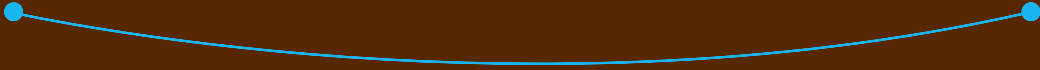
Let's talk

2007.



2007 Annual Report

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Annual General Meeting

Shareholders are invited to attend the Annual General and Special Meeting of One Exploration Inc., which will be held at 3:00 pm on June 12, 2008 at the Sheraton Suites Eau Claire located at 255 Barclay Parade SW, Calgary, Alberta.

Management's Discussion and Analysis ("MD&A")

The following discussion and analysis as provided by the management of One Exploration Inc. ("the Corporation" or "OneEx") should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2007. The financial data presented below is prepared in accordance with Canadian Generally Accepted Accounting principles except as noted under "Non-GAAP measures".

Comprehensive revaluation

On July 19, 2006 the Corporation determined that a substantial realignment of the interests of creditors and shareholders was completed, and accordingly applied the provisions of CICA Handbook section 1625, "Comprehensive Revaluation of Assets and Liabilities" (the "Revaluation"). As a result of the Revaluation, comparative financial information is not presented for periods prior to July 20, 2006. Accordingly, financial information for the fiscal period ended December 31, 2006 is presented commencing on July 20, 2006.

Non-GAAP measures

The MD&A contains the terms "funds from operations", "operating netbacks" and "recycle ratio" which are not recognized measures under Canadian Generally Accepted Accounting Principles ("GAAP"). Management believes that funds from operations, operating netback and recycle ratio are useful supplemental measures as they provide an indication of the Corporation's business activities before consideration of how these activities are financed or how the results are taxed. These measures should not be construed as alternatives to net earnings determined in accordance with GAAP. OneEx's method of calculating these measures may differ from other companies, and accordingly it may not be comparable to measures used by other companies.

The Corporation determines its funds from operations as cash flow from operating activities before changes in non-cash working capital. Funds from operations per share are calculated using the weighted average basic and diluted shares used in the calculation of earnings per share.

Operating netback per boe is the net result of the Corporation's revenue, royalty, lease operating and transportation expenses as found in the accompanying consolidated financial statements divided by total production in the period. Management considers operating netback an important measure as it demonstrates its property level profitability on a unit of production basis.

Recycle ratio is the ratio of operating netback to Finding Development and Acquisition ("FD&A") costs. The recycle ratio provides a measure of the cash flow from each boe produced compared to the cost to the Corporation of a boe of reserves.

Forward looking Statements

Certain of the statements contained herein including, without limitation, the performance characteristics of the petroleum properties, oil and natural gas production levels, the size of the oil and natural gas reserves, projections of market prices and costs, supply and demand for oil and natural gas, expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development, treatment under governmental regulatory regimes and capital expenditures programs, financial and business prospects and financial outlook, reserve and production estimates, drilling plans, activities to be undertaken in various areas, timing of drilling, re-completion and tie-in of wells, tax horizon, timing of development of undeveloped reserves and the results of testing thereof, planned capital expenditures, the timing thereof and the method of funding may be forward looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions have been used to identify these forward looking statements. These statements reflect management's current beliefs and are based on information currently available to management.

Forward looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including, but not limited to, changes in general economic and market conditions, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and risk factors outlined under "Risk Factors" and elsewhere herein. The recovery and reserve estimates of OneEx's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could effect the Corporation's operations and financial results are included in the Corporation's Annual Information Form on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). Although the forward looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward looking statements. Investors should not place undue reliance on forward looking statements. These forward looking statements are made as of the date hereof and the Corporation assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward looking statements and other information contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry is based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

Barrel of Oil Equivalent

The Corporation has adopted the standard of six Mcf of natural gas being equivalent to one barrel of oil when converting natural gas to barrels of oil equivalent (boe). This practice may be misleading, particularly if used in isolation. A 6:1 conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

The Board of Directors and Audit Committee have reviewed the consolidated financial statements and Management's Discussion and Analysis (MD&A). This MD&A is dated April 9, 2008.

Production

	Three months ended		Year ended	Period ended
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Natural gas (mcf/d)	3,800	127	2,472	71
Crude oil & NGLs (bbls/d)	187	-	71	-
BOE (6:1) (boe/d)	820	21	483	12

Production for the quarter ended December 31, 2007 was 820 boe/d compared to the 21 boe/d reported in the quarter ended December 31, 2006. The increase is attributable to the Corporation's exploration and acquisition activities undertaken during 2007 and the Corporation not commencing oil and gas operations until December 11, 2006. Production in the Central Alberta region commenced with the acquisition of Paddle River assets effective June 21, 2007 followed-up by successful drilling during the third quarter of 2007. Production in the Cold Lake area was primarily attributable to the three wells brought on stream from the Corporation's first quarter 2007 drilling program and the acquisition of assets from Tsunami Petroleum Corp. ("Tsunami"). Production from the April 23, 2007 acquisition of Tsunami is reflected in the Cold Lake region and Other. The following table provides a breakdown of production by geographic region:

	Three months ended		Year ended	Period ended
(boe/d)	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Region				
Central Alberta	502	-	222	-
Peace River Arch	64	21	70	12
Cold Lake	126	-	107	-
Other	128	-	84	-
Total	820	21	483	12

Oil and gas revenue and realized prices

($)	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Petroleum and natural gas sales				
Natural gas sales	2,188,685	85,110	5,457,113	85,110
Crude oil & NGLs	1,116,220	-	1,659,113	-
Royalty income	39,130	-	90,986	-
Total	3,344,035	85,110	7,207,211	85,110

OneEx realized $3,344,035 of petroleum and natural gas sales during the quarter ended December 31, 2007 compared to the $85,110 realized during the quarter ended December 31, 2006. The increase in revenue for the three months ended December 31, 2007 when compared to the quarter ended December 31, 2006 arose due to the 799 boe/d increase in production and a one percent increase in realized prices per boe. The Corporation realized $7,207,211 of petroleum and natural gas sales during the year ended December 31, 2007 compared to the $85,110 realized during the period ended December 31, 2006. The Corporation commenced oil and gas operations on December 11, 2006, and accordingly revenue for the year ended December 31, 2007 was significantly higher when compared to the period ended December 31, 2006.

	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Realized prices				
Natural gas ($/mcf)	6.23	7.28	6.03	7.28
Crude oil & NGLs ($/bbl)	67.42	-	65.92	-
BOE (6:1) ($/boe)	44.30	43.67	40.88	43.67
Benchmark prices Natural gas (i)				
AECO ($/mmbtu)	6.16	7.03	6.65	7.03
Henry Hub ($U.S./mmbtu)	6.96	8.32	6.86	8.32
Crude oil (i)				
West Texas Intermediate ($U.S./bbl)	90.77	61.98	72.27	61.98
Edmonton par 40o API ($/bbl)	87.18	68.59	77.06	68.59

(i) Benchmark prices for 2006 are for December.

OneEx realized an average natural gas price of $6.23 per mcf during the quarter ended December 31, 2007 representing a decrease of 14.4 percent from the $7.28 per mcf realized during the fourth quarter of 2006. Realized revenue per boe for the year ended December 31, 2007 decreased by 6.4 percent when compared to the period ended December 31, 2006 due to low natural gas prices offsetting stronger crude oil and NGLs prices. The Corporation's 2007 natural gas production weighting ranged from a high of 98 percent in the second quarter to a low of 78 percent during the fourth quarter of 2007. Increasing production of NGLs rich natural gas during the fourth quarter of 2007 contributed to the increased realized price per boe.

