

CALVALLEY PETROLEUM INC.

2008 2nd Quarter Interim Report to Shareholders

**For the six months
ended June 30, 2008**

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CORPORATE PROFILE

Calvalley Petroleum Inc. is an international oil and gas company based in Calgary, Alberta which is focused on exploration and development of Block 9 in the Republic of Yemen. Calvalley is well-financed and debt-free and expects to fund its 2008 capital program from cash generated by operating activities and from cash currently on hand. Calvalley's common shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "CVI.A."

Calvalley's principal assets and operations are related to its 50% operated working interest in the production sharing agreement for Block 9, for which Calvalley's wholly-owned subsidiary, Calvalley Petroleum (Cyprus) Ltd., is the operator. Block 9 includes 2,234 km² (552,000 acres) of land within the prolific Sayun-Masila basin, within which Calvalley has recently made several significant hydrocarbon discoveries. Calvalley declared commerciality during 2005 and started commercial production in December of that year. Calvalley has progressed significantly in its plans to complete several major production infrastructure projects, including a 60,000 bopd central processing facility. In addition to the development and production activities in respect of the existing discoveries, Calvalley plans to actively continue its exploration program and has identified several promising leads and prospects.

FORWARD LOOKING STATEMENTS

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks, 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 and other risk factors. 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.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Calvalley's general expectations concerning this industry are 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 Calvalley believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Calvalley 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.

ABBREVIATIONS

bbls barrels
mbbls thousands of barrels
bopd barrels of oil per day
km² square kilometre

HIGHLIGHTS

Financial

(in thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenue from crude oil sales	16,018	1,034	28,664	11,916
Volume of crude oil sales (mbbls)	130	14	254	194
EBITDA	11,587	(312)	20,942	6,557
Operating income	8,810	(499)	15,388	3,901
Net income (loss)	4,432	889	10,031	5,071
Capital expenditures	9,493	9,037	16,852	15,498
Funds flow from operations	10,266	2,474	18,667	9,338
Funds flow from operating activities	34,061	8,231	34,370	4,032

- Calvalley's revenue from crude oil sales was \$16.0 million for the second quarter ended June 30, 2008 (2007 - \$1.0 million). The large increase was due to the timing of crude oil sales in 2007. Revenue for the six month period was \$28.7 million versus \$11.9 million in 2007.
- Net income was \$4.4 million for the three months June 30, 2008, as compared to \$0.9 million for the same period of 2007. The increase to the crude oil sales revenue during the first quarter reflected the strong average price of US\$123.60 per barrel as compared to \$71.21 per barrel for the second quarters of 2008 and 2007 respectively.
- Funds flow from operations was \$10.3 million for the three months ended June 30, 2008, as compared to \$9.3 million for the same period of 2007. Funds flow from operations for the six month period was \$18.7 million versus \$9.3 million for 2007.
- Calvalley continues to be well financed and capitalized with no outstanding debt and working capital of \$75.2 million.

Operating

(barrels of oil per day)	Three months ended	
	June 30, 2008	June 30, 2007
Total Block 9 production	4,759	5,135
Calvalley working interest (50.0%)	2,380	2,568
Calvalley net entitlement (31.3%)	1,489	1,607

- Average daily production from the Block 9 for the three months ended June 30, 2008 was 4,759 gross barrels per day (Calvalley working interest 2,380 bopd), up from the previous quarter's average of 4,602 bopd (2,301 bopd working interest share) and down from 5,135 bopd (2,568 bopd working interest share) for the second quarter of 2007.

The increase from the first quarter was due to the completion of pressure testing and maintenance activities but was lower than the same period in 2007 due to a temporary shortage of pumps for wells requiring pump replacements, and limited crude processing capacity. Production continues to be constrained due to solution gas handling capacity at the temporary production facility.

- Construction of the Central Processing Facility (“CPF”) is nearing completion. Final commissioning of the CPF is expected in October following the completion of the Fire Fighting Unit at the facility and a full test of the facility’s operations.
- Production testing of the Malik 2 and Qarn Qaymah 2 wells continued through the quarter. We expect to have full test results by the end of the third quarter.
- Calvalley has commenced preparatory work for a 3D seismic data acquisition covering 126 km² over the Qarn Qaymah Structure.
- Technical work associated with two deep wells (Rashedah and South Qarn Qaymah) targeting multiple horizons including the fractured basement have been completed. Both wells are expected to be drilled in the second half of 2008. Calvalley has commenced construction of a heavy crude blending facility, which will enable the Company to produce from the currently shut-in Al Roidhat field. Design work and equipment specification and tendering have begun for water-injection and gas re-injection facilities at the Hiswah Field for pressure maintenance and gas conservation.
- Engineering and preparation work associated with the construction of the main pipeline is progressing as planned. The Company expects to commence construction by yearend.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Calvalley continued to make key advancements during the second quarter which we believe position the Company for continued growth. Although the pace of development drilling has been slow, this has been due to our need to complete the simulation study of the Hiswah field to optimize the field development plan. The studies still continue but the Company is already implementing key components of its findings with the drilling of two water injection wells and the commencement of construction of both gas and water injection facilities to maximize recovery.

Testing continues on both the Malik and Qarn Qaymah wells which were completed during the second quarter. These tests are extensive due to the nature of the formations encountered during drilling. In particular, the Qarn Qaymah discovery in the fractured basement includes a very complex and lengthy testing procedure. We expect to have full test results by the end of the third quarter.

Commodity prices continued to strengthen with Calvalley's average sales price exceeding \$123 per barrel. Net income for the quarter totaled \$4.4 million or \$0.03 per share. Funds flow from operations totaled \$10.3 million (\$0.10 per share), more than sufficient to fund capital expenditures of \$9.4 million, primarily for drilling and facility construction projects. Accounts receivable including amounts due from joint venture partners declined by nearly \$18 million during the quarter. With continued cash flow from operations, cash on hand and GIC's of \$70.4 million and working capital of \$75.2 million, Calvalley remains debt-free and well positioned to fund its capital program without further dilution to its shareholders. The company continued with its ongoing share buy back program spending \$2.4 million to buyback 623,000 shares during the quarter.

Hiswah field continues to produce suboptimally from eighteen producing wells through temporary production facilities. The temporary production facilities have limited solution gas handling capacity which restricts the production volumes that can currently be processed. Upon full commissioning of the Central Processing Facility ("CPF"), we expect to increase production from the existing wells. In addition, at least 29 future development wells are planned to be drilled at Hiswah.

Calvalley has commenced construction of a heavy crude blending facility, which will enable the Company to produce from the currently shut-in Al Roidhat field. Currently, four wells are fully equipped and ready to produce. Four additional wells have been drilled but not completed. Once fully developed, Al Roidhat production is estimated to peak at 10,000 bopd.

Calvalley is gearing up to commence an extensive development drilling campaign in Hiswah and Al Roidhat fields. Upon completion of the reservoir simulation study, expected to be finalized in September, development drilling of the Hiswah field will recommence with a multiple well program. Development of Al Roidhat is expected to occur concurrently with development of the Hiswah field.

Final commissioning of the CPF is expected in October following the completion of the Fire Fighting Unit at the facility and a full test of the facility's operations.

Engineering and preparation work associated with the construction of the main pipeline is progressing as planned. The Company expects to commence construction by yearend.

Our exploration team has identified numerous high impact exploration targets, two of which are planned to be drilled in the second half of 2008.

