

CANADIAN PHOENIX RESOURCES CORP.
(formerly Arapahoe Energy Corporation)

Financial Statements

For the three months ended March 31, 2008 and 2007

May 29, 2008

To the Members of the Audit Committee
Canadian Phoenix Resources Corporation

Dear Sirs

We have reviewed the balance sheet of Canadian Phoenix Resources Corporation (the “Company”) as at March 31, 2008, the statements of operations, comprehensive loss, and deficit and cash flows for the three month period ended March 31, 2008 (the “interim financial statements”). These interim financial statements are the responsibility of the Company’s management.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity’s auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of, and having discussions with, persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we are not aware of any material modification that needs to be made for these interim financial statements to be in accordance with Canadian generally accepted accounting principles.

The accompanying summarized balance sheet as at December 31, 2007 is derived from the complete financial statements of the Company, as at December 31, 2007 and for the year then ended, on which we expressed an opinion without reservation in our report dated April 29, 2008. The fair summarization of the complete balance sheet is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized balance sheet. In our opinion, the accompanying balance sheet as at December 31, 2007 fairly summarizes, in all material respects, the related complete balance sheet of the company in accordance with the Assurance Guideline referred to above.

This report is solely for the use of the audit committee of the Company to assist it in discharging its regulatory obligation to review these financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or



decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants

CANADIAN PHOENIX RESOURCES CORP.Balance Sheets
(Unaudited)

See accompanying notes to the financial statements

	Mar 31, 2008	Dec 31, 2007
	\$	\$
Assets		
Current assets		
Cash	35,075,209	1,285,235
Cash held in trust	—	17,775,000
Accounts receivable and accruals	1,649,262	661,834
Advance receivable - Serrano (note 4)	5,798,995	900,000
Prepaid expenses	182,945	158,400
	<u>42,706,411</u>	<u>20,780,469</u>
Property, plant and equipment (note 5)	<u>31,689,765</u>	<u>32,643,473</u>
	<u>74,396,176</u>	<u>53,423,942</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,288,647	3,514,400
Operating loan payable (note 7)	—	1,980,000
Current tax payable	110,000	90,000
	<u>2,398,647</u>	<u>5,584,000</u>
Long term debt – debentures (note 8)	2,703,891	9,019,153
Future income tax liability	4,653,303	1,947,086
Asset retirement obligation (note 6)	580,079	565,906
	<u>10,335,920</u>	<u>17,116,545</u>
Shareholders' Equity		
Share capital (note 9)	55,650,917	40,496,130
Warrants (note 9)	17,159,131	2,445,731
Deficit	(11,019,447)	(8,795,550)
Contributed surplus (note 9)	2,269,655	2,161,086
	<u>64,060,256</u>	<u>36,307,397</u>
	<u>74,396,176</u>	<u>53,423,942</u>
Commitments & contingencies (note 11)		
Going concern (note 1)		
Subsequent events (note 14)		

On behalf of the Board of Directors:

“Robert J. Chenery”

Director

“D. Barry Lee”

Director

CANADIAN PHOENIX RESOURCES CORP.Statements of Operations, Comprehensive Loss, and Deficit
(Unaudited)

See accompanying notes to the financial statements

	Three months ended March 31	
	2008	2007
	\$	\$
Revenue		
Oil and gas	1,230,481	1,523,929
Royalties	(131,201)	(352,564)
	1,099,280	1,171,365
Expenses		
Operating costs	281,026	353,492
Depletion, depreciation and accretion	994,029	644,035
Stock based compensation	108,568	—
General and administrative	898,631	639,779
Interest accretion – debentures (note 8)	1,399,231	—
Interest expense	291,275	190,206
	3,972,760	1,827,512
Other income		
Interest income	54,299	48,557
Net loss for the period before taxes	(2,819,181)	(607,590)
Current income tax (expense)recovery	(20,000)	—
Future income tax recovery	615,283	—
Net loss and comprehensive loss for the period	(2,223,898)	(607,590)
Deficit, beginning of period	(8,795,549)	(2,846,858)
Deficit, end of period	(11,019,447)	(3,454,448)
Net loss per share		
Basic and Diluted (note 9)	(0.01)	(0.01)
Going concern (note 1)		

CANADIAN PHOENIX RESOURCES CORP.
 Statements of Cash Flows
 (Unaudited)