Royalties

	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Petroleum and natural gas sales(i) ($)	3,304,905	85,110	7,116,226	85,110
Royalties ($)	686,078	15,225	1,537,772	15,225
Royalties as a percentage of revenue	21	18	22	18

(i) Does not include royalty income

Royalty expense during the fourth quarter of 2007 totaled $686,078 or 21 percent of revenue compared with $15,255 or 18 percent of revenue during the fourth quarter and period ended December 31, 2006. The royalty rate increased for 2007 when compared to 2006 due to increased NGLs production which has a higher royalty rate than natural gas and natural gas production from areas that have a higher royalty rate. Natural gas royalties are presented net of reimbursement by the Government of Alberta (the "Crown") for costs the Corporation incurs to produce and process the Crown's royalty share of natural gas. Consequently the Corporation's higher operating cost property acquired in 2006 has a lower net royalty expense than the lower operating cost properties acquired and developed during 2007.

On October 25, 2007 the Government of Alberta announced The New Royalty Framework ("NRF") changing royalties on conventional oil and natural gas as well as oil sands production. The Corporation obtained reserve evaluations effective December 31, 2007 under the existing and proposed NRF. A comparison of results from the two reserve evaluations indicates that given the current pricing environment, if implemented, the NRF would have a minimal impact on the Corporation's net present value (based on 10 percent discounted cash flow pretax net present value of Proved plus Probable reserves). The financial impacts were assessed using publicly available information on the NRF. As additional technical details of the NRF are released by the Government of Alberta there is a risk that the value of the Corporation's reserves may change materially. The impact of the NRF on the Corporation's existing assets is mitigated due to the pricing forecast at December 31, 2007 and the relatively short reserve life of the Corporation's assets. The benefits from higher prices are mitigated commencing in 2009 due to higher royalty rates proposed under the NRF.

The Corporation currently has all of its producing assets and undeveloped land in Alberta, and consequently is significantly exposed to regulatory changes in Alberta.

Other income

($)	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Interest income	27,348	27,080	242,282	27,080
Processing income	189,408	-	215,795	-
Total	216,756	27,080	458,077	27,080

Interest income for the three months ended December 31, 2007 was $27,348 compared to $27,080 for the quarter ended December 31, 2006. The average cash balance for the fourth quarter of 2007 was approximately the same as the average cash balance during the three months ended December 31, 2006 as the Corporation received the cash proceeds from its initial public offering and private placement on November 28 and December 4, 2006 respectively. Interest income of $242,282 for the period ended December 31, 2007 increased from the $27,080 realized during the year ended December 31, 2006 due to the receipt of cash from the Corporation's initial public offering and private placement late in 2006.

Processing income increased during the quarter ended December 31, 2007 when compared to the quarter ended December 31, 2006 due to treating and water disposal income in the Paddle River area commencing in June of 2007. Approximately $81,000 of the processing income recorded in the fourth quarter of 2007 represented retroactive income for July through September under agreements negotiated during the fourth quarter of 2007.

Operating expenses

($)	Three months ended December 31, 2007 $	Three months ended December 31, 2007 $/boe	Three months ended December 31, 2006 $	Three months ended December 31, 2006 $/boe	Year ended December 31, 2007 $	Year ended December 31, 2007 $/boe	Period ended December 31, 2006 $	Period ended December 31, 2006 $/boe
Lease operating	1,075,485	14.25	42,988	22.06	2,498,696	14.17	42,988	22.06
Transportation	79,450	1.05	2,577	1.32	176,480	1.00	2,577	1.32

The Corporation's production during 2006 was from a property in the Peace River Arch area of Alberta that experienced high water handling costs resulting in lease operating expenses of $22.06 per boe. As the corporation acquired and developed assets during 2007, lease operating expenses declined to $14.17 per boe for the year ended, and $14.25 per boe for the quarter ended, December 31, 2007 due to the addition of lower operating expense properties and operational changes to reduce water handling on the original property.

As the Corporation acquired and developed assets during 2007, transportation expenses declined to $1.00 per boe for the year ended, and $1.05 per boe for the quarter ended, December 31, 2007 compared to $1.32 per boe for the properties initially acquired in the Peace River Arch area of Alberta. The properties developed and acquired during 2007 are generally closer to existing infrastructure, resulting in lower gathering costs.

Operating netback per BOE

($/boe except production)	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Production (boe)	75,484	1,940	176,313	1,940
Revenue	44.30	43.67	40.88	43.67
Royalties	(9.09)	(7.81)	(8.72)	(7.81)
Processing income	2.51	-	1.22	-
	37.72	35.86	33.38	35.86
Lease operating expense	14.25	22.06	14.17	22.06
Transportation	1.05	1.32	1.00	1.32
Operating netback	22.42	12.48	18.21	12.48

Operating netback should be used in conjunction with the non-GAAP measures cautionary language contained in this MD&A. The operating netback for the quarter and year ended December 31, 2007 increased to $22.42 per boe and $18.21 per boe respectively compared to the $12.48 per boe realized in 2006 primarily due to lower lease operating expenses.

The Corporation calculates the "recycle ratio" to assess the operational efficiency of the Corporation. Recycle ratio should be used in conjunction with the non-GAAP measures cautionary language contained in the MD&A.

The Corporation targets a recycle ratio greater than 2:1 over a three year average period. During 2007 the Corporation's FD&A costs were higher than desired due to the high amount of high risk exploration spending required to meet its commitments to incur Canadian Exploration Expense under the terms of its flow-through share issue completed in December of 2006 and the need to drill wells on a promoted basis due to the low amount of undeveloped land held by the Corporation at the start of the year. As the Corporation's drilling becomes increasingly development oriented FD&A costs are anticipated to decline. The corporation's capital program was successful, resulting in FD&A costs on a proven plus probable basis of $15.63 per boe for the year ended December 31, 2007.

	Year ended December 31, 2007	Period ended December 31, 2006	Average
Operating netback ($/boe)	**18.21**	**12.48**	**16.93**
Finding, Development and Acquisition (FD&A)			
FD&A, proved ($/boe)	22.96	60.63	24.11
FD&A ,proved plus probable ($/boe)	15.92	28.24	16.56
Recycle ratio FD&A, proved	0.79	0.21	0.70
Recycle ratio FD&A, proved plus probable	1.14	0.44	1.02

General and administrative

($)	Three months ended December 31, 2007	December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Staffing	310,457	177,443	1,024,235	213,808
Professional fees	93,267	-	231,653	-
Office	176,238	42,580	296,358	148,976
Public company costs	9,552	-	76,734	-
Other	139,310	75,675	262,487	94,303
Restructuring	-	218,581	65,000	294,546
Gross General and administrative	728,824	514,279	1,956,467	751,633
Less:				
Recoveries	(110,378)	-	(213,095)	-
Capitalized	(52,635)	-	(225,103)	-
General and administrative	565,811	514,279	1,518,259	751,633
Per barrel of oil equivalent	7.50	265.09	8.61	387.44

During 2006, the Corporation was continued from Ontario to Alberta, the share capital was restructured and the Corporation refinanced. As a result of these activities significant costs were incurred for restructuring in 2006 when compared to the year ended December 31, 2007. Recoveries result from the Corporation charging overhead to drilling and well operations under standard industry terms. The Corporation capitalized cash compensation paid to employees and consultants directly engaged in exploration activities. Due to the timing of commencement of oil and gas operations in 2006 the Corporation did not capitalize general and administrative expenses or receive any recoveries during 2006.

Other taxes and fees

($)	Three months ended December 31, 2007	December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Part 12.6 tax	71,471	-	372,272	-
Property tax	93,548	-	146,683	-
EUB administration fees	10,125	-	10,125	-
Total other taxes and fees	175,144	-	529,080	-

Part 12.6 tax is incurred on unexpended flow-though funds that were renounced in 2006 on a "lookback" basis. The Corporation may renounce flow-through expenditures prior to incurring the Canadian Exploration Expense ("CEE") eligible for renunciation; however as a result of using the "lookback" provisions the Corporation must pay a tax on the unexpended balance of the flow-though funds. The expense is calculated monthly commencing in February, 2007 and is based on the unexpended balance of the flow- through funds at each month end. Property taxes increased for all periods of 2007 when compared to 2006 due to the Corporation's increased asset base. The Corporation has an outstanding obligation to incur $6 million of CEE prior to December 31, 2008 due to the flow-through shares issued in June of 2007.

