Rate	Exchange Rate
2009	53.73	63.35	6.82	2.0	1.000
2010	63.41	72.78	7.56	2.0	1.000
2011	69.53	79.95	7.84	2.0	1.000
2012	79.59	86.57	8.38	2.0	1.000
2013	92.01	94.97	9.20	2.0	1.000

Various escalation rates thereafter.

	Beginning Balance	Addition	Depletion & Impairment	Cumulative Total
December 31, 2007	\$ 8,615,294	\$ 5,285,268	\$ 1,038,914	\$ 12,861,648
December 31, 2008	\$ 12,861,648	\$ 11,003,867	\$ 528,041	\$ 23,337,474

As at December 31, 2008, the depletion calculation excluded the cost of undeveloped land of \$22,910,531 (2007 - \$12,075,167).

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**9. Share capital**

(a) Common Shares

Authorized Unlimited Common shares	Number of shares	Amount
Balance, December 31, 2006	21,938,720	\$ 9,125,366
Flow-through shares issued for cash (v) (viii) (ix)	2,763,182	3,102,750
Common shares issued for cash (v) (vi) (viii) (ix)	10,427,371	9,358,329
Share issue costs (net of income tax recovery of \$47,000)	-	(97,023)
Extension of warrants (Note 9(b))	-	(716,451)
Exercise of warrants	1,874,533	4,512,074
Exercise of options	575,000	641,287
Shares issued for services (vii) (x) (xi)	<u>585,000</u>	<u>798,875</u>
Balance, December 31, 2007	38,163,806	\$ 26,725,207
Flow-through shares issued for cash (iii) (iv)	2,460,223	3,936,357
Common shares issued for cash (iii) (iv)	4,193,152	6,080,070
Share issue costs (net of income tax recovery of \$174,064)	-	(430,231)
Valuation of warrants issued for services (Note 9(b))	-	(251,673)
Exercise of options (Note 9(c))	50,000	60,500
Shares issued for services (i)	100,000	105,000
Tax effect of issuing flow-through common shares	-	(893,000)
Shares repurchased and cancelled (ii)	<u>(1,300,000)</u>	<u>(919,894)</u>
Balance, December 31, 2008	43,667,181	\$ 34,412,336
Less: share held for cancellation (ii)	<u>(305,000)</u>	<u>(215,821)</u>
Total	<u>43,362,181</u>	<u>\$ 34,196,515</u>

- (i) On February 5, 2008, the Company issued 100,000 common shares to a consultant for services provided valued at \$105,000.
- (ii) On February 7, 2008, the Company announced a normal course issuer bid to purchase up to 1,980,190 or 5% of its common shares outstanding. As at December 31, 2008, the Company repurchased 1,605,000 (2007 – nil) shares. Total consideration paid for these shares was \$1,500,217 (2007 - nil). This resulted in a decrease to common shares of \$1,135,715 (2007 - nil) and a decrease in contributed surplus of \$364,503 (2007 - nil). As at December 31, 2008, 305,000 shares were being held for cancellation.
- (iii) On June 20, 2008, the Company completed a non-brokered private placement of 779,000 common shares and 1,374,375 flow-through common shares at \$1.45 per share and \$1.60 per share, respectively, to raise a total of \$3,328,550.
- (iv) On June 20, 2008, the Company completed a brokered private placement of 3,414,152 common shares and 1,085,848 flow-through common shares at \$1.45 per share and \$1.60 per share, respectively, to raise a total of \$6,687,877.
- (v) On February 28, 2007 the Company completed a non-brokered private placement of 4,307,871 common shares at \$0.55 per share and 1,968,599 flow-through common shares at \$0.60 per share to raise a total of \$3,550,488.

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**9. Share capital (Continued)**

- (vi) On April 3, 2007 the Company completed a non-brokered private placement of 4,000,000 common shares at \$0.60 per share to raise a total of \$2,400,000.
- (vii) On April 11, 2007 the Company issued a total of 450,000 shares valued at \$1.152 per share to directors, officers and management for services provided.
- (viii) On June 18, 2007 the Company completed a non-brokered private placement of 1,419,500 common shares at \$2.00 per share and 629,583 flow-through common shares at \$2.30 per share to raise a total of \$4,287,041.
- (ix) On July 3, 2007 the Company completed a non-brokered private placement of 700,000 common shares at \$2.50 per share and 165,000 flow-through common shares at \$2.87 per share to raise a total of \$2,223,550.
- (x) On July 25, 2007 the Company issued 35,000 shares at \$1.785 per share to a consultant for services provided.
- (xi) On September 25, 2007 the Company issued 100,000 shares at \$2.18 per share to a consultant for services provided.