See accompanying notes to the financial statements

	Three months ended March 31	
	2008	2007
Cash provided by (used in)	\$	\$
Operating activities		
Net loss for the year	(2,223,898)	(607,590)
Items not affecting cash		
Depletion, depreciation & accretion	994,030	644,035
Stock-based compensation	108,567	—
Interest accretion on debentures	1,399,231	—
Current tax recovery	20,000	—
Future tax recovery	(615,283)	—
Funds from operations	(317,353)	36,445
Change in non-cash working capital	(2,077,724)	(676,168)
	(2,395,077)	(639,723)
Financing activities		
(Decrease)/increase in bank loan	(1,980,000)	920,000
Long term debenture	—	—
Issuance of common shares for cash	25,315,194	—
Net change in non-cash financing activities working capital	—	—
	23,335,194	920,000
Investing activities		
Acquisition of petroleum and natural gas properties	(26,148)	(424,947)
Change in non cash working capital (note 4)	(4,898,995)	
Cash released from trust	17,775,000	—
Net change in non-cash investing activities	—	155,841
	12,849,857	(269,106)
Increase (decrease) in Cash	33,789,974	11,171
Cash, beginning of period	1,285,235	8,238
Cash, end of period	35,075,209	19,409
Taxes paid	—	—
Interest paid	7,234	190,206

CANADIAN PHOENIX RESOURCES CORP.

Notes to Financial Statements

For the three months ended March 31, 2008 and 2007

(Unaudited)

1. BASIS OF PRESENTATION AND GOING CONCERN

Canadian Phoenix Resources Corp. (the "Corporation") is engaged in the exploration, development and production of oil and natural gas in Canada. Effective January 3, 2008 pursuant to Section 173(3) of the Business Corporations Act (Alberta), the Corporation changed its name from Arapahoe Energy Corporation to Canadian Phoenix Resources Corp.

Going concern

These financial statements have been prepared in accordance with GAAP on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Corporation reported a loss of \$2,223,898 and negative funds from operation of \$317,353 for the period ended March 31, 2008. The Corporation had a positive working capital of \$40,307,764 at March 31, 2008.

The Corporation has had a number of significant transactions which have positively impacted the future results of its operations and its ability to continue to report under the going concern basis:

1. On February 1, 2008, the Corporation executed a term sheet with Serrano Energy Ltd. ("Serrano"), an oil and natural gas company, replacing the transaction contemplated in the purchase agreement dated August 15, 2007 (Note 14).
2. On February 21, 2008, the Corporation entered into a non-binding letter of intent with Marble Point Energy Ltd. ("Marble Point"), which was further amended on April 16, 2008, whereby the Corporation would acquire not less than 60% of Marble Point through a series of transactions (Note 14).
3. On March 17, 2008, the Corporation issued 202,398,000 units at a price of \$0.125 per unit for gross proceeds of \$25.3 million (Note 9).
4. As at April 3, 2008, the Corporation issued 100,425,408 common shares in conversion of 8,368,784 of secured convertible debentures (Note 14).

There can be no assurance that the Corporation will be sufficiently funded after these initiatives are executed. These circumstances create uncertainty as to the ability of the Corporation to meet its obligations as they come due and accordingly, there is doubt as to the appropriateness of the use of accounting principles applicable to a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue in existence. Such adjustments could be material.

2. ACCOUNTING POLICIES

The financial statements of the Corporation are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP 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 financial statements, and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

CANADIAN PHOENIX RESOURCES CORP.

Notes to Financial Statements

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3. CHANGE IN ACCOUNTING POLICIES

On January 1, 2008, the Corporation adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

Section 3862, “Financial Instruments-Disclosures.” This section describes the required disclosures to evaluate the significance of financial instruments for the entity’s financial position and performance as well as the nature and extent of risks arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks. The Corporation adopted this standard effective January 1, 2008 (see Note 12).

Section 3863, “Financial Instruments-Presentation.” This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of the standards described in Section 3861, “Financial Instruments-Disclosure and Presentation”. The Corporation adopted this standard effective January 1, 2008 (see Note 13).

Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such noncompliance. The Corporation adopted this standard effective January 1, 2008 (see Note 13).