In light of strong forecasted production growth, Calvalley continues to enhance its technical strength by adding four experienced engineers and three explorationists. We have also strengthened our operations staff at Block 9 with the addition of four operation/production supervisors.

Calvalley intends to leverage its strong balance sheet and experience operating internationally by focusing its attention toward acquiring additional exploration concessions in the Middle East and Africa. The Company continues to assess opportunities in these areas of geographic interest.

“Edmund Shimoon”

Edmund M. Shimoon
Chairman and Chief Executive Officer
August 5, 2008

OPERATIONS REPORT

Production Overview

During the second quarter of 2008, daily production from Block 9 averaged 4,759 barrels of oil per day ("bopd") (2007 - 5,135 bopd), with the Company's working interest share being 2,380 bopd (2007 - 2,568 bopd). The reduction in production was largely due to several key wells which required servicing and a temporary shortage of pumps. Despite expected performance from the existing producing wells at Hiswah field, production has been constrained due to limitations of the temporary production facilities. Additionally, drilling of new development wells was suspended pending the completion of the reservoir simulation study. Upon full commissioning of the Central Production Facility ("CPF") and completion of the simulation study we expect to expedite Calvalley's production growth by increasing production from existing wells, drilling additional development wells and implementing a pressure maintenance program. At least 29 future development wells are planned to be drilled at Hiswah.

The Hiswah field continues to produce suboptimally from its eighteen producing wells due to the limited solution gas handling capacity of the temporary production facility. Upon completion of the CPF, we expect to increase production from the existing wells by optimizing their production as the bottleneck for gas handling will be eliminated.

Calvalley has commenced construction of a heavy crude blending facility, which will enable production to commence from the currently shut-in Al Roidhat field. Currently, four (4) wells are fully equipped and ready to produce. An additional four wells have been drilled but not completed. Once fully developed, Al Roidhat is estimated to peak at 10,000 bopd.

Our work program for 2008 anticipates additional development drilling at Hiswah and new development wells at Al Roidhat.

Hiswah Field Development

Development of the Hiswah field continued during the second quarter of 2008. Calvalley continued to collect critical reservoir data to further advance the reservoir simulation study of the pool which is underway. This study will be used to help define the development and injection plans that will be required to drain the field efficiently.

Well testing continued with the recently drilled Hiswah 22 well being put into production through a test separator. The average production rate for the two week test period was 311 bopd with a 37.2% water cut and a gas oil ratio of 662 scf/bbl. The well was acidized and put on production at an average rate of 260 bopd. Two wells were drilled in the Hiswah field during the second quarter. Hiswah 24 was successfully drilled as a vertical appraisal well. A 19.5 metre core was cut over the oil bearing Saar-Naifa section. The well was then drilled horizontally to the south-west on an azimuth of 216 degrees. The horizontal section of the well will be completed as a production well.

Hiswah 25 was drilled as the first of two water injector wells planned under the initial implementation of the simulation study. This well is located in the northern portion of the field between Hiswah 9 and Hiswah 13. The well was drilled as a horizontal well and was landed approximately 7 metres into the transition zone of the Hiswah field. This well will be completed and may be utilized as an oil producer until the water injection facilities are completed.

Following Hiswah 25 a second planned water injector well; Hiswah 26 was spud in mid July. This well was also located in the northern portion of the Hiswah oil field just to the east of Hiswah 25 and is located between Hiswah 13 and 14. Hiswah 26 will be landed slightly deeper than Hiswah 25 approximately 15 meters below the top of the transition zone of the pool.

The final reservoir stimulation report from PMG was received during the second quarter and is under review. The Schlumberger reservoir stimulation project is in progress and is expected to be completed by late October 2008.

Facilities

Construction of the CPF with a 60,000 barrel a day capacity, is in the final stages. The plant is expected to be commissioned in October after completion of the installation of the fire fighting unit and testing of plant operations. Design work has also been completed on water injection and gas re-injection facilities for the Hiswah reservoir to provide pressure maintenance and gas conservation as recommended by the reservoir simulation studies. Long-lead items for these facilities have been ordered and tenders for the balance of equipment and services have commenced. The Hiswah field currently produces approximately 4.5 mmcf/d of solution gas which is being flared.

Surveying of the export pipeline route has been completed. Veco Engineering has been engaged to prepare the engineering design to construct a 145 kilometre export pipeline. Calvalley expects to commence the construction phase of the pipeline with a capacity of 87,000 bopd by yearend.

Exploration Drilling Program

One exploration well was drilled during the second quarter. The Malik 2 well was drilled 6.5 kilometres west of the Malik 1 well drilled in 2007. The Malik 2 well was located on the western part of an east – west trending Qishn level structure developed on the downthrown side (hanging wall) of the Malik fault. Malik 2 was drilled structurally updip of Malik1 and it was expected that the well would encounter up to 26 metres of additional structural relief at the Qishn sand interval. The size of the seismically defined Malik structure is approximately 28 square kilometres

The Malik 1 well encountered the Qishn sand at or near the oil water contact. The electric logs indicated that there was 8.5 m of gross oil column penetrated in the Malik 1 well. A test of the Qishn sand recovered 246 barrels of oil and 941 barrels of water. The gravity of the Qishn oil was measured at 18 degrees API.

The Qishn sands in the Malik 2 well demonstrated oil staining upon penetration and oil was observed at the surface in the mud pits. A petrophysical evaluation of the logs following the drilling revealed two thin oil zones which totaled 5.1 metres of net pay. In addition there were three intervals of calculated net pay from the logs which demonstrated oil hydrocarbon shows in the Saar carbonates.

The initial completion programs in the Saar and Qishin zones were inconclusive as the cement bond log showed that there was poor cement bond over the entire intervals tested. Calvalley is currently determining the best solution to formulate remedial cement work before any further completion and testing work is carried out.

Future Plans

Drilling plans for the third quarter include development, appraisal and exploration wells. Up to three additional horizontal field development producers are expected to be drilled after the completion of the two initial water injector wells, Hiswah 25 and Hiswah 26. An additional appraisal well in the South Eastern part of the Hiswah field is also planned. Success in this well would assist in the delineation of the pool and as a result could increase reserves. Calvalley plans to drill two exploration wells, Rashedah 1 and South Qarn Qaymah 1, during the second half of 2008. Both wells will target separate structures with multi-zone potential including Qishn Sands, Kohlan Sand, and the granite basement.

MANAGEMENT'S DISCUSSION AND ANALYSIS

References to "Calvalley" or the "Company" refer to Calvalley Petroleum Inc. and its share of consolidated subsidiaries and joint ventures unless the context indicates otherwise. All currency references are to United States dollars unless otherwise specifically indicated. References to "C\$" are to Canadian dollars.

The purpose of this Management's Discussion and Analysis is to provide readers the ability to view Calvalley in much the same way as Management. The following combination of historic and prospective information and financial and business analyses, together with the consolidated financial statements, are intended to impart useful knowledge to investors and other readers. This Management's Discussion and Analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes of Calvalley for the three month period ended June 30, 2008. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com or on the Company's web site at www.calvalleypetroleum.com.

This Management's Discussion and Analysis is as of August 5, 2008.

Forward-Looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements. Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks of the Company 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, political and market conditions and other risk factors. 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.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Calvalley's general expectations concerning this industry are 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 Calvalley believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Calvalley 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. See "Risk Factors."