Stock-based compensation

($)	Three months ended December 31, 2007	December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Stock-based compensation	37,418	4,398	107,084	4,398

Stock-based compensation expense for the quarter ended December 31, 2007 of $37,418 increased from the $4,398 incurred during the three months ended December 31, 2006 due to the grant of 877,500 Class A stock options at an average grant price of $0.89 per share during 2007. In addition, the amount expensed during 2006 reflected expense subsequent to the grant date of December 5, 2006.

Depletion, depreciation and accretion

($)	Three months ended December 31, 2007		December 31, 2006		Year ended December 31, 2007		Period ended December 31, 2006	
	$	$/boe	$	$/boe	$	$/boe	$	$/boe
Depletion & depreciation	1,617,938	21.43	49,927	25.74	4,153,671	23.56	49,927	25.74
Accretion	13,361	0.18	383	0.20	30,398	0.17	383	0.20
Total	1,631,299	21.61	50,310	25.94	4,184,069	23.73	50,310	25.94

Depletion, depreciation and amortization expense of $1,617,938 for the quarter and $4,153,671 for the year ended December 31, 2007 respectively increased from the $49,927 reported in 2006 due to increased production. Adjustments to the book value of petroleum and natural gas properties made in the calculation of depletion are outlined in the following table:

Adjustments to net book value for depletion calculation:	As at December 31, 2007	As at December 31, 2006
Future development costs of proven reserves	889,000	26,000
Unproved properties	(3,336,184)	(1,547,689)
Wells under evaluation	(2,037,443)	-
Estimated salvage value	(180,000)	(40,000)
Total	$ (4,664,627)	$ (1,561,689)

Future income tax recovery

The future income tax recovery of $3,492,000 recorded during the quarter ended March 31, 2007 arose from the renunciation of Canadian Exploration Expense on the Corporation's 2006 flow through share issue. The future tax recovery related to the June 2007 flow-through shares has not been recorded as the Corporation has not filed the renunciation documents. At December 31, 2007 the Corporation has $33.1 million of Scientific Research and Experimental Development credits and $ 38.2 million of non-capital loss carry forwards available to reduce future taxes. The Corporation has determined that the "more likely than not" test required for recognition of the tax benefit of these tax deductions has not been met, and consequently has not recorded a tax asset.

Capital expenditures

($)	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Unproved properties	374,728	-	746,260	-
Geological and geophysical	292,134	-	682,138	-
Drilling and completions	4,378,798	334,201	11,977,013	334,201
Facilities and tie-ins	530,895	-	2,964,740	-
Property acquisition	-	-	10,520,981	-
Corporate acquisition (non-cash)	187,353	2,550,266	7,168,296	2,550,266
Capitalized general and administrative	52,635	-	225,103	-
Total oil and gas capital	5,816,543	2,884,467	34,284,531	2,884,467
Other assets	55,861	27,139	72,210	47,684
Total capital expenditures	5,872,404	2,911,606	34,356,741	2,932,151

(wells)	Three months ended December 31, 2007		Three months ended December 31, 2006		Year ended December 31, 2007		Period ended December 31, 2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration								
Successful	4	3.57	-	-	10	8.37	-	-
Under evaluation	2	1.28	-	-	8	5.10	-	-
Dry	1	0.57	1	0.50	5	4.57	1	0.50
Total exploration	7	5.42	1	0.50	23	18.04	1	0.50
Development								
Successful	1	0.46	-	-	3	2.46	-	-
Under evaluation	(1)	(0.46)	-	-	-	-	-	-
Dry	0	0.00	-	-	0	0.00	-	-
Total development	-	-	-	-	3	2.46	-	-
Total	7	5.42	1	0.50	26	20.50	1	0.50

Capital efficiency

The following Finding, Development & Acquisition ("FD&A") table highlights the efficiency of OneEx's capital expenditures during 2007 and the comparative fiscal year 2006. The Corporation is unable to provide a three year average FD&A as required under NI 51-101 as oil and gas operations commenced during the fourth quarter of 2006.

($ 000's except reserve units and unit costs)	Fiscal 2007 Proved	Fiscal 2007 Proved plus Probable	Fiscal 2006 Proved	Fiscal 2006 Proved plus Probable	Two year average Proved	Two year average Proved plus Probable
Finding, Development and Acquisition (FD&A) costs (ii)						
Total capital expenditures (i)	34,030	34,030	2,884	2,884	36,914	36,914
Future capital – period end (ii)	889	1,056	26	476	889	1,056
Future capital – period beginning (ii)	26	476	-	-	-	-
Total capital expenditures including change in future capital	34,893	34,610	2,910	3,360	37,803	37,970
Total reserve additions (mboe)	1,520	2,174	48	119	1,568	2,293
FD&A cost ($/boe)	22.96	15.92	60.63	28.24	24.11	16.56

(i) The aggregate of the exploration, development and acquisition costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

(ii) Future capital expenditures required to convert proved non-producing and probable reserves to proved producing.

Funds from operations

Funds from operations is defined as cash flow from operations before changes in non-cash working capital and should be used in conjunction with the non-GAAP measures cautionary language contained in this MD&A. Funds from operations were $617,390 during the three months and $1,333,556 for the year ended December 31, 2007 compared to $(704,016) during the three months and period ended December 31, 2006. The increase in funds from operations for both the quarter and year ended December 31, 2007 when compared to 2006 is due to 2007 being the first full year of operations for the Corporation.

	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Period ended December 31, 2006
Cash flow from operations	723,330	(718,486)	2,408,305	(718,486)
Change in non-cash working capital	194,768	14,470	(1,074,749)	14,470
Funds from operations (non-GAAP)	918,098	(704,016)	1,333,556	(704,016)
Shares outstanding				
Basic	27,921,319	5,260,294	22,536,421	3,376,878
Diluted	27,921,319	5,260,294	23,383,966	3,376,878
Funds from operations				
Per share – basic ($/share)	0.03	(0.13)	0.06	(0.21)
Per share – diluted ($/share)	0.03	(0.13)	0.06	(0.21)

Liquidity and capital resources

The Corporation completed a private placement of 8,253,000 Class A common shares on June 21, 2007 for gross proceeds of $12,001,850. Of these shares, 3,637,000 were issued on a flow-through basis at $1.65 per share creating an additional obligation to incur flow-through eligible spending totaling $6,001,050 by December 31, 2008. The net cash proceeds from the offering of $11.1 million were used to purchase producing petroleum and natural gas assets in the Paddle River area of Alberta and for general corporate purposes. As at December 31, 2007, OneEx has working capital deficit of $4,097,630 and as described in note 4 to the financial statements the Corporation has arranged a revolving credit facility of $7.0 million from a Canadian chartered bank. Management forecasts that the credit facility and future cash flow will provide sufficient capital to meet the Corporation's flow-though spending obligations for 2008.

Acquisitions

On April 23, 2007 the Corporation acquired all of the issued and outstanding shares of Tsunami Petroleum Corp. ("Tsunami") in exchange for 5,000,000 class A common shares. Tsunami was a private Alberta incorporated exploration company that held various non-operated working interests in a number of locations throughout Alberta including the Morley, Ferrier, Atmore and Highvale areas. Tsunami owned approximately 4,900 net acres of undeveloped land in Alberta.

On June 21, 2007, the Corporation completed the acquisition of assets in the Paddle River area of Alberta, representing production additions of approximately 330 boe/d, 787 thousand boe (proved plus probable) reserves as at December 31, 2006, 14,131 net acres of undeveloped land, a 50 percent interest in 125 km2 of 3-D seismic and a 100 percent interest in 106 km of 2-D seismic. Cash consideration for the acquisition was $10.5 million.