4. ADVANCE RECEIVABLE

As at March 31, 2008, the Corporation had advanced to Serrano Energy Ltd. a total of \$5,798,995 to be treated as a contribution against the cumulative net operating revenue from the Freemont property. Of the total advance, \$2,900,000 was a general secured advance and \$2,898,995 was for the funding of participation agreements for current drilling activities. Upon closing of the Freemont property sale (note 14(a)), net operating revenue between June 1, 2007 and the closing date will be calculated to determine the adjusted purchase price.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation Depletion Accretion	Mar 31, 2008 Net Book Value	Dec 31, 2007 Net Book Value
P&NG Properties	\$ 37,825,647	\$ 6,301,708	\$ 31,523,939	\$ 32,477,351
Field vehicle	25,000	15,369	9,631	10,412
Office assets	293,742	137,547	156,195	155,710
TOTAL	\$ 38,144,389	\$ 6,454,624	\$ 31,689,765	\$ 32,643,473

The depletion calculation excluded major development projects of \$7,176,493 (March 31, 2007 - \$18,752,736). The Corporation has not capitalized any general and administrative expenses for the period ended March 31, 2008 or 2007.

CANADIAN PHOENIX RESOURCES CORP.

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6. ASSET RETIREMENT OBLIGATION

The future asset retirement obligations were estimated by management based on the Corporation's working interest in its wells, estimated costs to remediate, reclaim and abandon the wells and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its total asset retirement obligation to be \$580,079 at March 31, 2008 (December 31, 2007 - \$565,906). These costs are expected to be incurred over the next three to thirty-four years. The Corporation's risk-free interest rate of 9.85% and an inflation rate of 2.2% were used to calculate the net present value of asset retirement obligation.

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

	Mar 31 2008	Dec 31 2007
Asset retirement obligation, beginning of period	\$ 565,906	\$ 556,300
Liabilities incurred/acquired (disposed) during period	—	(74,922)
Adjustments to estimates	—	35,597
Accretion expense	14,173	48,931
Asset retirement obligation, end of period	\$ 580,079	\$ 565,906

7. BANK LOAN

The Corporation has a revolving line of credit with the National Bank of Canada. The facility reduced by \$250,000 per month, which commenced on April 30, 2007. At March 31, 2008 the Corporation had an available amount of \$3,050,000. At March 31, 2008 the Corporation had nil drawn. The full facility bears interest at the lenders' prime rate plus 1% and is secured with a general security agreement over the property and assets of the Corporation. During the period ended March 31, 2008, the Corporation incurred interest of \$7,234 on this facility.

8. DEBENTURE FINANCING

On April 11, 2007, the Corporation entered into a Trust Indenture for the issuance of convertible secured subordinated debentures. The Corporation issued the following debentures during the year ended December 31, 2007:

	April tranche	Debt Settlement	June tranche	Total
Total debentures issued for cash	8,650,000	923,734	1,550,000	11,123,734
Cash commission	(645,676)	—	(108,500)	(754,176)
Bank charges	—	—	(10)	(10)
Net proceeds (cash/debt settlement)	8,004,324	923,734	1,441,490	10,369,548

In total, 11,123,734 debenture units were issued ("Initial Debenture Units") at the per unit price of \$1.00 per unit. The gross proceeds of the debenture issue were \$11,123,734 with net cash proceeds of \$9,445,814 and a reduction of trade payables of \$923,734 after issuance costs. Each Initial Debenture Unit entitles the holder to a repayment amount of \$1.50 per unit and four Warrants. The repayment amount is due and payable to the unit

CANADIAN PHOENIX RESOURCES CORP.

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(Unaudited)

8. DEBENTURE FINANCING

holders on April 11, 2009. Each whole Warrant entitles the holder to purchase one common share of the Corporation for \$0.125 with an expiry date of April 11, 2009, subject to other terms and conditions of the Trust Indenture. The Initial Debenture Units accrue interest at a rate of 20% per annum from April 11, 2008 (subsequently revised to May 1, 2008) until maturity on April 11, 2009 or the date of conversion, whichever is earlier.

A gain on settlement, shown as other income on the statement of operations, arose from the negotiations with trade payables which included an option of accepting a cash reduction on amounts outstanding or a combination of debenture units and cash.

On March 5, 2008, the debenture holders approved the transaction involving Serrano Energy Ltd. (as described in note 14) constituting a Business Combination Transaction as defined in the Trust Indenture and thereby obliging the conversion of each \$1.00 invested in the debenture into 12 common shares of the Corporation concurrent with the completion of the transaction with Serrano Energy Ltd.