(b) Warrants

A summary of the changes in the Company's share purchase warrants during the years ended December 31, 2008 and 2007 are as follows:

	Number of warrants	Weighted Average Exercise Price
Balance, December 31, 2006	2,386,093	\$ 1.92
Issued	1,250,000	1.30
Exercised	(1,874,533)	(2.00)
Expired	<u>(511,560)</u>	<u>(1.64)</u>
Balance, December 31, 2007	1,250,000	\$ 1.30
Issued	<u>298,355</u>	<u>1.45</u>
Balance, December 31, 2008	<u>1,548,355</u>	<u>\$ 1.33</u>

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**9. Share capital (Continued)**

On June 20, 2008, the Company issued 298,355 common share purchase warrants to registered brokers for services provided in connection to the private placement on June 20, 2008 exercisable until June 20, 2010 at \$1.45 per share. The estimated fair value was \$251,673 using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected dividend yield	0%
Expected annual volatility	111%
Risk-free interest rate	3.30%
Expected average life	2 years

On March 14, 2007, the Company extended the expiry date of 2,013,433 common share purchase warrants exercisable at \$2.00 per share from April 11, 2007 to October 12, 2007. The estimated fair value was \$716,451 using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected dividend yield	0%
Expected annual volatility	218%
Risk-free interest rate	4.00%
Expected average life	0.58 years

On April 16, 2007, the Company issued 1,000,000 common share purchase warrants exercisable at \$1.00 per share until April 16, 2009 to a consultant for services provided. The estimated fair value was \$870,000 using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected dividend yield	0%
Expected annual volatility	170%
Risk-free interest rate	4.00%
Expected average life	2 years

On November 7, 2007, the Company issued 250,000 common share purchase warrants exercisable at \$2.50 per share until November 7, 2009 to a consultant for services provided. The estimated fair value was \$367,500 using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected dividend yield	0%
Expected annual volatility	125%
Risk-free interest rate	4.00%
Expected average life	2 years

As at December 31, 2008, the following common share purchase warrants were outstanding:

<b>Expiry date</b>	<b>Exercise Price</b>	<b>Warrants</b>
April 16, 2009	\$ 1.00	1,000,000
November 7, 2009	2.50	250,000
June 20, 2010	1.45	<u>298,355</u>
		<u>1,548,355</u>

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**9. Share capital (Continued)**

(c) Stock options

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% percent of the total number of common shares outstanding immediately prior to such an issuance. Under the plan, the Board of Directors has the choice of either vesting or allowing options issued to be exercisable upon issuance. Options are normally issued for a five-year term.

During the year ended December 31, 2008, 600,000 stock options (2007 – 3,401,100) were granted to directors, officers, employees and consultants of the Company with a weighted-average grant date fair value of \$1.07 (2007 - \$1.48) per option. All options granted in 2008 and 2007 vested immediately. Stock-based compensation expense of \$465,799 (2007 - \$3,180,968) was related to directors, officers and employee compensation while \$178,148 (2007 - 1,883,520) was related to compensation for consultants.

A summary of the changes in stock options during the years ended December 31, 2008 and 2007 are as follows:

	Number of options	Weighted Average Exercise Price
Balance, December 31, 2006	1,032,974	\$ 0.60
Granted	3,401,100	1.36
Exercised	(575,000)	(0.73)
Expired	<u>(45,000)</u>	<u>(0.50)</u>
Balance, December 31, 2007	3,814,074	\$ 1.25
Granted	600,000	1.55
Exercised	<u>(50,000)</u>	<u>(0.62)</u>
Balance, December 31, 2008	<u>4,364,074</u>	<u>\$ 1.29</u>

The grant date fair value of the stock options granted was estimated using the Black-Scholes option pricing model based on the following assumptions:

	<u>2008</u>	<u>2007</u>
Expected dividend yield	0%	0%
Expected annual volatility	120% - 121%	126% - 227%
Risk-free interest rate	3.06% - 3.18%	4.00% - 4.25%
Expected average life	5 years	3 years

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**9. Share capital (Continued)**