Non-GAAP Measures

Funds flow from operations is a non-GAAP measure that represents funds generated from operating activities before changes in non-cash working capital. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that funds flow from operations is a useful supplemental measure to analyze the Company's ability to generate cash flow to fund capital investment and working capital requirements. Funds flow from operations may not be comparable to similar measures used by other companies.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") and operating income are non-GAAP measures. The Company calculates EBITDA as revenue net of royalties, operating expenses and general and administrative expenses. The Company calculates operating income by deducting depletion, depreciation and accretion expense from EBITDA. Management believes that EBITDA and operating income are useful supplemental measures to analyze operating performance and to provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. EBITDA and operating income may not be comparable to similar measures used by other companies.

Netback is a non-GAAP measure that represents revenue net of royalties, operating expenses and current taxes. Management believes that netback is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Netback may not be comparable to similar measures used by other companies.

Overall Performance

Net income for the three month period ended June 30, 2008 was \$4.4 million versus \$0.9 million for 2007. Funds flow from operations increased to \$10.3 million from \$2.5 million in 2007. Working capital at June 30, 2008 was \$75.2 million versus \$75.1 million for at December 31, 2007. Funds flow from operations are anticipated to finance the Company's capital program during 2008 without the requirement for external financing.

Canadian Oil and Gas Properties

The Company disposed of most of its Canadian oil and gas properties in 2004 and existing properties are comprised of a working interest in one property in Saskatchewan and some overriding royalties. The remaining Canadian properties are not material to the overall financial position and results of operations of the Company.

Comparability with Prior Periods

Revenue may fluctuate from year to year due to the timing of shipments of oil from the export port at Ras Isa. Revenue is recognized only when oil is loaded onto a tanker. Oil in tanks at period-end is recorded as inventory at the cost of production and depletion and in situations where the take-or-pay provisions of the crude marketing agreement take effect, any receivable related to those provisions is recorded as deferred revenue.

Block 9 Republic of Yemen – Exploration and Development Program

Joint Operating Agreement

Substantially all of Calvalley's operations and assets are related to its 50% working interest in the Block 9 Production Sharing Agreement ("PSA") with the Government of Yemen. Calvalley is the operator of Block 9 pursuant to the Joint Operating Agreement ("JOA") between Calvalley, HoodOil Ltd. ("HoodOil"),

Reliance Industries Limited (“Reliance”) and a subsidiary of the Yemen Oil and Gas General Corporation (“Yemen Co.”), an entity owned by the Government of Yemen. Yemen Co.’s interest under the JOA consists of an override of 15% of the joint venture’s allocation of profit oil under the PSA, less applicable income taxes.

Production Sharing Agreement

The Company has a 50% working interest in Block 9. Oil and gas production from Block 9 is allocated between the joint venture (the “JV”) and agencies of the Government of Yemen pursuant to the terms of the PSA. The Government of Yemen receives a 10% royalty in kind from all Block 9 production, after which the remaining oil production is shared between the JV and the Government of Yemen. The JV is first allocated up to 45% of gross production to recover operating and capital costs incurred in order to operate Block 9. To the extent that recoverable costs exceed 45% of the fair value of gross production, any excess costs are carried forward for recovery against future production. After deducting cost oil, the remaining profit oil is allocated between the Government of Yemen and the JV as follows:

- 39.23% of total profit oil to the JV (before deducting 35% income tax on JV’s share of profit oil and after deducting 15% override to Yemen Co.); and
- 60.77% to the Government of Yemen (including Yemen Co.’s override and before including income tax on JV’s share of profit oil).

Provided that total recoverable costs do not exceed 45% of gross production, the JV may recover operating costs during the year in which they are incurred and may deduct 50% of capital costs incurred during the year of expenditure and 50% during the following year.

As at June 30, 2008, the Company’s share of capital costs to be carried forward for recovery against future production was approximately \$41 million. Until these costs have been recovered, together with future operating and capital costs that become eligible for recovery, the Company’s net oil production will equal 31.33% of gross oil production (22.5% from cost oil and 8.83% from profit oil). Following full recovery of all capital costs, the Company’s net oil production will range between 17.65% and 31.33% of gross oil production, which will vary depending upon prevailing crude oil selling prices and the capital and operating costs incurred by the JV. The Company’s share of profit oil is subject to 35% income tax to the Government of Yemen.

Outlook

Hiswah field continues to produce suboptimally from eighteen producing wells through temporary production facilities. The temporary production facilities have limited solution gas handling capacity which restricts the production volumes that can currently be processed. Upon full commissioning of the Central Processing Facility (“CPF”), we expect to increase production from the existing wells. In addition, at least 29 future development wells are planned to be drilled at Hiswah.

Calvalley has commenced construction of a heavy crude blending facility, which will enable the Company to produce from the currently shut-in Al Roidhat field. Currently, four wells are fully equipped and ready to produce. Four additional wells have been drilled but not completed. Once fully developed, Al Roidhat production is estimated to peak at 10,000 bopd.

Calvalley has commenced testing of the Qarn Qaymah 2 well which was drilled into the granite basement and encountered multiple fractured intervals containing hydrocarbons. The Company is currently testing the well to determine commercial viability of the discovery, which requires a long-term test to fully understand the reserve potential of the discovery and the production capacity of the well. In 2008, Calvalley also plans to two drill two additional deep exploration prospects in the Qarn Qaymah area targeting hydrocarbons in multiple horizons including the fractured granite. Drilling of the first well, Rashedah 1, is expected to commence in September. The drilling rig is expected to be mobilized in early August.

Additionally, completion and evaluation of the Malik 2 exploration well is expected to be completed during the second quarter.

Positive results from the testing of these wells would likely require additional stepout and appraisal drilling to define the size of the reservoirs prior to development drilling.

Calvalley is gearing up to commence an extensive development drilling campaign in Hiswah and Al Roidhat fields. Upon completion of the reservoir simulation study, expected to be finalized in September, development drilling of the Hiswah field will recommence with a multiple well program. Development of Al Roidhat is expected to occur concurrently with development of the Hiswah field.

Final commissioning of the CPF is expected in October following the completion of the Fire Fighting Unit at the facility and a full test of the facility's operations.

Engineering and preparation work associated with the construction of the main pipeline is progressing as planned. The Company expects to commence construction by yearend.

In light of strong forecasted production growth, Calvalley continued to enhance its technical strength by adding four experienced engineers and three explorationists. We have also strengthened our operations staff at Block 9 with the addition of four operation/production supervisors.

Calvalley intends to leverage its strong balance sheet and experience operating internationally by focusing its attention toward acquiring additional exploration concessions in the Middle East and Africa. The Company continues to assess opportunities in these areas of geographic interest.

Selected Quarterly Information

	Revenue	Expenses	Net Income for the Period	Earnings per Basic Share	Earnings per Diluted Share	Total Assets	Long Term Debt
2008							
Second Quarter	16,242	10,134	4,432	\$0.03	\$0.03	169,097	-
First Quarter	13,150	6,149	5,599	\$0.06	\$0.06	158,833	-
2007							
Fourth Quarter	22,465	9,923	6,845	\$0.07	\$0.07	162,730	-
Third Quarter	14,587	9,202	7,971	\$0.08	\$0.08	157,635	-
Second Quarter	1,733	3,092	2,320	\$0.02	\$0.02	144,690	-
First Quarter	11,753	5,060	6,164	\$0.06	\$0.06	127,223	-
2006							
Fourth Quarter	9,946	6,209	1,215	0.01	0.01	129,667	-
Third Quarter	21,561	6,506	14,366	0.14	0.14	135,116	-

The past eight quarters have witnessed the growth of all aspects of Calvalley's business. Commercialization of Block 9 has resulted in increased revenues, operating expenses and general and administrative expenses. Additionally, assets have continued to grow as the Company continues to develop the field and build related infrastructure. Volatility of revenue amounts is caused by the timing of loading crude oil onto tankers (See "Comparability with Prior Periods").