Upon conversion, brokers of the issue will be entitled to an equivalent amount of broker warrants at 10% of the total debentures converted to common shares with an exercise price of \$0.0833 per share.

The Corporation's Initial Debenture Unit's are classified as debt with a portion of the proceeds allocated to equity representing the value of the detachable warrants and conversion rights. If the Initial Debenture Units exercise the conversion option, and these convertible debentures are converted to equity, the debt component will be transferred to share equity. Prior to conversion, the debt component accretes over time to the amount owing at maturity with such increases appearing as interest accretion on the statement of operations.

The following table summarizes financial reporting of the Initial Debenture Units:

Debentures	Equity Component		Dec. 31	Mar. 31
	Warrants	Conversion Rights	2007	2008
			\$	\$
			Debt	Debt
			Component	Component
Opening carrying value, April 11, 2007	755,933	3,628,613	6,739,188	
Placement costs	(51,251)	(246,016)	(456,909)	
Broker warrants	(37,974)	(182,284)	(338,545)	
Adjusted opening carrying value, April 11, 2007	666,708	3,200,313	5,943,734	
April 11 to December 31, 2007 interest accretion			3,075,418	
January 1 to March 31, 2008 interest accretion				1,399,231
Conversion to common shares				(7,714,492)
Carrying value	666,708	3,200,313	9,019,152	2,703,891

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9. SHARE CAPITAL**a) Authorized**

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

b) Issued and outstanding

	# Shares	\$ Value
Balance – December 31, 2006	55,305,432	21,892,645
Shares issued for debt settlement	1,500,000	189,475
Value of equity component – debenture conversion rights April 14, 14/2007- June 14/2007	—	3,200,313
Flow-through common shares issued (i)	102,200,000	12,775,001
Common share units issued in private placement (ii)	40,000,000	3,779,779
Share issue costs (2007 Flow Through)	—	(353,988)
Share issue costs (2006 Flow Through)	—	92,037
Tax effect flow through renouncement (2006)	—	(1,079,132)
Balance- December 31, 2007	199,005,432	40,496,130
Tax effect flow through renouncement (2007)	—	(3,321,500)
Common shares issued on severance settlement (iii)	1,000,000	160,000
Common shares issued in private placement (iv)	222,617,800	10,586,295
Common shares issued on exercise of warrants	124,000	15,500
Common shares issued on debenture conversion (v)	91,317,408	7,714,492
Balance- March 31, 2008	514,064,640	55,650,917

- (i) On December 28, 2007, 102,200,000 flow-through common shares were issued at a price of \$0.125 per share for total proceeds of \$12,775,001, before fees and expenses. The terms of this issue require the Corporation to renounce to subscribers Canadian Exploration Expenditures in the amount of \$12,775,001 to be incurred before December 31, 2008.
- (ii) On December 28, 2007, 40,000,000 units of the Corporation were issued at a price of \$0.125 per unit for total proceeds of \$5,000,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share during the period expiring on December 31, 2008 at an exercise price of \$0.20 per share.
- (iii) On March 14, 2008, the Corporation settled a dispute with a former executive of the Corporation and issued 1,000,000 common shares as part of the settlement.
- (iv) On March 17, 2008, the Corporation issued 202,398,000 units at a price of \$0.125 per unit for gross proceeds of \$25.3 million. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share during the period expiring on March 17, 2010 at an exercise price of \$0.15 per share. Total finder's fees in connection with the private placement amounted to an additional 20,219,800 units for a total of 222,617,800 units.
- (v) As at March 31st, 2008, the Corporation issued 91,317,408 common shares in conversion of 8,236,784 of secured convertible debentures. The conversion resulted in a transfer of \$7,714,492 from long term debt to share capital. 98,841,408 common shares should have been issued in settlement of the secured convertible debentures. The remaining 7,524,000 shares were issued on April 3, 2008.

CANADIAN PHOENIX RESOURCES CORP.

Notes to Financial Statements

For the three months ended March 31, 2008 and 2007

(Unaudited)

c) Stock Option Plan

The Corporation has a stock option plan, under which the Corporation may grant options to its employees, directors and consultants for up to 20% of the total shares of common stock issued and outstanding at time of option grant. The number of options and the exercise price thereof is set by the Board of Directors at the time of grant, provided that the exercise price shall not be less than the market price of the common shares on the stock exchange on which such shares are then traded. The options granted may be exercisable for a period and may vest at such times as the Board of Directors may determine at the time of grant.