Quarterly data

	2007				2006 [ii]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production:								
Natural gas (mcf/d)	3,816	3,659	2,010	375	127	-	-	-
Crude oil and NGLs (bbls/d)	180	83	7	4	-	-	-	-
Total production (boe/d)	820	693	342	66	21	-	-	-
Natural gas weighting (%)	78	88	98	95	100	-	-	-
Operating netback:								
Natural gas ($/mcf)	6.23	5.23	6.89	7.31	7.28	-	-	-
Crude oil and NGLs ($/bbl)	67.42	63.42	53.68	71.55	-	-	-	-
Barrel oil equivalent ($/boe)	44.30	36.04	41.60	45.50	43.67	-	-	-
Royalties ($/boe)	(9.09)	(8.32)	(8.49)	(9.57)	(7.81)	-	-	-
Processing income ($/boe)	2.51	0.41	-	-	-	-	-	-
Lease operating ($/boe)	(14.25)	(13.01)	(13.86)	(27.27)	(22.06)	-	-	-
Transportation ($/boe)	(1.05)	(0.79)	(1.20)	(1.56)	(1.32)	-	-	-
Operating netback ($/boe)	22.42	14.33	18.05	7.10	12.48	-	-	-
Financial (000's except per share amounts):								
Petroleum and natural gas sales ($)	3,344	2,297	1,294	272	85	-	-	-
Funds from operations [i] ($)	918	529	80	(194)	(704)	-	-	-
Basic ($/share)	0.03	0.02	-	(0.01)	(0.13)	-	-	-
Diluted ($/share)	0.03	0.02	-	(0.01)	(0.13)	-	-	-
Net earnings (loss) ($)	(698)	(1,050)	(795)	3,130	(522)	(237)	-	-
Basic ($/share)	(0.03)	(0.04)	(0.05)	0.21	(0.10)	(0.23)	-	-
Diluted ($/share)	(0.03)	(0.04)	(0.05)	0.20	(0.10)	(0.23)	-	-
Working capital (deficiency) ($)	(4,098)	835	4,951	5,418	11,264	(384)	-	-
Long term debt ($)	-	-	-	385	385	385	-	-
Total capital expenditures	5,872	4,643	18,190	5,652	2,932	-	-	-
Basic shares outstanding	27,921	27,962	19,312	14,709	5,260	1,029	-	-
Diluted shares outstanding(ii)	27,921	27,962	19,312	15,597	5,260	1,029	-	-
Shares outstanding at period end								
Class A	26,383	26,693	26,693	13,440	13,440	840	-	-
Class B	1,269	1,269	1,269	1,269	1,269	189	-	-

Annual data

For the year and period	2007	2006 [ii]
Production:		
Natural gas (mcf/d)	2,478	72
Crude oil and NGLs (bbls/d)	69	-
Total production (boe/d)	483	12
Natural gas weighting (%)	86	100
Operating netback:		
Natural gas ($/mcf)	6.03	7.28
Crude oil & NGLs ($/bbl)	65.92	-
Barrel oil equivalent ($/boe)	40.88	43.67
Royalties ($/boe)	(8.72)	(7.81)
Processing income ($/boe)	1.22	-
Lease operating ($/boe)	(14.17)	(22.06)
Transportation ($/boe)	(1.00)	(1.32)
Operating netback ($/boe)	18.21	12.48
Financial (000's except per share amounts):		
Petroleum and natural gas sales ($)	7,207	85
Funds from operations [i] ($)	1,334	(704)
Basic ($/share)	0.06	(0.21)
Diluted ($/share)	0.06	(0.21)
Net earnings (loss) ($)	587	(759)
Basic ($/share)	0.03	(0.22)
Diluted ($/share)	0.03	(0.22)
Working capital (deficiency) ($)	(4,098)	11,264
Long term debt ($)	-	-
Total capital expenditures	34,357	2,932
Undeveloped land (acres)	61,261	16,064
Basic shares outstanding	22,536	3,377
Diluted shares outstanding [ii]	23,384	3,377
Shares outstanding at period end		
Class A	26,383	13,440
Class B	1,269	1,269

(i) Funds from operations should be used in conjunction with the non-GAAP measures cautionary language contained in this MD&A.

(ii) On July 19, 2006 the Corporation determined that a substantial realignment of the interests of creditors and shareholders was completed, and accordingly applied the provisions of Section 1625 - Comprehensive Revaluation of Assets and Liabilities of the Canadian Institute of Chartered Accountants Handbook (the "Revaluation"). As a result of the revaluation, comparative financial information is not presented for periods prior to July 20, 2006.

Critical accounting estimates

Depletion and impairment

Under National Instrument 51-101 (NI 51-101), "proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, i.e., that it is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. In accordance with this definition, the level of certainty targeted by the reporting corporation should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. In the case of "probable" reserves, which are obviously less certain to be recovered than proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. With respect to the consideration of certainty, in order to report reserves as proved plus probable, the reporting Corporation must believe that there is at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

The oil and natural gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Corporation's plans.

The Corporation follows the full cost method of accounting for exploration and development activities. Under the full cost method, all costs related to the exploration and development of oil and gas assets, including future development costs, are capitalized and depleted on a unit of production basis. Estimated salvage values are deducted from the capitalized costs in the computation of the depletion rate. The Corporation's depletion expense is dependent on the estimates of proven reserves. Increases in the estimates of proven reserves will result in a lower depletion expense. Reductions in the estimates of proven reserves will have the converse effect.

The Corporation is required to review the carrying value of its petroleum and natural gas assets for potential impairment. The assessment of impairment is dependent on the estimated values for reserves, production rates, prices and future costs.

Asset retirement obligations

The Corporation has estimated the fair value of the obligation to complete site restoration work. The Corporation estimates its costs in accordance with existing regulations and laws. The estimate can vary due to changes in regulations, future costs and the projected timing of expenditures.

Income tax accounting

Due to the complexity and subjectivity of income tax rules and regulations, management's estimates of the Corporation's tax liability may differ significantly from amounts determined by taxation authorities.

Disclosure controls and procedures

The Corporation has established disclosure controls and procedures for the timely and accurate preparation of financial and other reports. These controls are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the periods specified by applicable securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Corporation's filings. Consistent with the concept of reasonable assurance, the Corporation recognizes that the relative cost of maintaining these disclosure controls and procedures should not exceed their expected benefits. As such, the Corporation's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met. The Chief Executive Officer and the Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are adequate and effective in providing reasonable assurance that material information required to be disclosed by the Corporation in reports filed with Canadian securities regulators is accurate and complete and filed within the periods required. The Chief Executive Officer and the Chief Financial Officer have individually signed certifications to this effect.

Internal controls over financial reporting

The Chief Executive Officer and the Chief Financial Officer of OneEx are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles. OneEx's management has assessed the design of internal controls over financial reporting.

OneEx's Chief Executive Officer and Chief Financial Officer believe the Corporation's internal controls and procedures provide a reasonable level of assurance that they are reliable; however, an internal control system cannot prevent all errors and fraud. It is management's belief that any control system, no matter how well conceived or operated can provide only reasonable assurance that the objectives of the control system are met. During the design process certain material weaknesses in internal control over financial reporting were identified:

- Due to the small number of employees at the Corporation there is a lack of adequate segregation of duties. Management believes that the potential benefits of adding additional employees to achieve additional segregation of duties is not justified due to the cost;

- OneEx's information systems have a lack of effective controls over system access, completeness controls, spreadsheet design, and documentation.

The weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be detected or prevented. The Board of Directors, in conjunction with management, attempt to mitigate the risk of material misstatement through the use of external experts and detailed review and involvement with the financial reporting process, however management and the Board of Directors do not have reasonable assurance that this risk can be reduced to a remote likelihood of a material misstatement.

During the first quarter of 2007, the Corporation implemented an accounting system that provides enhanced controls to the Corporation. While the accounting system allowed the Corporation to enhance internal controls it does not address the material weaknesses arising from the limited number of accounting employees and spreadsheet design and documentation at the Corporation.

