

**Calvalley Petroleum Inc.  
Consolidated Financial Statements  
For the Three Months Ended  
March 31, 2008  
(Expressed in Thousands of United  
States Dollars)  
RESTATED**

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**In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended March 31, 2008.**

**Calvalley Petroleum Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited - Expressed in thousands of US Dollars)

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents [note 4]	<b>\$17,412</b>	\$ 51,441
Guaranteed Investment Certificate [note 5]	<b>31,781</b>	5,027
Accounts receivable	<b>13,918</b>	16,975
Due from joint venture partners [note 6]	<b>23,722</b>	22,219
Oil inventory [note 7]	<b>413</b>	71
Prepaid expenses	<b>247</b>	179
	<b>87,493</b>	95,912
<b>Property and equipment [note 8]</b>	<b>71,340</b>	66,818
	<b>\$158,833</b>	\$162,730
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<b>\$11,125</b>	\$20,853
	<b>11,125</b>	20,853
<b>Asset retirement obligations [note 9]</b>	<b>57</b>	60
	<b>11,182</b>	20,913
<b>Commitments [note 17]</b>		
<b>Contingency [note 18]</b>		
<b>Shareholders' equity</b>		
Share capital [note 10]	<b>119,643</b>	119,485
Contributed surplus [note 11]	<b>4,096</b>	4,019
Accumulated other comprehensive income	<b>3,963</b>	3,963
Retained earnings (deficit)	<b>19,949</b>	14,350
	<b>147,651</b>	141,817
	<b>\$158,833</b>	\$162,730

*See accompanying notes*

On behalf of the Board:

*"Signed"*

Edmund Shimoon

*"Signed"*

Gary Robertson

**Calvalley Petroleum Inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND RETAINED EARNINGS (DEFICIT)**  
(Unaudited - Expressed in thousands of US Dollars)

For the three months ended March 31	2008	2007 (Restated, note 3)
<b>REVENUE</b>		
Oil sales	\$12,646	\$10,882
Royalties	(144)	(166)
	<b>12,502</b>	10,716
Management fees	104	462
Interest and other	544	575
	<b>13,150</b>	11,753
<b>EXPENSES</b>		
Operating	2,018	3,589
General and administration, net of recoveries	1,233	720
Stock-based compensation	121	213
Depletion, depreciation and accretion	2,777	2,469
	<b>6,149</b>	6,991
Income before other items	7,001	4,762
Foreign exchange gain (loss)	(113)	328
<b>Income before income tax</b>	<b>6,888</b>	5,090
Income tax	1,289	908
<b>Net income and comprehensive income</b>	<b>\$5,599</b>	\$4,182
Retained earnings (deficit), beginning of period	\$14,350	\$(8,950)
<b>Retained earnings (deficit), end of period</b>	<b>\$19,949</b>	\$(4,768)
<b>Earnings per share [note 15]</b>		
<b>Basic</b>	\$0.06	\$0.04
<b>Diluted</b>	\$0.06	\$0.04

*See accompanying notes*

**Calvalley Petroleum Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited - Expressed in thousands of US Dollars)

For the three months ended March 31

	<b>2008</b>	2007 (Restated, note 3)
<b>OPERATING ACTIVITIES</b>		
Net income for the period	<b>\$5,599</b>	\$4,182
Add (deduct) items not affecting cash		
Stock-based compensation	<b>121</b>	213
Depletion depreciation and accretion	<b>2,777</b>	2,469
Unrealized foreign exchange gain	<b>(96)</b>	-
	<b>8,401</b>	6,864
Change in non-cash working capital [note 13]	<b>(8,012)</b>	(11,063)
Unrealized foreign exchange gain relating to non-cash working capital	<b>(80)</b>	-
	<b>309</b>	(4,199)
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	<b>(7,359)</b>	(6,461)
Change in non-cash working capital [note 13]	<b>(512)</b>	99
Investment in GIC	<b>(26,754)</b>	-
	<b>(34,625)</b>	(6,362)
<b>FINANCING ACTIVITY</b>		
Issuance of common shares	<b>114</b>	160
Foreign exchange gain on cash held in foreign currencies	<b>172</b>	25
Increase (decrease) in cash	<b>(34,030)</b>	(10,376)
Cash and cash equivalents, beginning of period	<b>51,442</b>	64,070
<b>Cash and cash equivalents, end of period</b>	<b>\$17,412</b>	\$53,694