Key Financial Indicators

Calvalley uses key financial indicators to help assess its business performance and manage its operations. These financial indicators measure business growth (revenue and capital expenditures), cash generation (EBITDA and funds flow from operations) and profitability (operating income and net income).

These key financial indicators are discussed in more detail in the following sections.

(in thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenue from crude oil sales	16,018	1,034	28,664	11,916
EBITDA ⁽¹⁾	11,587	(312)	20,942	6,557
Operating income ⁽¹⁾	8,810	(499)	15,388	3,901
Net income (loss)	4,432	889	10,031	5,071
Capital expenditures	9,493	9,037	16,852	15,498
Funds flow from operations ⁽¹⁾	10,266	2,474	18,667	9,338
Funds flow from operating activities	34,061	8,231	34,370	4,032

⁽¹⁾ See "Non-GAAP Measures"

Revenue

Calvalley recorded oil revenue of \$16.0 million during the three month period ended June 30, 2008 as compared to oil revenue of \$1.0 million for the corresponding period in 2007. During the second quarter of 2007 no crude was lifted on behalf of the joint venture and the revenues were deferred. During the three months ended June 30, 2008, gross oil production from Block 9 in Yemen averaged 4,759 barrels of oil per day ("bopd") (2007 - 5,135 bopd), with the Company's working interest share being 2,380 bopd (2007 - 2,568 bopd).

For the six months ended June 30, 2008 oil revenues totaled \$28.7 million compared to \$11.9 million the six months ended June 30, 2007. The increase is a result of no sales in the second quarter of 2007 and strong commodity prices received in 2008.

Substantially all of the Company's crude oil production in 2008 and 2007 came from the Hiswah oil field, which produces high-quality, lighter crude oil that is sold at prices comparable to the Brent crude oil reference price. All of the Company's crude oil production was trucked more than 250 kilometers to the Safer Exploration and Production Operations Co, processing facility on Block 18, where the crude oil was processed and shipped via pipeline to the Ras Isa marine terminal facility for export.

Production and sales information

	2008		2007		
	Q2	Q1	Q4	Q3	Q2
Gross Oil Production (bopd)	4,759	4,602	5,218	5,355	5,135
Company working interest share (bopd)	2,380	2,301	2,609	2,678	2,568
Company net share (bopd) ⁽¹⁾	1,489	1,440	1,633	1,676	1,607
Company net production (mbbl)	135	131	136	139	132
Company net sales (mbbl) ⁽²⁾	130	124	220	231	14

Notes:

- (1) Company net share is equal to the working interest share less government share of production under the terms of the PSA
- (2) Company net sales varies from Company net production due to changes in inventory and shrinkage

Selected operating information (thousands of dollars)	2008		2007		
	Q2	Q1	Q4	Q3	Q2
Oil sales	16,018	12,646	22,008	13,276	1,034
Royalties	(144)	(144)	(225)	(283)	(6)
Operating expenses	(2,841)	(2,018)	(3,832)	(2,076)	(134)
Current taxes	(1,654)	(1,289)	(1,223)	(1,774)	(355)
Netback ⁽¹⁾	11,379	9,195	16,728	9,143	539
EBITDA ⁽¹⁾	11,587	9,355	16,786	10,601	(312)
Operating income ⁽¹⁾	8,810	6,578	10,921	7,822	(499)

(1) See "Non-GAAP Measures"

Netbacks on a per barrel of oil produced basis are as follows:

(dollars)	2008		2007		
	Q2	Q1	Q4	Q3	Q2
Oil sales	123.60	98.44	82.64	73.49	71.62
Royalties	(1.15)	(1.14)	(0.84)	(1.57)	(0.41)
Operating expenses	(14.64)	(10.09)	(3.95)	(8.97)	(12.34)
Current taxes	(12.61)	(9.71)	(8.13)	(11.50)	(2.43)
Netback ⁽¹⁾	95.21	77.50	69.72	51.45	56.44

(1) See "Non-GAAP Measures"

Other Revenue

Other revenue, comprised primarily of interest revenue, amounted to \$0.3 million for the three month period ended June 30, 2008 (2007 - \$0.6) and \$0.8 million for the six months ended June 30, 2008 (2007 - \$1.1). Interest revenue resulted from maintaining significant cash reserves and GIC's throughout the period. Interest income has declined from 2007 due to lower interest rates..

Operating Expenses

Operating expenses for the second quarter of 2008 were \$2.8 million as compared to \$0.1 million in 2007. Operating costs in the fourth quarter of 2007 were low because of a one time adjustment to processing fees. Operating expenses for the quarter amounted to \$14.64 per barrel (2007 - \$12.34). The increase in the quarter is a result of the higher cost incurred to acquire fuel for the field operations and non-recurring charges including production testing in the Hiswah field. The operating costs for the six months ended June 30, 2008 increased to \$4.9 million compared to \$3.7 million at June 30, 2007.

Operating expenses include \$4.68 per gross barrel for trucking costs, third party processing costs, and tariffs for use of pipeline and marine terminal facilities. As production volumes increased throughout 2007, the Company actively constructed new facilities and infrastructure required for production, resulting in higher labour and other operating expenses as these assets became operational. Operating expenses per barrel are expected to decrease as production increases.

General and Administration

General and administration expenses totaled \$1.5 million for the three months ended June 30, 2008, net of \$0.9 million that was capitalized into resource development costs, as compared to \$1.4 million for the three months ended June 30, 2007. For the six months ended June 30, 2008 general and administration costs were \$2.8 million compared to \$2.1 million during same period of 2007. This increase is due to the Company's growth and expansion following the start of commercial production. General and administrative costs directly associated with Block 9 become recoverable costs and will be recovered from revenue associated with cost oil under the terms of the PSA.

EBITDA

During the second quarter of 2008, the Company generated EBITDA of \$11.6 million compared with \$(0.3) million during the second quarter of 2007. For the six month period ended June 30, 2008 EBITDA was \$20.9 million compared to \$6.6 million in the corresponding period of 2007. The increases are primarily related to the significant increase in sales volumes and stronger commodity prices during 2008.

Depletion and Depreciation

Calvalley recorded depletion, depreciation and accretion (“DD&A”) expenses of \$2.8 million for the three months ended June 30, 2008 (2007 - \$0.2 million). The increase is related primarily to the higher sales volumes in 2008. For the six months ended June 30, 2008 the Company recorded \$5.6 million (2007 - \$2.7 million) of DD&A expenses.

Operating Income

During the quarter, the Company generated operating income of \$8.8 million compared with \$(0.5) million during the second quarter of 2007. During the six month period ended June 30, 2008, there was operating income of \$15.4 million compared to \$5.6 million for the six months ended June 30, 2007. The increase is primarily related to the increase in sales and strong commodity prices.

Foreign Exchange Loss

The Company began 2008 with C\$6.5 million of Canadian dollar deposits with financial institutions. Due to a slight decrease in the value of the Canadian dollar, a foreign exchange loss of \$0.1 million was recorded.

Income Taxes

Current income tax expenses in the second quarter of 2008 were \$1.6 million (2007 - \$0.4 million); and income tax for the six months ended June 30, 2008 totaled \$2.9 million (2007 - \$1.3 million). This represents income taxes incurred and paid under the laws of Yemen pursuant to the PSA. The income tax is calculated as 35% of the Company’s profit oil revenue in Yemen, and is paid by the Government of Yemen out of its portion of profit oil.