Risk Factors

Additional risk factors can be found under "Risk Factors" in the Corporation's Annual Information Form, which can be found on www.sedar.com. Many risks are discussed below, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of OneEx depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves OneEx may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in OneEx's reserves will depend not only on the Corporation's ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by OneEx.

OneEx's principal risks include finding and developing economic hydrocarbon reserves efficiently and being able to fund the capital program. The Corporation's need for capital is both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition and development of oil and natural gas properties requires large amounts of long-term capital. OneEx anticipates that future capital requirements will be funded through a combination of internal cash flow, debt and/or equity financing. There is no assurance that debt and equity financing will be available on terms acceptable to the Corporation to meet its capital requirements. If any components of the Corporation's business plan are missing, the Corporation may not be able to execute the entire business plan.

Although OneEx has no set policy concerning financial instruments, the management of OneEx may use financial instruments to reduce corporate risk in certain situations. OneEx has no hedging commitments in place at December 31, 2007.

Abbreviations

BOE ...... barrel of oil equivalent converted at six mcf of natural gas to one barrel of crude oil
BOE/d. .... barrel of oil equivalent per day
Mcf .... thousand cubic feet
Mcf/d ..... thousand cubic feet per day
Mmbtu ... million British Thermal Units
Bbl .... stock tank barrel
Bbl/d. ..... stock tank barrel per day

Management's Report

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the consolidated financial statements and other financial operating data contained elsewhere in the report. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and cash flow, within reasonable limits of materiality and within the framework of the accounting policies as outlined in the notes to the consolidated financial statements.

Management has established and maintained a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

External auditors have examined the consolidated financial statements. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial position of the Company.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The audit committee is responsible for engaging the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

"Signed"

Walter Vrataric
President and Chief Executive Officer

"Signed"

Dennis Ward
Vice President Finance and Chief Financial Officer

April 9, 2008

Auditors' Report

To the Shareholders of One Exploration Inc.

We have audited the consolidated balance sheets of One Exploration Inc., as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2007 and the period from July 20, 2006 to December 31, 2006. 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 December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and the period from July 20, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

"Signed"

KPMG LLP
Chartered Accountants

Calgary, Canada
April 9, 2008

Consolidated Balance Sheets

As at December 31	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 168,814	$ 11,956,767
Accounts receivable	2,937,277	357,441
Prepaid expenses and deposits	1,358,248	70,781
	4,464,339	12,384,989
Property and equipment (note 3)	34,483,312	2,882,224
	$ 38,947,651	**$ 15,267,213**
Liabilities And Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7,240,112	$ 1,120,710
Bank debt (note 4)	797,058	-
Current portion of asset retirement obligations (note 5)	139,799	-
Current portion notes payable (note 4)	385,000	-
	8,561,969	1,120,710
Notes payable (note 4)	-	385,000
Asset retirement obligations (note 5)	1,665,510	138,798
Shareholders' equity:		
Share capital (note 7)	28,564,771	14,377,031
Contributed surplus (note 7(d))	327,482	4,398
Deficit	(172,081)	(758,724)
	28,720,172	13,622,705
Commitments (note 11)	**$ 38,947,651**	**$ 15,267,213**

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

"Signed" "Signed"

Dave Ambedian, Director

Barry Olson, Director

Consolidated Statements of Operations and Deficit

For the year and period ended December 31	2007	2006 (i)
Revenue		
Petroleum and natural gas sales	$ 7,207,211	$ 85,110
Royalties	(1,537,772)	(15,225)
Other income	458,077	27,080
	6,127,516	96,965
Expenses		
Lease operating	2,498,696	42,998
Transportation	176,480	2,577
General and administrative	1,518,259	751,633
Other taxes and fees	529,080	-
Stock-based compensation (note 7(c))	107,084	4,398
Interest	19,205	3,773
Depletion, depreciation and accretion	4,184,069	50,310
	9,032,873	855,689
Loss before income taxes	(2,905,357)	(758,724)
Future income tax recovery (note 6)	(3,492,000)	-
Net earnings (loss)	586,643	(758,724)
Deficit, beginning of year and period	(758,724)	-
Deficit, end of year and period	$ (172,081)	$ (758,724)
Earnings (loss) per share (note 7(e))		
Basic	$ 0.03	$ (0.22)
Diluted	$ 0.03	$ (0.22)

(i) July 20 through December 31

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the year and period ended December 31	2007	2006 (i)
Cash provided by (used in):		
Operating		
Net earnings (loss)	$ 586,643	$ (758,724)
Items not involving cash:		
Depletion, depreciation and accretion	4,184,069	50,310
Stock-based compensation	107,084	4,398
Abandonment expenditures	(52,240)	-
Future income tax recovery	(3,492,000)	-
	1,333,556	(704,016)
Change in non-cash working capital (note 9)	1,074,749	(14,470)
	2,408,305	(718,486)
Financing		
Issue Class A common shares	12,014,350	2,450,000
Issue Class B common shares	-	10,800,000
Repurchase Class A common shares	(90,000)	-
Share issue costs	(878,610)	(1,107,706)
Bank debt	797,058	-
Issuance of notes payable	-	450,000
Repayment of note payable	-	(65,000)
Change in non-cash working capital (note 9)	-	(113,727)
	11,842,798	12,413,567
Investing		
Additions to property and equipment	(27,188,445)	(381,885)
Proceeds on disposition	254,527	-
Corporate acquisition	(85,742)	237,287
Change in non-cash working capital (note 9)	980,604	341,284
	(26,039,056)	196,686
Change in cash and cash equivalents	(11,787,953)	11,891,767
Cash and cash equivalents, beginning of year	11,956,767	65,000
Cash and cash equivalents, end of year	$ 168,814	$ 11,956,767
Cash interest paid	$ 13,865	$ -
Cash interest received	$ 242,282	$ 27,080

(i) July 20 through December 31

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

The consolidated financial statements of One Exploration Inc. (the "Corporation") have been prepared by management in accordance with Canadian generally accepted accounting principles.

INCORPORATION

On February 19, 1999, Nu-Wave Photonics Inc. (the "Corporation") was incorporated under the laws of the Province of Ontario. The name of the Corporation was changed to Zenastra Photonics Inc. ("Zenastra") on August 22, 2000. On October 5, 2001, Zenastra filed an assignment in bankruptcy and a trustee was appointed of the estate of the Corporation. From October 2001 through June 8, 2006 the trustee realized on the assets of the Corporation and made disbursements to the creditors. On June 9, 2006 the Ontario Superior Court in Bankruptcy approved the proposal to creditors of the Corporation dated April 7, 2006 made under the Bankruptcy and Insolvency Act (Canada) and annulled the Corporation's bankruptcy.

On July 19, 2006 the Corporation determined that a substantial realignment of the interests of creditors and shareholders was completed, and accordingly applied the provisions of CICA Handbook section 1625, "Comprehensive Revaluation of Assets and Liabilities" (the "Revaluation"). As a result of the Revaluation, comparative financial information is not presented for periods prior to July 20, 2006.

On November 21, 2006, the Corporation changed its name to One Exploration Inc., completed the reconstitution of its share capital and was continued to Alberta. The Corporation is now engaged in the acquisition of, exploration for and development of crude oil and natural gas in Western Canada.

1. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary. All inter-company transactions and balances have been eliminated.

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates made by management relate to the amounts recorded for future income taxes, depletion, depreciation and accretion, asset retirement obligations, stock-based compensation and the calculation of the ceiling test. Actual results could differ from these estimates.

(b) Oil and gas operations

(i) Capitalization of costs:

The Corporation follows the full cost method of accounting for petroleum and natural gas operations whereby all costs associated with the exploration for, and acquisition and development of oil and gas properties are capitalized in one Canadian cost center. Such costs include expenditures relating to land acquisition, geological and geophysical activities, carrying charges on non-producing properties, drilling both productive and non-productive wells, installation of production equipment, construction of processing facilities and overhead related to exploration and development activities. Capitalized general and administrative costs consist of employees' salaries and consulting costs directly attributable to exploration and development activities.