A summary of the status of the Corporation's stock option plan as at March 31, 2008 and changes during the period ended March 31, 2008:

	2008	
	# Shares	Weighted average exercise price (\$)
Outstanding – beginning of period	7,819,181	0.08
Granted during period	3,180,000	0.125
Expired during period	—	—
Cancelled during period	—	—
Outstanding – end of period	10,999,181	0.09

The following table summarizes information about stock options outstanding at March 31, 2008:

Exercise price	Outstanding Mar. 31, 2008	Weighted average remaining contractual life in years	Weighted average exercise price at Mar. 31, 2008	Number exercisable	Weighted average exercise price
\$0.125 - \$0.76	7,819,181	3.56	\$0.26	5,135,348	\$0.33
\$0.125	3,180,000	4.87	\$0.125	795,000	\$0.125
	10,999,181	3.94		5,930,348	\$0.30

Compensation cost of \$108,567 has been recognized in 2008 for stock options granted. These costs have been recorded as stock based compensation expense with the offsetting amount being credited to contributed surplus. The fair value for options granted to employees and directors was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions:

Volatility factor of expected market price	99.10%
Weighted average risk-free interest rate	4.01%
Weighted average expected life in years	5.0
Weighted average expected annual dividends per share	Nil

CANADIAN PHOENIX RESOURCES CORP.

Notes to Financial Statements

For the three months ended March 31, 2008 and 2007

(Unaudited)

d) Warrants

A summary of the status of the Corporation's warrants as at March 31, 2008 and changes during the period ended March 31, 2008:

	# Warrants	2008 Weighted average exercise price (\$)
Outstanding – beginning of period	85,133,476	0.164
Issued	202,398,000	0.15
Exercised	(124,000)	0.125
Expired	(638,540)	0.65
Outstanding – end of period	286,768,936	0.153

Warrants	\$ Value
Value of equity component-brokers warrants April 14,17 /2007-June 14/2007	558,803
Value of equity component-debenture warrants April 14,17/2007-June 14/2007	666,708
Value of equity component- common share warrants, Dec. 31,2007	1,220,221
Value of equity component- common share warrants, Mar. 17, 2008	14,713,400
Balance – March 31, 2008	\$17,159,132

The following table summarizes information about warrants outstanding at March 31, 2008:

Exercise price	Outstanding Mar. 31, 2008	Weighted average remaining contractual life in years	Weighted average exercise price at Mar. 31, 2008	Number exercisable	Weighted average exercise price
\$0.125	44,370,936	1.0	\$0.125	44,370,936	\$0.125
\$0.20	40,000,000	.75	\$0.20	40,000,000	\$0.20
\$.15	202,398,000	2.0	\$.15	202,398,000	\$.15
	286,768,936			286,768,936	

There were 44,494,936 warrants issued during the year ended December 31, 2007 as part of the debenture issue (note 8). The associated costs of these warrants have been included within interest expense being accreted over the 24 month life of the debentures. There were also 40,000,000 warrants issued on December 31, 2007 and 202,398,000 warrants issued on March 17, 2008.

The debenture warrants have been capitalized within share capital bearing a value of \$666,708. The warrants issued on December 31, 2007 have been capitalized within share capital bearing a value of \$1,220,220 and the warrants issued on March 17, 2008 have been capitalized with a value of \$14,713,400. The treatment of the warrants as an equity component reduced the carrying value of the debt component of the debentures. The carrying value of the debenture warrants was calculated using a Black-Scholes Option Pricing Model with the following assumptions:

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(Unaudited)

Volatility factor of expected market price	107.45%
Weighted average risk-free interest rate	4.00%
Weighted average expected life in years	0
Weighted average expected annual dividends per share	Nil

The carrying value of the warrants issued on March 17, 2008 was calculated using a Black-Scholes Option Pricing Model with the following assumptions:

Volatility factor of expected market price	99.10%
Weighted average risk-free interest rate	4.00%
Weighted average expected life in years	0
Weighted average expected annual dividends per share	Nil

e) Contributed surplus

	Period ended Mar 31, 2008	Year ended Dec. 31, 2007
Balance December 31, 2007 & 2006	2,161,087	1,701,419
Stock Based Compensation	108,568	459,668
Balance Mar. 31, 2008	2,269,655	2,161,087

f) Per share amounts

For the period ended March 31, 2008 the weighted average number of shares outstanding was 209,274,981 (2007- 55,305,432). Diluted earnings per share reflect the exercise of options and warrants as if issued at the later of the date of grant or the beginning of the year. This calculation takes into account only the options and warrants that are considered in-the-money at March 31, 2008. Given the share price at March 31, 2008, no options or warrants were considered to be dilutive and therefore were not factored into the weighted average number of shares outstanding.