Consolidated Cash Flow

(in thousands of dollars)	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2008	2007	2008	2007
Funds flow from operations ⁽¹⁾	10,266	2,474	18,667	9,338
Change in non-cash working capital related to operating activities	23,675	5,757	15,663	(5,306)
Funds provided by (used in) operations ⁽¹⁾	34,061	8,231	34,370	4,032

⁽¹⁾ See “Non-GAAP Measures”

As at June 30, 2008, the Company held cash and cash equivalents of \$15.1 million compared with \$51.4 million at the end of the preceding year. Additionally, the Company held Guaranteed Investment Certificates totaling \$55.3 with an initial term of greater than 90 days (2007 – 5.0 million). The Company did not at any time during the period hold asset backed commercial paper.

Funds flow from operations of \$10.3 million during the three months period ended June 30, 2008 was sufficient to fund all of the additions to property and equipment in the amount of \$9.5 million. During the corresponding period in 2007, funds flow from operations was \$2.5 million. For the six months ended

June 30, 2008 funds flow from operations amounted to \$18.7 million compared to \$9.4 million during the six month period in 2007 and was sufficient to fund all of the additions to property and equipment in the amount of \$16.8 million.

During the six month period ended June 30, 2008, proceeds from the issuance of Class "A" common voting shares was related solely to the exercise of stock options and totaled \$514,000. During the corresponding period of 2007, the Company realized cash proceeds of \$663,000 from the exercise of stock options during the period. For the three months ended June 30, 2008 option proceeds were \$399,000 (2007 - \$503,000).

Capital Expenditures

During the second quarter of 2008, the Company incurred capital expenditures of \$9.4 million compared with \$9.0 million for the second quarter of 2007. During the quarter, the Company drilled 2 development wells. The Company continued the development of the Hiswah central processing facility and continued construction of a major road from the plateau between Al Roidhat and Hiswah to the Al Roidhat field. For the six months ended June 30, 2008 the capital expenditures amounted to \$16.9 million compared to \$15.5 million in 2007.

Consolidated Financial Position

As at June 30, 2008, the Company's total assets were \$169.1 million, an increase of \$6.4 million from December 31, 2007. Cash and cash equivalents amounted to \$15.2 million compared with \$51.4 million at the beginning of the year. This decrease in cash and cash equivalents was offset by an increase in Guaranteed Investment Certificates with initial terms to maturity in excess of 90 days of \$55.3 million. The increase in cash and GIC's was due to the reduction of accounts receivable.

Accounts receivable decreased by \$11.4 million to \$5.5 million being the revenue receivable and due in July 2008 from oil sold during June 2008. Amounts due from joint venture partners decreased from \$22.2 million at the beginning of the year to \$14.1 million as at June 30, 2008.

Oil inventory increased from \$71,000 to \$684,000 as a result of production from Block 9 subsequent to the June sale of oil. The oil inventory relates to oil production in storage at the end of the period, valued at the moving average cost of production.

Property and equipment increased to \$77.9 million as at June 30, 2008 compared with \$66.8 million as at the end of 2007. The increase in property and equipment resulted from capital expenditures of \$16.9 million, which was partially offset by depletion, depreciation and amortization expense of \$5.6 million.

Accounts payable and accrued liabilities decreased to \$15.9 million as at June 30, 2008, compared with \$20.9 million as at December 31, 2007. The primary reason for this decrease was a reduction in capital spending and operating costs from the fourth quarter.

Asset retirement obligations totaled \$59,000 as at June 30, 2008, relatively unchanged from the beginning of the year. All of the asset retirement obligations are related to the Company's Canadian oil and gas properties. No provision has been made for asset retirement obligations in respect of the Yemen properties because the Company is not under a legal requirement for reclamation expenses and therefore is not required to recognize an asset retirement obligation under GAAP.

Share capital decreased to \$119.4 million as at June 30, 2008 from \$119.5 million as at the end of 2007, as a result of the repurchase of common shares which was partially offset by the issuance of Class "A" common voting shares from the exercise of stock options during the period.

Liquidity and Capital Resources

As at June 30, 2008, the Company's total assets were \$169.1 million, an increase of \$6.4 million from December 31, 2007. Cash and cash equivalents amounted to \$15.2 million compared with \$51.4 million at the beginning of the year. Cash equivalents are invested with high quality financial institutions with terms to maturity of less than three months. Additionally, the Company held Guaranteed Investment Certificates totaling \$55.3 million with an initial term of greater than 90 days. Interest rates on US denominated funds have decreased substantially over the past year as the Federal Reserve attempts to stimulate the US economy.

As at June 30, 2008 the Company's working capital was \$75.2 million as compared to \$75.1 million as at December 31, 2007.

The Company has no outstanding bank debt or other interest bearing indebtedness as at June 30, 2008. The Company has not arranged any undrawn operating lines of credit with any financial institutions as the Company intends to fund its near-term capital expenditure programs from available cash on hand, funds flow from operations and, if required, from the issuance of additional share capital. The current capital resources of the Company are expected to be sufficient to fund capital requirements currently planned for 2008. Additional financing may be required in 2009 depending on the capital requirements of new opportunities.

At December 31, 2007 the Company had Canadian tax pools of approximately \$33.0 million of which \$12.8 million were non-capital losses, \$5.2 million were Canadian resource tax pools, \$10.2 million were undepreciated capital cost allowance and \$4.2 million were deferred financing costs. No provision has been made to record these pools as an asset.

The Company has no long-term contractual obligations in Canada other than an operating lease for office space of approximately \$0.4 million, \$0.4 million and \$0.3 million for the calendar years of 2008 to 2010, respectively. Its long-term commitments regarding its Yemen property include its 50% proportionate share of government allowances and bonuses payable under the terms of the PSA of \$0.45 million per year, plus its 50% proportionate share of certain other bonus payments of \$2 million, \$3 million and \$4 million when and if sustainable production exceeds 25,000, 75,000 and 100,000 barrels of oil per day, respectively.

Calvalley had no off balance sheet arrangements as at June 30, 2008 or at December 31, 2007.

Risk Factors

Calvalley is exposed to a number of risks inherent in exploring for, developing and producing oil and gas. This section describes the risks and other matters that would be most likely to influence an investor's decision to purchase securities of Calvalley.

Calvalley manages a number of risks in its business in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks.

Commodity Risk

Calvalley's principal business is the production and sale of crude oil. Revenues, earnings and cash flows from the sale of crude oil are sensitive to change in market prices, over which the Company has little or no control. The Company has the ability to address its price related exposures through the limited use of options, future and forward contracts, but generally does not enter into such arrangements.

Currency Fluctuations

Calvalley undertakes transactions in currencies other than the United States dollar. The Company's primary foreign exchange risk is to changes in the value of the Canadian dollar relative to the United States dollar. Fluctuations in exchange rates between the United States dollar and other currencies will give rise to foreign currency exposure, either favourable or unfavourable, which may have material affects on the Company's operations and financial condition. The Company has the ability to address its currency related exposures through the use of foreign exchange contracts. It generally does not enter into such hedging arrangements but maintains a portion of its currency in Canadian dollars to meet its Canadian dollar requirements.

Interest Rates

The Company has no interest bearing debt. The Company invests surplus cash balances in short-term investments with highly rated financial institutions. Fluctuations in interest rates, either favourable or unfavourable, may have material affects on the Company's interest income on short-term cash investments.