Proceeds received on the disposition of oil and gas properties are credited against property and equipment except when the disposition results in a change in the depletion rate of 20% or more, in which case a gain or loss is recognized.

(ii) Depletion and depreciation:

Capitalized costs, excluding costs relating to unproven properties and salvage values, are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves before royalties as determined by independent engineers after conversion to units of common measure based on relative energy content. The conversion rate used is six thousand cubic feet of natural gas to one barrel of oil equivalent.

Office equipment is depreciated on a straight line basis over three years.

(iii) Ceiling test:

In applying the full cost method, the Corporation calculates a cost center impairment test to ensure the total capitalized costs less accumulated depletion and depreciation are limited to a "ceiling" amount as described below.

The ceiling amount for a cost center is based on the undiscounted future cash flows from proved reserves using management's best estimate of forward indexed prices and the lower of cost and market of undeveloped land. If the costs are determined to be not fully recoverable, they are written down to fair value. The Corporation estimates fair value as the present value of expected future cash flows from proved and probable reserves, discounted at a risk-free rate, and the lower of cost and market of undeveloped land.

(c) Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation ("ARO") as a liability in the period in which it incurs a legal obligation associated with the retirement of long-lived assets that result from the acquisition, construction and development of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using a unit of production method over estimated proved reserves. The recorded ARO increases over time through accretion charges to earnings. Revisions to the estimated amount or timing of the obligations are reflected as increases or decreases to the ARO. Actual asset retirement expenditures are charged to the ARO to the extent of the recorded liability with any difference recorded as a gain or loss in the period in which settlement occurs.

(d) Joint operations

A portion of the Corporation's exploration and development activities are conducted jointly with others. Accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(e) Flow-through common shares

The Corporation has financed a large portion of its exploration and development activities through the issue of flow-through common shares. Under the terms of the flow-through shares, the income tax attributes of the related expenditure are renounced to the subscribers. To recognize the foregone tax benefits to the Corporation, the flow-through shares issued are recorded net of the tax benefits when renouncement documents are filed with the tax authorities.

(f) Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using 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. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the date of substantive enactment.

(g) Stock-based compensation

The Corporation follows the fair value method for recognition of stock options awarded to directors, officers, employees and consultants. Under this method, the stock options awarded to directors, officers and employees are valued at their fair value on the date of grant using the Black-Scholes option-pricing model and are expensed over the vesting period of the stock options. The compensation cost of stock options issued to non-employees is initially recorded at fair value and is periodically remeasured to fair value until the non-employees' performance is complete. The fair value of stock options issued to non-employees is expensed over the vesting period of the options.

The Corporation accounts for actual forfeitures as they occur.

(h) Per share information

Basic per share amounts are calculated using the weighted average number of Class A and Class B shares outstanding during the period. Class B shares are converted to Class A shares at $10 divided by the greater of $1 and the Class A closing market price for the period. Diluted per share amounts are calculated by adjusting the weighted average number of shares for the dilutive effect of options, using the treasury stock method. Under this method, the dilutive effect of options uses proceeds received on the exercise of options plus the unamortized portion of stock-based compensation to purchase Class A shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash and term deposits with an original maturity date of three months or less.

(j) Revenue recognition

Revenues associated with the sale of crude oil and natural gas are recognized when title passes to the purchaser.

(k) Financial Instruments

Effective January 1, 2007, the Corporation adopted the following CICA Handbook Sections: 1530 "Comprehensive Income", 3855 "Financial Instruments – recognition and measurement", 3861 "Financial Instruments – disclosure and presentation," and 3865 "Hedges". The principal changes in the accounting for financial instruments due to the adoption are described below.

Upon adoption of these standards, the Corporation has classified all financial instruments into one of the following five categories: 1) loans and receivables; 2) assets held to maturity; 3) assets available for sale; 4) other financial liabilities; and 5) held for trading. Financial instruments classified as held for trading are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in net income. Financial instruments classified as available for sale are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in other comprehensive income, until realized through disposal or impairment. All other financial instruments are measured at amortized cost. The Corporation has made the following classifications:

- Cash and cash equivalents is classified as financial assets held for trading
- Accounts receivable are classified as loans and receivables
- Accounts payable and accrued liabilities, notes payable and bank debt have been classified as other financial liabilities

The Corporation did not classify any financial instruments as available for sale during the period, and therefore no "other comprehensive income" was recorded.

(i) Derivative Financial Instruments

Derivative financial instruments are classified as held for trading and recorded on the consolidated balance sheet at fair value. Changes in the fair value of these financial instruments are recognized in net income in the consolidated statements of operations in the period in which they occur.

The Corporation does not have any derivative instruments outstanding at December 31, 2007.

(ii) Embedded Derivatives

Embedded derivatives are derivatives embedded in a host contract. They are recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not classified as held for trading and recorded at fair value. As of December 31, 2007 the Corporation did not have any embedded derivatives to record within the new standards.

(iii) Impact upon Adoption

No adjustments were required to the financial statements on the adoption of these new standards.

(l) Recent accounting pronouncements

The Corporation has assessed new accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Corporation:

(i) As of January 1, 2008 the Corporation will be required to adopt CICA Handbook section 1535, "Capital Disclosures", which will require the Corporation to disclose its policies, objectives and processes for managing capital.

(ii) As of January 1, 2008 the Corporation will be required to adopt CICA Handbook section 3862, "Financial Instruments – Disclosures". The new standard will increase the Corporation's disclosure of risks associated with financial instruments and how those risks are managed.

2. Acquisitions

On April 23, 2007 the Corporation acquired all of the issued and outstanding shares of Tsunami Petroleum Corp. ("Tsunami") in exchange for 5,000,000 Class A common shares and accounted for the acquisition using the purchase method. Tsunami was a private Alberta-incorporated exploration company that held various non-operated working interests in a number of locations throughout Alberta including the Morley, Ferrier, Atmore and Highvale areas. Tsunami owned approximately 4,900 net undeveloped acres of land in Alberta.

Net assets acquired:		
Cash	$	80,379
Non-cash working capital deficiency		(196,746)
Petroleum and natural gas properties		7,168,295
Asset retirement obligations		(35,807)
	$	7,016,121
Consideration:		
Issuance of 5,000,000 Class A common shares	$	6,850,000
Transaction costs		166,121
	$	27,080

On June 21, 2007, the Corporation completed the acquisition of assets in the Paddle River area of Alberta for cash consideration of $10.5 million.

On December 11, 2006, the Corporation acquired all of the issued and outstanding shares of a private oil company operating in Alberta. As consideration, the Corporation issued 2,800,144 Class A shares. The purchase price was allocated as follows:

Net assets acquired:		
Cash	$	237,287
Non-cash working capital		26,088
Petroleum and natural gas properties		2,550,266
Asset retirement obligations		(138,415)
	$	2,675,226
Consideration:		
Issuance of 2,800,144 Class A Shares	$	2,652,737
Transaction costs		22,489
	$	2,675,226

3. Property and equipment

		Cost		Accumulated depletion and depreciation		Net book value
December 31, 2007						
Petroleum and natural gas properties	$	38,567,016	$	(4,179,711)	$	34,387,305
Other assets		119,893		(23,886)		96,007
	$	38,686,909	$	(4,203,597)	$	34,483,312
December 31, 2006						
Petroleum and natural gas properties	$	2,884,467	$	(47,364)	$	2,837,103
Other assets		47,683		(2,562)		45,121
	$	2,932,150	$	(49,926)	$	2,882,224

During the year ended December 31, 2007, the Corporation capitalized $224,654 of administrative costs relating to exploration and development activities.