10. RISK MANAGEMENT ACTIVITIES

Substantially all of the Corporation's accounts receivable are due from companies in the oil and gas industry and are subject to the normal industry credit risks. The carrying value of accounts receivable reflects management assessment of the associated risks.

11. COMMITMENTS & CONTINGENCIES

(see note 14 for additional future commitments)

- At March 31, 2008, there was an outstanding legal proceeding filed against the Corporation. An industry partner filed a claim in the amount of approximately \$1.3 million and the Corporation filed a counterclaim in the amount of \$200,000. The ultimate settlement of the dispute and amounts owed is dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. The adjustment, if any, on resolution of this matter will be accounted for in the period of determination.
- At March 31, 2008, the Corporation had an obligation to incur \$12,775,001 of qualifying exploration expenditures by December 31, 2008 in relation to a flow-through share issuance. At March 31, 2008, \$nil had been incurred with respect to this commitment.

CANADIAN PHOENIX RESOURCES CORP.

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(Unaudited)

12. FINANCIAL INSTRUMENTS

The Corporation's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable and all current liabilities.

Fair Values of Financial Assets and Liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Market risk

Market risks are generally those risks that are outside of the control of the Corporation. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Corporation is to mitigate exposure to these risks, while maximizing returns.

Commodity price risk

Due to the volatility of commodity prices the Corporation is potentially exposed to adverse consequences in the event of declining prices. The Corporation may enter into oil and natural gas hedging contracts in order to protect its cash flow on future sales. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at March 31, 2008, the Corporation had no locked in contracts.

Liquidity risk

Liquidity risk would occur if the Corporation is not able to meet its financial obligations as they come due. The Corporation has established a standard of ensuring that it has enough available resources to withstand a downturn in the industry. As our industry is very capital intensive, the majority of our spending is related to our capital programs. The Corporation's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.

Credit Risk

A substantial portion of the Corporation's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Interest Rate Risk

The Corporation's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rate of interest. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Corporation had no interest rate swaps or financial contracts in place at or during the three months ended March 31, 2008.

13. CAPITAL MANAGEMENT

The Corporation considers its capital structure to consist of shareholders' equity, bank debt and working capital. The Corporation will adjust its capital structure to manage its current and projected debt through the issuance of shares, increasing its bank line of credit and/or adjusting its capital spending. Canadian Phoenix monitors its capital based on the current and projected ratios of net debt to cash flow. Objectives in managing capital structure are to:

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- 1) create and maintain flexibility so that the Corporation can continue to meet its financial obligations; and
- 2) finance growth through internally-generated projects, joint venture relationships or asset/corporate acquisitions.

The Corporation monitors its capital structure using primarily the non-GAAP financial metric of net debt to annualized, most recent quarters' cash flow from operations ratio.

The Corporation's objective is to maintain a net debt to cash flow from operations ratio of one and one half times or less. This ratio may temporarily increase as a result of an acquisition; however the Corporation aims to reduce it below this level as the acquisitions are incorporated into operations over time. To facilitate the management of this ratio, the Corporation prepares an annual budget, which is updated each quarter for any significant acquisition, a change in economic circumstances outside the control of the Corporation, and success or failure of our capital deployed. Each of the annual budget and the quarterly updates are approved by the Board of Directors.

14. SUBSEQUENT EVENTS

- a. On February 1, 2008, the Corporation executed a term sheet with Serrano Energy Ltd. ("Serrano"), an oil and natural gas Corporation, replacing the transaction contemplated in the purchase agreement dated August 15, 2007. Pursuant to the term sheet:
 - i. the Corporation will sell a certain producing heavy oil property to Serrano, with an effective date of June 1, 2007, in exchange for 7.0 million shares of Serrano at a deemed price of \$5.00 per share (the "Sale Transaction");
 - ii. the Corporation will subscribe for 2.0 million shares of Serrano at a price of \$5.00 per share (the "Subscription Transaction");
 - iii. the Corporation will farm-in on certain qualifying Canadian exploration expenditures on Serrano properties of up to \$5.0 million and receive 2.0 million Serrano shares. The Corporation will have the right and obligation to subscribe for and purchase from treasury on September 30, 2008, that number of Serrano common shares equal to the \$5.0 million not spent under the farm-ins at September 30, 2008 divided by \$5. On or before September 30, 2013, Serrano has the right to exercise on the purchase of the working interests earned on by the Corporation for \$1 (the "Farm-in Transaction"); and