Credit risk and concentration of sales risk

In January 2007, the Company entered into a long-term crude oil marketing agreement under which the Company sells all of its crude oil production to a single purchaser for a period of eighteen months. The purchaser is a subsidiary of Reliance Industries Limited, India's largest business enterprise, which is a party to the JOA for Yemen Block 9. The purchaser's obligations under the crude oil marketing agreement are guaranteed by Reliance Industries Limited, which has been assigned credit ratings of Baa2 Stable Outlook by Moody's and BBB Stable Outlook by S&P (above Sovereign Rating). The contract was extended in March 2008 for an additional period which expires in June, 2009 and can be extended for additional twelve month periods if agreed by the Company and the purchaser.

Credit risk also relates to the risk that joint venture partners may not fulfill their contractual obligations for financial contributions towards exploration, development, appraisal and production operations.

During the initial agreement negotiations and ratification, these risks are considered and incorporated into the terms of the contracts. Furthermore, cash calls can be made in advance of incurring costs to help ensure costs are recovered. However, it is possible that the interest of Calvalley and its joint venture partners are not aligned resulting in project delays, additional costs or disagreements, which could adversely affect business results.

Insurable Risk

Calvalley employs risk management practices to reduce and mitigate operational risks and other hazard risks and exposures, although it is impossible to completely protect its operations from all such risks. The Company places types and an amount of insurance that it considers consistent with industry practice to the extent coverage is available and cost effective. Such coverage includes third-party liability insurance and property and business interruption insurance.

The Company may become liable for damages arising from unforeseen events which it cannot insure against or chooses to self-insure. Costs incurred to repair such uninsured damage or to pay associated liabilities may have a material effect on the financial condition of the Company.

Legal Contingencies

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 Calvalley. The matter was heard and a ruling was made

which awarded the claimant 10% of Calvalley Petroleum (Cyprus) Limited's net profit 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. 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 three months ended June 30, 2008 as the ultimate resolution is uncertain. The Company will record any amounts due once the outcome of the contingency is likely and estimable.

Concentration of Producing Assets

Substantially all of Calvalley's production is generated from highly productive individual wells in Yemen. The production and sale of crude oil in Yemen involves the use of central production facilities, oil pipelines, and export terminals, either operated by the Company or by third parties. As significant production is generated from each of these assets, any single event causing an interruption to any one of these operations could result in the loss of production.

Exploration, Development and Production Risks

Acquiring, developing and exploring for oil and natural gas involves many risks which include but are not limited to encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, well bore collapse, equipment failures and other accidents, craterings and sour gas releases, uncontrollable flows of oil, natural gas or well fluids, and environmental risks.

In many oil and natural gas producing countries, oil and gas properties, together with related production and transportation infrastructure, are often situated in remote areas. In addition to the operational risks described above, oil and gas properties in some of these countries may be vulnerable to premeditated acts of violence which have the potential to cause significant damage to oil and gas operations and injury to personnel. The Company relies on the Government of Yemen's support in providing appropriate security for crude oil operations in Block 9.

Calvalley may not be fully insured against all of these risks. Losses resulting from the occurrence of these risks could have a material impact on the Company's financial results.

Reserve Additions

Calvalley's future crude oil reserves and production, and therefore its operating cash flows and results of operations, are highly dependent upon the Company's success in exploiting its current reserve base and acquiring or discovering additional reserves. Without reserve additions through exploration, development or acquisitions, the Company's reserves and production will decline over time as reserves are produced. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, Calvalley's ability to make the necessary capital investments to maintain and expand its oil and reserves will be impaired.

Environment, Health, Safety and Regulatory Approvals

Environmental, health and safety laws and regulations are continually evolving. Compliance with such laws and regulations can require significant expenditures which may materially affect the Company's financial condition or results of operations.

Expansion of existing operations and the development of new operating sites generally require approval of regulatory authorities. If such approvals are delayed or not achieved, the Company's ability to meet project schedule or cost objectives or to operate at expanded or existing levels could be materially impacted.

Workplace health and safety risks for workers arise from the inherent nature of the Company's operations.

Competition

There is strong competition relating to all aspects of the oil and gas industry. Calvalley actively competes for skilled industry personnel which are in high demand, particularly at its Canadian headquarters, with a substantial number of other oil and gas companies, many of which have significantly greater financial and other resources.

Changes in Legislation

There can be no assurance that laws and regulations relating to the oil and gas industry will not be changed in a manner which would adversely affect the operations of the Company. Under the PSA, the Company is not obligated to comply with regulatory changes that are inconsistent with the provisions of the PSA. Further, the PSA stipulates that the interests, rights and obligations of the Government of Yemen and the Company shall be solely governed by the provisions of the PSA unless altered or amended by mutual agreement. In particular, the PSA requires that the Government of Yemen pay profit taxes on the Company's behalf, out of the Government of Yemen's share of profit oil,

Critical Accounting Estimates

Because a precise determination of certain assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgment. The financial information provided in this Management Discussion and Analysis and in the consolidated financial statements has, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below. Financial results incorporate estimates on the following items:

- depletion, depreciation and accretion are based on estimates of oil and gas reserves;
- estimated value of income tax liabilities;
- estimated value of asset retirement obligations that is dependent upon the future costs and timing of related expenditures;
- ceiling tests in respect of oil and gas properties are based on estimates of oil and gas reserves; and
- estimated fair value of stock-based compensation.

Proven and probable reserve estimates are determined based on professional evaluations provided by internal or external qualified persons. Reserve estimates should not be interpreted as assurances of the life or of the profitability of current or future operations. Estimates of the reserves may change based on additional knowledge gained subsequent to the assessment date. This may include additional data available from continuing exploration and development, results from the reconciliation of actual production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

The estimation of reserves is a subjective process, all of which are subject to numerous uncertainties and various interpretations. A change in the estimate of reserves will result in a change in the rate of depletion and amortization of the related assets or could result in impairment of the assets resulting in a write down.

Measurement Uncertainty

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the reporting period. Actual results, including petroleum and natural gas sales, royalties and operating expenses can differ from these estimates.

In particular, amounts recorded for depreciation and depletion and amounts used for ceiling test calculations are based on estimates of petroleum and natural gas reserves and future costs required to develop those reserves. The Company's reserve estimates are evaluated annually by an independent engineering firm. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Amounts recorded as due from joint venture partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company has recorded balances due based on costs incurred and its interpretation of allowable expenditures. Any adjustments required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

Additional Information

As at June 30, 2008, the Company had 101.2 million common shares outstanding. Additionally, there were 4.1 million options outstanding which were issued pursuant to the Company's stock option plan.

Disclosure Controls and Procedures

As of June 30, 2008, an evaluation was carried out under the supervision of, and with the participation of Calvalley's management including the Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of Calvalley's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of Calvalley's disclosure controls and procedures were effective as at June 30, 2008, and would provide reasonable assurance that material information relating to Calvalley and its consolidated subsidiaries would be made known to them by others within those entities. Various opportunities to improve the design and operation of the disclosure controls and procedures have been identified and approved by management. The actions necessary to implement such improvements have been identified and will be implemented in 2008. Such improvements do not affect the conclusions of the Chief Executive Officer and the Chief Financial Officer described above.