The following adjustments were made in the calculation of depletion:

Adjustments to net book value for depletion calculation:		As at December 31, 2007		As at December 31, 2006
Future development costs of proven reserves		889,000		26,000
Unproved properties		(3,336,184)		(1,547,689)
Wells under evaluation		(2,037,443)		-
Estimated salvage value		(180,000)		(40,000)
Total	$	(4,664,627)	$	(1,561,689)

The Corporation performed a ceiling test calculation at December 31, 2007. The oil and gas future prices are based on the December 31, 2007 commodity price forecast of our independent reserve evaluators, adjusted for commodity price differentials specific to the Corporation. The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, the undiscounted value of future net revenues from the Corporation's proved reserves exceeded the carrying value of the property and equipment at December 31, 2007 and therefore no write-down was required.

The following table outlines the key assumptions used in the calculation of future net revenues as provided by the Corporation's independent reserve evaluators in their report dated March 13, 2008:

Summary of Pricing and Inflation Rate Assumptions as of December 31, 2007

Forecast Prices and Costs

Year	Crude oil WTI Cushing Oklahoma ($US/bbl)	Crude oil Edmonton Par Price 40° API ($Cdn/bbl)	Crude oil Cromer Medium 29.3° API ($Cdn/bbl)	Natural Gas[1] AECO Gas Prices ($Cdn/ MMBtu)	Pentanes Plus FOB Field Gate ($Cdn/bbl)	Butanes F.O.B. Field Gate ($Cdn/bbl)	Inflation Rate[2] (%/Yr)	Exchange Rate[3] ($US/$Cdn)
2008	89.61	88.17	75.83	6.51	90.30	65.72	2.0	1.000
2009	86.01	84.54	72.71	7.22	86.58	63.01	2.0	1.000
2010	84.65	83.16	71.52	7.69	85.17	61.98	2.0	1.000
2011	82.77	81.26	69.89	7.70	83.23	60.57	2.0	1.000
2012	82.26	80.73	69.43	7.61	82.68	60.17	2.0	1.000
thereafter				Various Escalation Rates				

(1) This summary table identifies benchmark reference pricing schedules that might apply to a reporting issuer.
(2) Inflation rates for forecasting prices and costs.
(3) Exchange rates used to generate the benchmark reference prices in this table.

4. Bank debt and notes payable

On November 20, 2007 the Corporation agreed to a revolving term credit agreement with a Canadian chartered bank with an authorized amount of $7,000,000. The agreement is secured by a demand debenture for $20,000,000 secured by a first floating charge over all assets and general assignment of book debts. The revolving credit agreement bears interest at the bank's prime lending rate plus 0.25% and revolves until May 31, 2008 at which time the credit facility may be converted to a term loan at the bank's option. The Corporation must maintain a cash flow to interest expense ratio of 2.5:1 on a rolling four quarter basis; a debt to cash flow ratio of 3.0:1 calculated on a rolling four quarter basis and total debt must not exceed 133 percent of the Corporation's $7,000,000 borrowing base.

The notes payable were issued on September 21, 2006 and bear interest at three percent until September 21, 2007 and six percent thereafter. The notes do not have a specified repayment date.

5. Asset retirement obligations

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $4.6 million which is projected to be incurred between 2008 and 2023. A credit-adjusted risk-free rate of 8.1% per annum and an inflation rate of 2.2% per annum were used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

Asset retirement obligations, July 20, 2006	$	-
Liabilities assumed on corporate acquisition		138,415
Accretion		383
Asset retirement obligations, December 31, 2006		138,798
Liabilities assumed on corporate acquisition		35,807
Liabilities incurred through property acquisition and drilling		1,652,546
Accretion		30,398
Abandonment costs incurred		(52,240)
Total asset retirement obligations, December 31, 2007		1,805,309
Current portion		(139,799)
Asset retirement obligations, December 31, 2007	$	1,665,510

6. Income taxes

The difference between the expected income tax provision and the reported income tax provision is summarized below:

	2007	2006[(i)]
Loss before income taxes	$ (2,905,357)	$ (758,724)
Combined federal and provincial tax rate	32.1%	32.1%
Computed "expected" income taxes	(933,201)	(243,550)
Increase (decrease) in income taxes resulting from:		
Non-deductible crown charges and other	-	(14,419)
Changes to future income tax rates	1,447,115	5,416,789
Stock-based compensation	34,395	-
Loss carry forward expiry	1,241,267	
Valuation allowance and other	(5,281,576)	(5,158,820)
Future income tax recovery	$ (3,492,000)	$ -

The major components of the net future income tax assets, calculated using a 29.5 to 25.0 percent (2006 – 29.0 percent) future tax rate are as follows:

		2007		2006[i]
Future income tax assets (liabilities):				
Property, plant and equipment	$	(3,766,245)	$	654,788
Asset retirement obligations		451,327		40,251
Share issue costs		381,667		321,235
Scientific Research and Experimental Development		8,281,696		9,606,788
Non-capital losses		11,105,257		12,435,578
		16,453,702		23,058,620
Less valuation allowance		(16,453,702)		(23,058,620)
Net future income tax asset	$	-	$	-

The following table outlines the years that the Corporation's non-capital losses expire:

2008	$	21,587,748
2009		13,158,287
2010		1,293,227
2014		965,770
2015		181,215
2026		441,031
2027		589,490
	$	38,216,768

The Corporation has $4,890,494 of Investment Tax Credits that will expire in 2011.

The future income tax recovery of $3,492,000 recorded during the first quarter of 2007 arises from the recognition of previously unrecognized future tax benefits. The future income tax recovery related to the $6,001,050 of flow-through shares issued on June 21, 2007 will be recorded in the first quarter of 2008.

7. Share capital

(a) Authorized

Class A shares are entitled to one vote per share.

Class B shares are convertible (at the option of the Corporation) at any time after December 31, 2009 and before December 31, 2011, into Class A shares upon five days prior notice to the holders of the Class B shares. The number of Class A shares obtained upon conversion of each Class B share will be equal to $10.00 divided by the greater of $1.00 and the weighted average trading price for the 30 consecutive trading days preceding the effective date of the conversion of the Class B shares. If the Corporation fails to exercise the conversion option by the close of business on December 31, 2011, then the Class B shares shall be convertible at the option of the shareholder, at any time, on or after January 1, 2012 and before February 1, 2012 into Class A shares pursuant to the formula described above. Any Class B shares outstanding at the close of business on February 1, 2012 will be automatically converted into Class A shares. Class B shares are entitled to one vote per share.

Preferred shares are issuable in series and for each series the Board of Directors of the Corporation will fix the number of shares, the rights, privileges and conditions to be attached to each series of Preferred Shares.

Share class	Authorized
Class A shares	Unlimited
Class B shares	Unlimited
Preferred shares	Unlimited

(b) Issued and outstanding

	Number of Shares		Amount
Common shares			
Balance as at July 20, 2006	60,532,622	$	1
Share reconstitution	(60,532,622)		(1)
	-	$	-
Class A shares			
Balance as at July 20, 2006	-	$	-
Share reconstitution	840,193		-
Initial public offering	4,800,000		1,200,000
Private placement	5,000,000		1,250,000
Acquisition of 1243908 Alberta Ltd. (note 2)	2,800,144		2,652,737
Balance as at December 31, 2006	13,440,337	$	5,102,737
Acquisition of Tsunami (note 2)	5,000,000		6,850,000
Issued for cash on June 21, 2007	8,253,000		12,001,850
Repurchased and cancelled	(360,000)		(306,000)
Issued on exercise of stock options	50,000		12,500
Balance as at December 31, 2007	26,383,337	$	23,661,087
Class B shares			
Balance as at July 20, 2006	-	$	-
Share reconstitution	188,862		1
Initial public offering	1,080,000		10,800,000
Balance as at December 31, 2006 and 2007	1,268,862	$	10,800,001
Capital deficiency			
Balance December 31, 2006 and 2007, arising from comprehensive revaluation on July 20, 2006		$	(418,001)
Share issue costs			
Balance as at July 20, 2006		$	-
Costs incurred			(1,107,706)
Balance as at December 31, 2006		$	(1,107,706)
Costs incurred			(878,610)
Balance as at December 31, 2007		$	(1,986,316)
Future taxes on flow through shares		$	(3,492,000)
Total share capital on December 31, 2007		$	28,564,771

On November 21, 2006 the Corporation's share capital was reconstituted from Common shares to Class A shares and Class B shares on the basis of 0.01388 of a Class A share and 0.00312 of a Class B share for each outstanding Common Share. The Corporation completed its initial public offering on November 28, 2006 consisting of 12,000 units on a "flow-though" basis at $1,000 per unit for total gross proceeds of $12,000,000. Each unit was comprised of 400 Class A shares at an ascribed value of $0.25 per share and 90 Class B shares at an ascribed price of $10 per share. The Corporation was obligated to incur $12,000,000 of Canadian Exploration Expense by December 31, 2007 under the terms of the flow through agreement (see note 11). On December 4, 2006 the Corporation completed the private placement of 5,000,000 Class A shares for cash at $0.25 per share for total gross proceeds of $1,250,000. On December 11, 2006 the Corporation completed the acquisition of 1243908 Alberta Ltd. through the issuance of 2,800,144 Class A shares.