At December 31, 2008, the following employee stock options were outstanding:

<b>Expiry date</b>	<b>Options Exercisable &amp; Outstanding</b>	<b>Exercise Price per share(\$)</b>	<b>Grant date Fair Value of Options (\$)</b>
Sep 30, 2009	687,974	0.50	38,898
Feb 28, 2010	680,000	0.62	401,190
Apr 16, 2010	150,000	1.10	142,500
Apr 17, 2010	25,000	1.15	25,000
Apr 23, 2010	850,000	1.33	918,000
Apr 30, 2010	632,100	1.50	809,088
Aug 21, 2010	529,000	2.24	925,750
Oct 31, 2010	210,000	2.65	413,700
Jun 3, 2013	370,000	1.55	465,799
Aug 19, 2013	230,000	1.55	178,148
	<b>4,364,074</b>		<b>4,318,073</b>

(d) Contributed surplus

Balance, December 31, 2006	\$ 366,976
Estimated fair value of stock based compensation	
Directors, officers and employees	3,180,968
Consultants	1,883,520
Extension of purchase warrants issued at initial public offering	716,451
Exercise of warrants	(763,008)
Exercise of options	<u>(220,787)</u>
Balance, December 31, 2007	\$ 5,164,120
Estimated fair value of stock based compensation	
Directors, officers and employees	465,799
Consultants	178,148
Fair value of broker warrants	251,673
Shares repurchased for cancellation (Note 9(a)(ii))	(364,503)
Exercise of options	<u>(29,500)</u>
Balance, December 31, 2008	<u>\$ 5,665,737</u>

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**10. Capital Management**

The Company's objectives when managing capital are: (i) to safeguard the Company's ability to continue as a going concern in order to pursue the development of its natural gas properties and provide returns for shareholders, and (ii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company includes the components of shareholder's equity, cash and cash equivalents and investments in the management of capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments.

To facilitate the management of its capital requirements, the Company prepares forecasts or expenditure budgets for its activities that are used to monitor performance. Variances to the plan will result in adjustments to capital deployment subject to various factors and industry conditions. The Company's activities and the associated forecasts or budgets are approved by the Board of Directors.

The Company is not subject to any externally imposed capital requirements limiting or restricting the use of its capital. In order to maximize ongoing development efforts, the Company does not pay out dividends at this time. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of less than a year from the original date of acquisition, selected with regards to the expected timing of expenditure from operations.

**11. Related party transactions**

The Company had the following related party transactions during the years ending December 31, 2008 and 2007:

- a) Included in salaries and benefits was \$332,333 (2007 - \$622,284) that was paid to either a corporation that is owned by a director and officer of the Company or personally.
- b) Included in consulting fees was nil (2007 - \$41,800) that was paid to former directors for services provided which were applied to the exercising of stock options.
- c) Included in accounts payable was \$26,118 (2007 - \$25,805) owed to directors and officers of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.
- d) On April 11, 2007 the Company issued a total of 450,000 shares valued at \$1.152 per share to directors, officers and management for services provided.

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

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**12. Commitments and contingencies**

Under the terms of the flow-through share issuances completed during 2008, the Company is obligated to renounce exploration expenditures to subscribers in the amount of \$3,936,357 and to incur these costs prior to December 31, 2009.

Included in prepaid expenses and sundry assets are deposits of \$588,189 with the Governments of New Brunswick and Nova Scotia. The company has also issued promissory notes in the amounts of \$288,750 (2007 - \$288,750) to the Government of Prince Edward Island and \$1,376,817 (2007 - \$1,620,627) to the Government of New Brunswick as a commitment to explore for natural gas under the terms of the agreements for the respective properties. The deposits are refundable upon the company meeting its exploration commitments outlined in Note 8. The promissory notes are contingently payable if the company does not meet its exploration commitments as outlined in the note 8. As the likelihood of this occurring is not determinable, the contingent payments have not been reflected in these financial statements.

The Company has lease commitments for base rental payments for offices through 2013. The approximate minimum lease commitments for the next five years are as follows:

<b>Year</b>	<b>\$</b>
2009	47,000
2010	47,000
2011	52,000
2012	52,000
2013	9,000
<b>Total</b>	<b><u>207,000</u></b>

**13. Subsequent Events**

On April 16, 2009, 1,000,000 share purchase warrants with an exercise price of \$1.00 per share expired unexercised.