Internal Controls over Financial Reporting

As of June 30, 2008, an evaluation was carried out under the supervision of, and with the participation of Calvalley's management including the Chief Executive Officer and the Chief Financial Officer, of the design of Calvalley's internal control over financial reporting ("ICFR"). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at June 30, 2008, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Although management has been able to reach this conclusion, we have identified certain weaknesses in ICFR which are:

- due to the limited number of staff, it is not possible to achieve segregation of all duties; and
- due to the limited number of staff, the Company has a risk of material misstatement related to non-routine complex accounting matters that may arise.

These weaknesses essentially arise because of the small size of the Company's accounting staff. Management and the board of directors have attempted to mitigate the risk of material misstatement in financial reporting related to segregation of duties through a combination of extensive and detailed review by the Chief Financial Officer of the financial reports, the integrity and reputation of senior financial and accounting personnel, and the candid discussion of this risk with our external advisors. The Company also employs outside consultants and accounting firms to assist with complex accounting and technical issues. Additionally, steps have been taken to augment the accounting department with additional personnel to reduce this risk. In spite of management's best efforts, there can be no assurance that these risks can be reduced to less than a remote likelihood of a material misstatement.

There have been no other changes in Calvalley's internal control over financial reporting during the period ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, Calvalley's internal control over financial reporting.

New Accounting Pronouncements

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook 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 Handbook 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.

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.

EFFECT OF FUTURE CHANGES IN ACCOUNTING POLICIES

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.

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.

NORMAL COURSE ISSUER BID

On April 14, 2008, the Company made the necessary filings, and received the necessary approvals, to make a normal course issuer bid 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. A copy of the notice filed with the Toronto Stock Exchange can be obtained by any shareholder of the Company, without charge, by contacting the Company.

A total of 3,000,000 Class A Common Shares (the "Common Shares") may be acquired under the bid, representing approximately 2.96% of the 101,470,498 Common Shares outstanding as of April 14, 2008. Calvalley will acquire Common Shares under the bid at the market price at the time of purchase, and all Common Shares acquired will be canceled. Unless Calvalley is utilizing a Block Purchase Exemption as permitted by the TSX, purchases are subject to a daily purchase restriction equal to 25% of the average daily trading volume of the Common Shares over the past six calendar months, or a maximum of 45,895 Common Shares per trading day.

In the opinion of Calvalley's Board of Directors, Calvalley's Common Shares are, from time to time, undervalued by the market, and the cost of acquiring the shares is an expense prudently incurred by Calvalley to increase shareholder value.

The Company acquired approximately 623,000 shares during the quarter ended June 30, 2008 for a total cost of \$2.4 million.

**Calvalley Petroleum Inc.
Consolidated Financial Statements
For the Six Months Ended
June 30, 2008
(Expressed in Thousands of United
States Dollars)**

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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 June 30, 2008.

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

	June 30, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents [note 3]	\$15,151	\$ 51,441
Guaranteed Investment Certificate [note 4]	55,294	5,027
Accounts receivable	5,544	16,975
Due from joint venture partners [note 5]	14,144	22,219
Oil inventory [note 6]	684	71
Prepaid expenses	351	179
	91,168	95,912
Property and equipment [note 7]	77,929	66,818
	\$169,097	\$162,730
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$15,933	\$20,853
	15,933	20,853
Asset retirement obligations [note 8]	59	60
	15,992	20,913
Commitments [note 16]		
Contingency [note 17]		
Shareholders' equity		
Share capital [note 9]	119,400	119,485
Contributed surplus [note 10]	6,979	4,019
Accumulated other comprehensive income	3,963	3,963
Retained earnings (deficit)	22,763	14,350
	153,105	141,817
	\$169,097	\$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)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
REVENUE				
Oil sales	\$16,018	\$1,034	\$28,664	\$11,916
Royalties	(144)	(6)	(288)	(172)
	15,874	1,028	28,376	11,744
Management fees	94	144	198	606
Interest and other	274	561	818	1,136
	16,242	1,733	29,392	13,486
EXPENSES				
Operating	2,841	134	4,859	3,723
General and administration, net of recoveries	1,540	1,350	2,773	2,070
Stock-based compensation	2,976	1,143	3,097	1,356
Depletion, depreciation and accretion	2,777	187	5,554	2,656
	10,134	2,814	16,283	9,805
Income (loss) before other items	6,108	(1,081)	13,109	3,681
Foreign exchange gain (loss)	(22)	2,325	(135)	2,653
Income before income tax	6,086	1,244	12,974	6,334
Income tax	1,654	355	2,943	1,263
Net income and comprehensive income	4,432	889	10,031	5,071
Retained earnings (deficit), beginning of period	19,949	(4,768)	14,350	(8,950)
Common share repurchases [note 18]	(1,618)	-	(1,618)	-
- Retained earnings (deficit), end of period	\$22,763	\$(3,879)	\$22,763	\$(3,879)
Earnings per share [note 14]				
Basic	\$0.03	\$0.01	\$0.09	\$0.05
Diluted	\$0.03	\$0.01	\$0.09	\$0.05

See accompanying notes

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

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<i>(\$000)</i>				
OPERATING ACTIVITIES				
Net income (loss) for the period	\$ 4,432	\$ 889	\$ 10,031	\$ 5,071
Non cash items:				
Stock based compensation	2,976	1,143	3,097	1,356
Depletion and depreciation	2,777	187	5,554	2,656
Unrealised foreign exchange gain	81	255	(15)	255
	10,266	2,474	18,667	9,338
Change in non-cash working capital related to operating activities [note 12]	23,675	5,757	15,663	(5,306)
Unrealized foreign exchange gain relating to non-working capital	120	-	40	-
Funds provided by (used in) operating activities	34,061	8,231	34,370	4,032
INVESTING ACTIVITIES				
Additions to property & equipment	(9,493)	(9,037)	(16,852)	(15,498)
Change in non-cash working capital related to investing activities [note 12]	(1,163)	(879)	(1,675)	(780)
Investment in GIC	(28,540)	-	(55,294)	-
Redemption of GIC	5,027	-	5,027	-
Cash used in investing activities	(34,169)	(9,916)	(68,794)	(16,278)
FINANCING ACTIVITIES				
Issuance of share capital	399	503	514	663
Common share repurchase [note 18]	(2,353)	-	(2,353)	-
	(1,954)	503	(1,839)	663
Effect of exchange rate changes on cash and cash equivalents	(199)	(39)	(27)	(14)
Increase (decrease) in cash	(2,264)	(1,221)	(36,290)	(11,597)
Cash and cash equivalents beginning of period	17,412	53,694	51,441	64,070
Cash and cash equivalents end of period	15,151	52,473	15,151	52,473

See accompanying notes

June 30, 2008

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 and six month periods ended June 30, 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.

June 30, 2008

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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2008 include various short-term deposits of \$4,882 (2007 - \$48,085), bearing interest at 1.85% to 1.90% (2007 - 3.65% to 4.65%) and maturing from July 6, 2008 to July 12, 2008 and \$10,269 (2007 - \$3,356) of cash.

4. GUARANTEED INVESTMENT CERTIFICATE

Guaranteed investment certificates ("GIC") with original maturity dates in excess of 90 days have been excluded from cash and cash equivalents.

Maturity	Face Value	Interest Rate
July 28, 2008	\$5,946	1.85%
August 1, 2008	6,344	1.90%
September 16, 2008	6,178	2.05%
December 10, 2008	10,000	2.25%
March 25, 2009	\$26,744	2.25%

The GIC's are carried at cost plus interest, which approximates fair value and can be redeemed at any time without penalty.

5. 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.

6. 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, \$413 (2007 - \$677) was expensed with respect to oil which was sold.