*See accompanying notes*

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited - Expressed in thousands of US Dollars)**

**March 31, 2008**

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**1. BASIS OF PRESENTATION**

The interim consolidated financial statements include the accounts of Calvalley Petroleum Inc. and its subsidiaries ("Calvalley" or the "Company") for the three month periods ended March 31, 2008 and 2007 and are presented in accordance with Canadian generally accepted accounting principles on the same basis as the audited consolidated financial statements as at and for the year ended December 31, 2007, except as outlined in Note 2. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Calvalley's annual report for the year ended December 31, 2007. In these interim consolidated financial statements, unless otherwise indicated, all dollars are expressed in thousands of United States (US) dollars. All references to US\$ or to \$ are US dollars and references to C\$ are to Canadian dollars.

**2. CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 1535, *Capital Disclosures* as issued by the Accounting Standards Board ("AcSB"). The main features of this section are to establish requirements for an entity to disclose qualitative information about its objectives, policies and processes for managing capital, quantitative data about what it regards as capital, and whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

Effective January 1, 2008, the Company adopted CICA Section 3862, *Financial Instruments Disclosures*, and CICA Section 3863, *Financial Instruments Presentations*, which require incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

The Company has applied these new standards prospectively in Note 11 - Capital disclosures for Section 1535 *Capital Disclosures* and in Note 15 - Financial instruments and risk management for Sections 3862 *Financial Instruments Disclosures* and 3863 *Financial Instruments Presentations*.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031 *Inventories*. The new section provides guidance regarding the measurement of inventories including the allocation of costs such as overhead / fixed production costs, allows for the reversal of previous write-downs and requires additional disclosure. The additional disclosure required has been disclosed in Note 6.

**New accounting standards**

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its Consolidated Financial Statements.

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited - Expressed in thousands of US Dollars)**

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**2. CHANGES IN ACCOUNTING POLICIES (continued)**

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008, the AcSB has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards will replace Canada's current Generally Accepted Accounting Principles ("GAAP") for all publicly accountable profit-oriented enterprises. The Company is currently evaluating the impact of this changeover on its Consolidated Financial Statements.

**3. RESTATEMENTS**

The Company has refiled its Consolidated Financial Statements for the three months ended March 31, 2008 to present the comparative results for the three months ended March 31, 2007. The restatements for the period ended March 31, 2007 are summarized as follows:

- (a) The Company determined certain adjustments were required to comply with the new CICA Handbook Section 1530, Comprehensive Income and the correct application of the temporal method in translating the financial statements of the Canadian Parent to US dollars. These adjustments resulted in the reversal of \$256 of comprehensive income which had been recorded and the adjustment of foreign exchange gain of \$379 to a gain of \$328.
- (b) The Company commenced commercial operations on January 1, 2007 and as a result reversed \$1,305 of operating expenses which had been capitalized to property and equipment.
- (c) The Company accrued additional liabilities relating to capital costs of \$619, operating expenses of \$774 and general and administrative expenses of \$25 and accounts receivable from joint venture partners of \$1,418 for their share of these accrued liabilities.
- (d) The Company reclassified amounts receivable from joint venture partners totaling \$8,394 to accounts receivable representing their share of oil sold during March, 2007 and a further \$1,017 which was misclassified as Due from Joint Venture Partners.

While the restatement adjustments change the Company's previously reported results of operations of the comparative interim reporting period, there was no impact on the audited financial statements filed for the year ended December 31, 2007.