On April 23, 2007 the Corporation completed the acquisition of Tsunami Petroleum Corp. by issuing 5,000,000 Class A shares (note 2). On June 21 2007, the Corporation issued 4,616,000 Class A shares at $1.30 per share and 3,637,000 Class A shares at $1.65 on a "flow-through" basis (see note 11) for gross cash proceeds totaling $12,001,850. Under the terms of an employee escrow agreement the Corporation repurchased and cancelled 360,000 Class A shares for cash consideration of $90,000 on December 19, 2007.

(c) Stock options

The Corporation has stock option plans under which it is authorized to grant options to purchase Class A and Class B shares of the Corporation up to the equivalent of 10 percent of the number of Class A shares outstanding and Class B shares outstanding respectively. Options under the stock option plan vest as to one-third per year over three years and expire after a five year term. The exercise price of each option equals the market price at the date of the grant. There are no options outstanding to purchase Class B shares. As at December 31, 2007 the Corporation could grant up to 2,638,333 Class A stock options and 126,886 Class B stock options. The following table summarizes changes in Class A stock options outstanding:

	Number of Options		Weighted average exercise price
Stock options outstanding as at July 20, 2006	-	$	-
Granted	1,064,000		0.25
Stock options outstanding as at December 31, 2006	1,064,000	$	0.25
Granted	877,500		0.89
Exercised	(50,000)		0.25
Forfeited	(100,000)		0.25
Stock options outstanding as at December 31, 2007	1,791,500	$	0.56

The following table summarizes stock options outstanding and exercisable under the Class A stock option plan at December 31, 2007:

	Exercise price range	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number exercisable		Weighted average exercisable price
$	0.25	914,000	3.93	$	0.25	304,668	$	0.25
$	0.50 – 1.00	567,500	4.96	$	0.67	Nil		-
$	1.30	310,000	4.47	$	1.30	Nil		-
		1,791,500	4.35	$	0.56	304,668	$	0.25

The fair value of each stock option grant is estimated using the Black-Scholes option pricing model and resulted in an average fair value of $0.40 (2006 - $0.10) per share option granted in 2007. The fair value of 105,000 stock options issued to consultants was revalued as at December 31, 2007 using a volatility of 71.7 percent, risk free rate of 3.8 percent and an expected life of 2.0 years, resulting in a weighted average fair value of $0.46 per share option. Assumptions used in determining the fair value of stock options at the date of the grant are summarized in the following table:

Assumptions	2007	2006
Risk free interest rate (%)	4.0	3.9
Expected volatility (%)	64.2	48.0
Expected life (years)	3.5	5.0
Dividend yield (%)	0.0	0.0

(d)Contributed surplus

Contributed surplus as July 20, 2006	$	-
Stock-based compensation expense		4,398
Contributed surplus as at December 31, 2006	$	4,398
Stock-based compensation expense		107,084
Share repurchase and cancellation		216,000
Contributed surplus as at December 31, 2007	$	327,482

(e) Per share amounts

For purposes of calculating total basic and diluted shares outstanding, the Corporation's Class B shares were converted to Class A shares on a one for one basis. For securities issued during the year, shares are included in the calculation of basic and diluted earnings per share from the date of issuance. The Corporation follows the treasury stock method of determining the fully diluted earnings per share. Under the treasury stock method outstanding stock options are assumed to be issued at the exercise price and the proceeds used to repurchase shares at the average market price during the period. The weighted average number of shares outstanding used to calculate basic and diluted per share amounts are as follows:

Year and period ended December 31	2007	2006(i)
Basic	22,536,421	3,376,878
Diluted	23,383,966	3,376,878

(i) Post comprehensive revaluation period July 20 through December 31

8. Related party transactions

(a) A director of the Corporation holds $225,000 of the notes payable issued by the Corporation in respect of advisory fees relating to the restructuring of the Corporation (note 4). This director is a trustee and director of an entity which provided water disposal services to the properties owned by the Corporation. The Corporation incurred expenses of $43,523 (2006 - $2,531) for such water disposal during the year ended December 31, 2007 and owes $641 (2006 - $3,857) as at December 31, 2007.

(b) A director of the Corporation is a partner in a law firm that provides services to the Corporation. The Corporation incurred $179,999 (2006 – $285,547) during the year ended December 31, 2007 and $77,888 (2006 - $285,547) is included in accounts payable and accrued liabilities as at December 31, 2007.

9. Cash flow information

Year ended December 31		2007		2006(i)
Provided by (use of):				
Accounts receivable	$	(2,579,836)	$	(357,441)
Prepaid expenses and deposits		(1,287,467)		(70,781)
Accounts payable		6,119,402		637,710
Arising from business acquisition		(196,746)		3,599
Change in non-cash working capital	$	2,055,353	$	213,087
Relating to:				
Operating	$	1,074,749	$	(14,470)
Financing		-		(113,727)
Investing		980,604		341,284
Change in non-cash working capital	$	2,055,353	$	213,087

(i) Post comprehensive revaluation period July 20 through December 31

10. Financial instruments

(a) Fair values

The Corporation's financial instruments reflected on the balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt and notes payable. The fair value of these financial instruments approximated their carrying amounts as at December 31, 2007 and 2006.

(b) Credit risk

The Corporation is exposed to credit risk from financial instruments to the extent of non-performance by third parties. A substantial portion of the Corporation's accounts receivable and accounts payable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal credit risks.

(c) Interest rate risk

The Corporation is exposed to interest rate risk arising from its outstanding bank debt which has a floating interest rate.

11. Commitments

(a) Flow-through shares

In 2006, the Corporation issued 12,000 flow-through units at $1,000 per unit consisting of 400 Class A common shares and 90 Class B common shares for gross proceeds of $12,000,000. At December 31, 2007 the Corporation had a remaining obligation to incur eligible expenditures of approximately $49,000.

In June 2007, the Corporation issued 8,253,000 Class A common shares, of which 3,637,000 shares were flow-through Class A common shares issued at $1.65 per share. At December 31, 2007 the Corporation has a remaining obligation to incur eligible expenditures of $6,001,050 prior to December 31, 2008.

(b) Office lease

The following table outlines the Corporation's minimum lease payments under its office lease through expiry in October 2010.

2008	$	468,048
2009		468,048
2010		405,040
Total	**$**	**1,341,136**

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Jim Fong
Jeff Heim
Corinne Hittle
Laraine Kish
Marianne McKay
Brad Molnar
Jacqueline Pare
Sarah Peters
Gordon Reich
Carley Sutton
Walter Vrataric
Dennis Ward
Aaron Williams
Darrel Zacharias

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Dave Ambedian(2)(3)
Al Kroontje(1)
Barry Olson(1)(2)(3)
Jay Reid(2)(3)
Walter Vrataric(1)

(1) Reserves Committee
(2) Audit Committee
(3) Corporate Governance, Compensation and Nominating Committee

BANKER

Scotiabank , Calgary, Alberta

AUDITORS

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LEGAL COUNSEL

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