The Corporation and Serrano entered into agreements dated April 28, 2008 in respect of the sale of the Sale Transaction and the Subscription Transaction. As at May 29th, 2008, the Corporation has advanced \$8.5 million to Serrano for consideration against the purchase and sale adjustments due on closing of the Sale Transaction which includes a secured deposit of \$1 million. The Corporation has also entered into participation agreements with Serrano in respect of the Farm-in Transaction and has incurred expenditures in the aggregate amount \$2.9 Million. It is anticipated that the Sale Transaction and the Subscription Transaction will be completed following a meeting of the shareholders in the second or third quarter of 2008. After closing the Sale Transaction, the Subscription Transaction and the Farm-in Transaction, the Corporation will own 11 million shares of Serrano or approximately 50.1% of the then issued and outstanding shares of Serrano. The completion of the transactions with Serrano is subject to a number of conditions, including but not limited to, TSX Venture Exchange acceptance and, if required pursuant to TSX Venture Exchange requirements and shareholder approval.

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- b. On February 21, 2008, the Corporation entered into a non-binding letter of intent with Marble Point Energy Ltd. (“Marble Point”), which was further amended on April 16, 2008, whereby the Corporation would acquire not less than 60% of Marble Point through a series of transactions:
- i. Marble Point proposes to conduct a private placement of up to 100 million preferred shares at a price of \$0.65 per share, concurrent with a financing proposed by the Corporation, each preferred share redeemable by Marble Point in certain events by the issue of a promissory note in the amount of \$0.65.
 - ii. The Corporation would issue up to 433 million units to the subscribers of the Marble Point preferred shares in consideration of the promissory notes received by such subscribers upon redemption of the preferred shares. Each unit will be issued at a deemed price of \$0.15 per unit and will be comprised of one common share of the Corporation and one purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Corporation at a price of \$0.20 per share on or before the earlier of the date that is two years from the completion of a private placement and 30 days after the Corporation has given notice of early termination.
 - iii. The Corporation would subscribe for 90 Million common shares of Marble Point at the price of \$0.65, representing a total subscription amount of \$58.5 Million or approximately 60% of the outstanding shares.
 - iv. The Corporation has provided a guarantee to Ionic Capital Corp. with respect to Marble Point’s obligations under a \$35 million secured credit facility with Ionic Capital Corp. Marble Point borrowed an initial \$7.25 million under this facility and the Corporation has issued 4,381,753 common shares to Ionic Capital Corp. at a deemed price of \$0.14895 in partial consideration of the fees associated with the initial advance. The shares will be held in escrow and released upon successful completion of the transaction with Marble Point.
 - v. The Corporation and Marble Point entered a corporate governance agreement pursuant to which the Corporation’s nominees shall join Marble Point’s board of directors and the pre-emptive right to participate and purchase up to its pro-rata share in any equity securities distributions by Marble Point. The corporate governance agreement also sets out Marble Point’s reporting obligations, which includes providing the Corporation with monthly performance reports, financial statements and MD&A. The corporate governance agreement also includes covenants of Marble Point to not carry out certain types of actions without the consent of the Corporation, including amending its articles or by-laws, debt or equity financings and material asset sale and dispositions. In addition, Marble Point has the right under the corporate governance agreement to nominate one person to the board of directors of the Corporation and the Corporation is provided a pre-emptive right to participate in any future equity issuances of Marble Point to avoid dilution of its ownership position.
- c. It is anticipated that the transaction with Marble Point will be completed following a meeting of the shareholders scheduled for June 30, 2008. The completion of the transactions with Marble Point is subject to a number of conditions, including but not limited to, TSX Venture Exchange acceptance and, if required pursuant to TSX Venture Exchange requirements and shareholder approval.

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- d. As at April 22, 2008, the Corporation issued 9,108,000 common shares in conversion of 759,000 of secured convertible debentures. The Corporation is entitled to convert the balance of the debentures that remain outstanding, which will result in the issue of an additional 26,401,680 common shares.