The impact of the restatement on the consolidated statement of income (loss) and deficit for the quarter ended March 31, 2007 is as follows:

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - Expressed in thousands of US Dollars)

**March 31, 2008**

**3. RESTATEMENTS (Continued)**

CONSOLIDATED STATEMENT OF INCOME (LOSS) & DEFICIT, RESTATED

	<u>Three months ended March 31, 2007</u>		
	<b>As previously reported</b>	<b>Restatements</b>	<b>As restated</b>
Revenue			
Oil sales	10,882		10,882
Management Fee	462		462
Royalties (net of ARTC)	(166)		(166)
	11,178		11,178
Interest	575		575
	11,753		11,753
Expenses			
Operating	1,509	2,080	3,589
General and administrative	903	(183)	720
Stock-based compensation	179	34	213
Depletion, depreciation and amortization	2,469		2,469
	5,060		6,990
Income(loss) before other	6,693		4,762
Foreign exchange gain (loss)	379	(51)	328
Income before income tax	7,072		5,090
Income tax	908		908
Net income(loss) and comprehensive income for the period	6,164		4,182

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at March 31, 2008 include various short-term deposits of \$15,950 (2007 - \$48,085), bearing interest at 2.45% to 4.30% (2007 - 3.65% to 4.65%) and maturing from April 3, 2008 to May 11, 2008 and \$2,626 (2006 - \$3,356) of cash.

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - Expressed in thousands of US Dollars)

**March 31, 2008**

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**5. GUARANTEED INVESTMENT CERTIFICATE**

Guaranteed investment certificates ("GIC") with maturity dates in excess of 90 days have been excluded from cash and cash equivalents. One GIC in the amount of \$5,010 bears interest at 4.15% and matures on May 6, 2008. Another GIC in the amount of \$26,744 bears interest at 2.25%, can be redeemed at any time without penalty, and matures on March 25, 2009. The GIC's are carried at cost plus interest, which approximates fair value.

**6. DUE FROM JOINT VENTURE PARTNERS**

Amounts due from joint venture partners are comprised primarily of amounts due for operating costs and capital expenditures. The balances are due under normal trade terms.

**7. OIL INVENTORY**

Oil Inventory represents the volume of crude oil in storage, which is valued at the aggregate of average production costs and depletion costs per barrel. Inventory is stated at the lower of cost and net realizable value. Inventory sold is expensed through production and depletion expenses in the period when it is sold. During the quarter, \$71 (2007 - \$929) was expensed with respect to oil which was sold.

**8. PROPERTY AND EQUIPMENT**

	<b>March 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Depletion and Depreciation</b>	<b>Net Book Value</b>
<b>Canada</b>			
Oil and gas properties and equipment	\$128	\$61	\$67
Other capital assets	213	103	110
	<b>341</b>	<b>164</b>	<b>177</b>
<b>Yemen</b>			
Oil and gas properties	91,443	20,280	71,163
	<b>\$91,784</b>	<b>\$20,444</b>	<b>\$71,340</b>

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - Expressed in thousands of US Dollars)

**March 31, 2008**

**8. PROPERTY AND EQUIPMENT (CONTINUED)**

	December 31, 2007		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Canada			
Oil and gas properties and equipment	\$120	\$35	\$85
Other capital assets	220	115	105
	340	150	190
Yemen			
Oil and gas properties	84,085	17,457	66,628
	\$84,425	\$17,607	\$66,818

**Ceiling Test**

The Company performed a ceiling test to assess the recoverable value of its property and equipment. The crude oil future prices are based on commodity prices forecasted by independent reserve engineers adjusted for differentials specific to the Company's reserves. The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, the value of future net revenues from the Company's reserves exceeded the carrying value of property and equipment at March 31, 2008.

Year	Brent Crude Oil Price \$ US/BBL
2008	89.00
2009	85.70
2010	82.20
2011	78.50
2012	77.40
2013	76.20
2014	77.70
2015	79.30
Annual escalation thereafter	2.0%

**Canada**

Existing properties are comprised of a working interest in one property in Saskatchewan and overriding royalties.