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

June 30, 2008

7. PROPERTY AND EQUIPMENT

	June 30, 2008		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Canada			
Oil and gas properties and equipment	\$128	\$66	\$62
Other capital assets	233	113	120
	361	179	182
Yemen			
Oil and gas properties	100,916	23,169	77,747
	\$101,277	\$23,348	\$77,929
<hr/>			
	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 June 30, 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%

June 30, 2008

7. PROPERTY AND EQUIPMENT (continued)

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 \$1,886 (2007 - \$ 559). The Company excluded from capital costs subject to the depletion expense calculation an amount of \$14,692 (2007 - \$7,780) in respect of the capital costs incurred for processing facilities under construction and not in use at period end.

8. 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.

	2008	2007
Opening balance	60	48
Accretion expense	-	-
Foreign exchange difference	(1)	5
Closing balance	59	53

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.

Calvalley Petroleum Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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June 30, 2008

9. SHARE CAPITAL

a. Common shares

Authorized:

Unlimited number of Class A Common Voting Shares.

Issued:	Six Months Ended June 30, 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	440	514	423	663
Stock based compensation reclassified on exercise of options	-	136	-	144
Repurchased and canceled under Normal Course Issuer Bid	(623)	(735)	-	-
Balance, end of period	101,247	\$119,400	101,430	\$119,485

b. 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 10,124,700 (2007 – 10,143,050) shares have been reserved for issue under this plan. Forfeited options are available for reissue.

The following is a continuity of stock options outstanding:

	Six months ended June 30, 2008		Year ended December 31, 2007	
	Options (000)	Weighted Average Exercise Price	Options (000)	Weighted Average Exercise Price
Opening Balance	2,970	C\$3.92	2,895	C\$3.34
Granted	1730	C\$4.32	715	C\$6.71
Forfeited	(185)	C\$6.06	(217)	C\$5.35
Exercised	(440)	C\$1.16	(423)	C\$1.71
Ending balance	4,075	C\$3.74	2,970	C\$3.92

Calvalley Petroleum Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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June 30, 2008

9. SHARE CAPITAL (continued)

Stock options outstanding at June 30, 2008 were as follows:

Number of Options (000)		Exercise Price	Expiry Date
Granted	Exercisable		
50	50	C\$0.90	2011
50	50	C\$1.40	2009
500	500	C\$1.60	2009
75	30	C\$1.60	2010
125	125	C\$3.80	2010
500	-	C\$4.00	2013
480	295	C\$4.05	2010
350	350	C\$4.20	2010
180	150	C\$4.25	2013
1,000	1,000	C\$4.50	2013
300	-	C\$6.05	2012
75	75	C\$6.86	2011
75	25	C\$7.21	2011
240	240	C\$7.61	2012
75	50	C\$8.05	2011
4,075	2,940	C\$3.74	

During the six months ended June 30, 2008, stock based compensation expense of \$2,976 was expensed and credited to contributed surplus. The fair value of the options granted during the period ended June 30, 2008 was \$4,072 or \$2.35 per option. The fair value of the options granted during the year ended December 31, 2007 was C\$3,424 or C\$4.79 per option. The Black-Scholes Option Pricing model was used for the valuation of options with the following assumptions:

	Six months ended June 30,	
	2008	2007
Risk-free interest rate	3.4%	4%
Expected hold period to exercise	5 years	5 years
Volatility in the price of the Company's shares	71.3 to 73.6%	65%
Dividend yield	Nil	Nil

Calvalley Petroleum Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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June 30, 2008

10. CONTRIBUTED SURPLUS

	Six months ended June 30, 2008	Year ended December 31, 2007
Opening balance	\$4,019	2,407
Stock based compensation	3,097	1,776
Stock based compensation associated with exercised options and warrants	(137)	(144)
Foreign exchange adjustment	-	(20)
Closing balance	\$6,979	4,019

11. CAPITAL DISCLOSURE

The Company defines and computes its capital as follows:

	June 30, 2008	December 31, 2007
Shareholders' equity	\$153,105	\$141,817
Long-term debt	-	-
Cash	(15,151)	(51,441)
Guaranteed Investment Certificates	(55,294)	(5,027)
Total capital	\$82,660	\$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.

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.

Calvalley Petroleum Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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June 30, 2008

12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Changes in non-cash working capital				
Accounts receivable	8,374	4,865	11,431	(5,666)
Due from joint venture partners	9,578	(6,510)	8,075	119
Oil inventory	(144)	(1,803)	(426)	(1,649)
Prepaid expenses	(104)	(628)	(172)	(616)
Deferred revenue	-	7,026	-	7,026
Accounts payable and accrued liabilities	4,808	1,928	(4,920)	(5,300)
	22,512	4,878	13,988	(6,086)
Changes in non-cash working capital				
Operating activities	23,675	5,757	15,663	(5,306)
Investing activities	(1,163)	(879)	(1,675)	(780)
	22,512	4,878	13,988	(6,086)

During the period ended June, 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.

13. 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 minor operations in Canada.

Segmented information is as follows:

Six months ended June 30, 2008	Yemen	Canada	Total
	\$	\$	\$
Revenue	28,661	731	29,392
Property and equipment	77,747	182	77,929

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

June 30, 2008

14. PER SHARE AMOUNTS

At June 30, 2008, the weighted average number of shares used in the computation of basic earnings per share was 101,274,748 (June 30, 2007 – 101,238,244) and the weighted average number of shares used in the computation of diluted earnings per share was 101,586,831 (June 30, 2007 – 102,641,923). A total of 2,045,000 options at June 30, 2008 (June 30, 2007 – 365,000) were excluded from the dilutive calculation.

15. 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:
June 30, 2008

Classification	Carrying Value	Fair Value
Financial assets held for trading	\$70,445	\$70,445
Loans and receivables	\$19,688	\$19,688

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 June 30, 2008, \$5,300 was receivable under the contract and was received in July, 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.

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.

Calvalley Petroleum Inc.
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June 30, 2008

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Trade and other receivables at June 30, 2008	
Neither impaired nor past due	\$8,950
Impaired (net of valuation allowance)	-
Not impaired and past due in the following period	
Within 30 days	-
31-60 days	4,246
61-90 days	-
Over 90 days	6,492

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, \$644 of the \$15,151 in cash and cash equivalents is held in Canadian dollar denominated accounts. As such, the Company is exposed to foreign currency risk.

16. 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 June 30, 2008 under this obligation is approximately \$ 3,599 (\$3,900 at December 31, 2007)

17. 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.

June 30, 2008

17. CONTINGENCY (continued)

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.

18. NORMAL COURSE ISSUER BID

On April 14, 2008, the Company made the necessary filings, and received the necessary approvals, to make a normal course issuer bid 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. A copy of the notice filed with the Toronto Stock Exchange can be obtained by any shareholder of the Company, without charge, by contacting the Company.

A total of 3,000,000 Class A Common Shares (the "Common Shares") may be acquired under the bid, representing approximately 2.96% of the 101,470,498 Common Shares outstanding as of April 14, 2008. Calvalley will acquire Common Shares under the bid at the market price at the time of purchase, and all Common Shares acquired will be canceled. Unless Calvalley is utilizing a Block Purchase Exemption as permitted by the TSX, purchases are subject to a daily purchase restriction equal to 25% of the average daily trading volume of the Common Shares over the past six calendar months, or a maximum of 45,895 Common Shares per trading day.

As at June 30, 2008, 623,496 shares had been repurchased for a total of \$2,353. The cost of these shares reduced share capital by \$735 and retained earnings by \$1,618.



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