**Yemen**

The Company has a 50% working interest in the Malik Block 9 Joint Venture in Yemen. The Company's right to produce crude oil under the Production Sharing agreement ('PSA') continues to 2025, with a provision for a 5 year extension. The ownership of all assets, tangible and intangible, remains with the Yemen authority.

During the period the Company capitalized overhead costs relating to oil and gas exploration and development activities of \$504 (2007 - \$ 203). The Company excluded from capital costs subject to the depletion expense calculation an amount of \$12,769 (2007 - \$5,811) in respect of the capital costs incurred for processing facilities under construction and not in use at year end.

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**March 31, 2008**

**9. ASSET RETIREMENT OBLIGATIONS**

The total undiscounted amount of estimated cash flows required to settle the obligations in Canada is \$70 (2007 - \$70), which has been discounted using a credit adjusted risk-free rate of 5 percent (2007 - 5%). These obligations relate to its Canadian oil and gas property and are expected to be settled by 2011.

	2007	2006
	\$	\$
Opening balance	60	48
Accretion expense	-	-
Foreign exchange difference	(3)	-
Closing balance	57	48

No provision has been made for retirement obligations associated with property and equipment situated in Yemen. The PSA provides that all property and equipment will be transferred to the Government of Yemen prior to the end of the expiration of the agreement. All asset retirement activities during the term of the agreement are fully cost recoverable from the proceeds of cost oil under the terms of the PSA.

**10. SHARE CAPITAL**

**a. Common shares**

**Authorized:**

Unlimited number of Class A Common Voting Shares.

Issued:	Three Months Ended March 31, 2008		Year Ended December 31, 2007	
	Shares (000)	Amount	Shares (000)	Amount
Class A Common Voting Shares				
Shares outstanding, beginning of period	101,430	\$119,485	101,007	\$118,678
Issued on the exercise of options	40	114	423	663
Stock based compensation reclassified on exercise of options		44		144
Balance, end of period	101,470	119,643	101,430	\$119,485

**a. Stock options**

The Company's restated stock option plan, as approved effective May 21, 2006 provides for the issue of stock options to directors, officers, employees and consultants. Vesting terms are determined by the Board as they are granted and currently include periods ranging from immediately to evenly over 3 or 5 years. The options' maximum term is 5 years (10 years for options granted prior to October 1, 2001).

A total of 10,147,049 (2006 – 5,133,517) shares have been reserved for issue under this plan. Options, which are forfeited, are available for reissue.

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - Expressed in thousands of US Dollars)

**March 31, 2008**

**10. SHARE CAPITAL (continued)**

The following is a continuity of stock options outstanding:

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Options (000)	Weighted Average Exercise Price	Options (000)	Weighted Average Exercise Price
<b>Opening Balance</b>	<b>2,970</b>	<b>C\$3.92</b>	2,895	C\$3.34
Granted	-	-	715	C\$6.71
Forfeited	<b>(60)</b>	<b>C\$7.38</b>	(217)	C\$5.35
Exercised	<b>(40)</b>	<b>C\$2.83</b>	(423)	C\$1.71
<b>Ending balance</b>	<b>2,870</b>	<b>C\$3.86</b>	2,970	C\$3.92

Stock options outstanding at March 31, 2008 were as follows:

Number of Options (000)		Exercise Price	Expiry Date
Granted	Exercisable		
400	400	C\$0.90	2011
50	50	C\$1.40	2009
50	50	C\$1.60	2008
500	500	C\$1.60	2009
75	30	C\$1.60	2010
125	125	C\$3.80	2010
480	390	C\$4.05	2010
350	350	C\$4.20	2010
375	-	C\$6.05	2012
75	75	C\$6.86	2011
75	25	C\$7.21	2011
240	240	C\$7.61	2012
75	25	C\$8.05	2011
<b>2,870</b>	<b>2,260</b>	<b>C\$3.86</b>	

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - Expressed in thousands of US Dollars)

**March 31, 2008**

**10. SHARE CAPITAL (continued)**

During the quarter ended March 31, 2008, stock based compensation expense of \$121 was expensed and credited to contributed surplus. No options were granted during the first quarter of 2008. The fair value of the options granted during the year ended December 31, 2007 was C\$3,424 or C\$4.79 per option using a Black-Scholes Option Pricing model with the following assumptions:

	Three months ended March 31,	
	2008	2007
Risk-free interest rate	n/a	4%
Expected hold period to exercise	n/a	5 years
Volatility in the price of the Company's shares	n/a	65%
Dividend yield	Nil	Nil

**11. CONTRIBUTED SURPLUS**

	Three months ended March 31,	
	2008	2007
	\$	\$
Opening balance	4,019	2,409
Stock based compensation	121	179
Stock based compensation associated with exercised options and warrants	(44)	(27)
Foreign exchange adjustment	-	23
Closing balance	4,096	2,584

**12. CAPITAL DISCLOSURE**

The Company defines and computes its capital as follows:

	March 31, 2008	December 31, 2007
Shareholders' equity	\$147,651	\$141,817
Long-term debt	-	-
Cash	(17,412)	(51,441)
Guaranteed Investment Certificates	(31,781)	(5,027)
Total capital	\$98,458	\$85,349

The Company's objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue or repurchase shares, incur debt or sell assets to reduce debt.

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - Expressed in thousands of US Dollars)

**March 31, 2008**

**12. CAPITAL DISCLOSURE (continued)**

The Company currently has no requirement for debt financing and has not required debt financing over the last two completed fiscal years. The objectives and strategy for utilizing capital are monitored to provide the appropriate capital structure for the risk profile of corporate objectives.

The Company has no financial covenants.

**13. SUPPLEMENTAL CASH FLOW INFORMATION**

	Three months ended March 31,	
	2008 \$	2007 \$
Changes in non-cash working capital		
Accounts receivable	3,057	(10,531)
Due from joint venture partners	(1,503)	6,629
Oil inventory	(282)	154
Prepaid expenses	(68)	12
Accounts payable and accrued liabilities	(9,728)	(7,228)
	<b>(8,524)</b>	<b>(10,964)</b>
Changes in non-cash working capital		
Operating activities	(8,012)	99
Investing activities	(512)	(11,063)
	<b>(8,524)</b>	<b>(10,964)</b>

During the period ended March, 2008, the Company paid \$Nil in interest (2007 – \$Nil) and \$Nil in taxes (2006 - \$Nil). Yemen income taxes are paid to the government through their allocation of oil under the PSA.

**14. GEOGRAPHICAL INFORMATION**

The Company has defined its continuing operations as oil and gas operations. The majority of the Company's oil and gas operations are located in Yemen with lesser operation in Canada.

**Segmented information is as follows:**

Period ended March 31, 2008	Yemen \$	Canada \$	Total \$
Revenue	12,682	468	13,150
Property and equipment	71,163	177	71,340

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - Expressed in thousands of US Dollars)

**March 31, 2008**

**14. GEOGRAPHICAL INFORMATION (continued)**

Year ended December 31, 2007	Yemen	Canada	Total
Revenue	\$46,868	\$3,670	\$50,538
Property and equipment	\$66,628	\$190	\$66,818

**15. PER SHARE AMOUNTS**

At March 31, 2008, the weighted average number of shares used in the computation of basic earnings per share was 101,470,498 (March 31, 2007 – 101,203,276) and the weighted average number of shares used in the computation of diluted earnings per share was 101,677,567 (March 31, 2007 - 102,894,575). A total of 465,000 options at March 31, 2008 (March 31, 2007 – 200,000) were excluded from the dilutive calculation.

**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Carrying Values and Estimated Fair Values of Financial Assets and Liabilities**

The Company has classified its cash and cash equivalents and GIC's as assets held for trading and which are measured at fair value with changes being recognized in net income. Accounts receivable and amounts due from joint venture partners are classified as loans and receivables, which are measured at amortized cost.

The carrying value and fair value of financial assets and liabilities are summarized as follows:

Classification	March 31, 2008	
	Carrying Value	Fair Value
Financial assets held for trading	\$49,193	\$49,193
Loans and receivables	\$37,640	\$37,640

**Credit Risk**

The majority of the accounts receivable are in respect of oil and gas operations and are due from the Company's joint venture partners or its customer for oil sales. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of accounts receivable to date.

The Company is currently under contract to sell all of its production to one purchaser until July 1, 2009. The selling price is based on the quoted Brent price on the date of shipment adjusted for the official selling price differential posted by the Government of Yemen. At March 31, 2008, \$13,895 was receivable under the contract and was received in April, 2008. Payment is secured by a guarantee issued by the purchaser's parent company. The Company has an option to extend the contract on the same terms for a further 12 months.

**Calvalley Petroleum Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

The Company funds capital and operating costs and bills joint venture partners their share of those costs. In the event that a joint venture partner was incapable of fulfilling their obligations to pay their share of the costs, the Company could, under the terms of the joint operating agreement, recover the costs from the joint venture partners' share of proceeds from crude oil sales.

Trade and other receivables from continuing operations are analyzed in the table below. With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Trade and other receivables at March 31, 2008	
Neither impaired nor past due	\$17,502
Impaired (net of valuation allowance)	-
Not impaired and past due in the following period	
Within 30 days	-
31-60 days	-
61-90 days	16,287
Over 90 days	3,851

**Commodity Price Risk Management**

The Company has commodity price risk associated with its sale of crude oil.

**Concentration and Foreign Exchange Risk**

The Company holds substantially all of its cash at one financial institution. Approximately, \$3,966 of the \$18,576 in cash and cash equivalents is held in Canadian dollar denominated accounts. As such, the Company is exposed to foreign currency risk.

**17. COMMITMENTS**

The Company is committed to operating leases for office space. Additionally, certain payments become due for the Company's proportionate share of various allowances and bonus payments to the Government of Yemen.

2008	\$634
2009	\$591
2010	\$504
2011	\$225
2012	\$225

In addition to the payments indicated above, the Company is obligated to pay to the Government of Yemen its 50% proportionate share of bonus payments of \$2,000, \$3,000 and \$4,000 when sustainable production exceeds 25,000, 75,000 and 100,000 barrels of oil per day, respectively.

The Company is also committed to pay \$ 1.25 per barrel of oil produced from the Yemen properties to an arms length party. The total commitment outstanding at March 31, 2008 under this obligation is approximately \$ 3,752.

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**18. CONTINGENCY**

The Company has been named in a claim filed in the Commercial Court of Yemen by a Saudi Arabian company. The claimant alleges that, pursuant to an agency agreement entered into in 1996, it is entitled to a percentage of the net profit attributable to the Company. The matter was heard and a ruling was made which awarded the claimant 10% of the Company's profit oil, calculated as being the oil produced in excess of the production that the Company is entitled to for cost recoveries as defined in the PSA, from the production of Block 9 from the date of commercial production to February 13, 2008.

The decision of the Commercial Court of Yemen is now under appeal by both parties. The Company's legal advisors in Sana'a and Calgary are pursuing the appeal jointly. The outcome of the action in the Yemen Commercial Court of Appeal is undeterminable at this time. No amounts have been accrued in the financial statements for the year ended December 31 2007 as the ultimate resolution is uncertain. The Company will record any amounts due once the outcome of the contingency is likely and estimable.

**19. SUBSEQUENT EVENT**

On April 14, 2008, the Company made the necessary filings, and received the necessary approvals, to make a normal course issuer bid to acquire up to 3,000,000 Common Shares through the facilities of the Toronto Stock Exchange commencing April 16, 2008 and ending April 15, 2009, or on such earlier date as Calvalley may complete its purchases under the bid. All Common Shares acquired under the bid will be canceled. A total of 422,900 shares have been acquired to May 15, 2008 under the bid.