CANADIAN PHOENIX RESOURCES CORP.
(formerly Arapahoe Energy Corporation)

Financial Statements

For the six months ended June 30, 2008 and 2007

CANADIAN PHOENIX RESOURCES CORP.
Balance Sheets
(Unaudited)

See accompanying notes to the financial statements

	Jun 30, 2008 $	Dec 31, 2007 $
Assets		
Current assets		
Cash	25,197,040	1,285,235
Cash held in trust (note 4)	3,590,000	17,775,000
Accounts receivable and accruals	1,017,424	661,834
Advance receivable - Serrano (note 5)	4,850,000	900,000
Prepaid expenses	174,764	158,400
	34,829,228	20,780,469
Advance in trust (note 13c)	3,988,489	—
Advance receivable- Serrano participation funding (note 5)	4,654,068	—
Property, plant and equipment (note 6)	31,371,413	32,643,473
	74,843,198	53,423,942
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,401,171	3,514,400
Operating loan payable (note 8)	—	1,980,000
Credit facility fees payable (note 13c)	3,988,489	—
Current tax payable	110,000	90,000
	6,499,660	5,584,400
Long term debt – debentures (note 9)	—	9,019,153
Future income tax liability	3,656,289	1,947,086
Asset retirement obligation (note 7)	594,222	565,906
	10,750,171	17,116,545
Shareholders' Equity		
Share capital (note 10)	57,067,176	40,496,130
Warrants (note 10)	18,622,817	2,445,731
Deficit	(13,975,188)	(8,795,550)
Contributed surplus (note 10)	2,378,222	2,161,086
	64,093,027	36,307,397
	74,843,198	52,423,942

Commitments & contingencies (note 13)
Going concern (note 1)
Subsequent events (note 16)

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 June 30		Six Months ended June 30	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Revenue				
Oil and gas	850,254	1,404,313	2,080,734	2,928,242
Royalties	(233,839)	(343,135)	(365,040)	(695,699)
	616,415	**1,061,178**	**1,715,694**	**2,232,543**
Expenses				
Operating costs	186,793	438,277	467,819	791,769
Depletion, depreciation and accretion	501,151	720,611	1,495,181	1,364,643
Stock based compensation	108,568	—	217,135	—
General and administrative (note 11)	3,086,060	1,330,749	3,984,692	1,970,528
Interest accretion - debentures	176,055	794,571	1,575,286	794,571
Interest expense (note 13)	623,050	80,953	914,323	271,160
	4,681,677	**3,365,161**	**8,654,436**	**5,192,671**
Other income				
Other income	112,507	1,197,687	166,806	1,246,244
Net income/(loss) for the period before taxes	(3,952,755)	(1,106,296)	(6,771,936)	(1,713,884)
Current income tax recovery/(expense)	—	(47,000)	(20,000)	(47,000)
Future income tax recovery/(expense)	997,014	615,058	1,612,297	615,058
Net income/(loss) and comprehensive income/(loss) for the period	**(2,955,741)**	**(538,238)**	**(5,179,639)**	**(1,145,826)**
Deficit, beginning of period	(11,019,447)	(3,454,448)	(8,795,549)	(2,846,860)
Deficit, end of period	**(13,975,188)**	**(3,992,686)**	**(13,975,188)**	**(3,992,686)**
Net loss per share				
Basic and Diluted	**(0.01)**	**(0.01)**	**(0.01)**	**(0.02)**

Going concern (note 1)

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

	Three Months ended June 30		Six Months ended June 30	
	2008	**2007**	**2008**	**2007**
Cash provided by (used in)	**$**	**$**	**$**	**$**
Operating activities				
Loss for the period	(2,955,741)	(538,238)	(5,179,639)	(1,145,826)
Items not affecting cash				
Depletion, depreciation & accretion	501,151	720,609	1,495,181	1,364,643
Stock-based compensation	108,568	167,500	217,135	167,500
Payable settled with debentures	—	923,745	—	923,745
Interest accretion on debentures	176,055	794,571	1,575,286	794,571
Current tax expense/(recovery)	—	47,000	20,000	47,000
Future tax expense/(recovery)	(997,014)	(615,058)	(1,612,297)	(615,158)
	(3,166,981)	1,500,129	(3,484,334)	1,536,475
Change in non-cash working capital	752,542	(5,635,933)	(1,325,182)	(6,156,260)
	(2,414,439)	**(4,266,430)**	**(4,809,516)**	**(4,619,785)**
Financing activities				
Increase/(decrease) in bank loan	—	(1,395,000)	(1,980,000)	(475,000)
Issuance of capital stock for cash	—	—	25,315,194	—
Long term debenture issue	—	5,019,990	—	5,019,990
Share capital – conversion rights, warrants, and brokers warrants related to debenture issue (net of placement costs)	—	4,425,824	—	4,425,824
	—	**8,050,814**	**23,335,194**	**8,970,814**
Investing activities				
Disposition/(acquisition) of petroleum and natural gas properties	(168,657)	13,785	(194,805)	(411,162)
Proceeds from disposal of petroleum and natural gas properties	—	130,000	—	130,000
Cash deposited in trust (note 4)	(3,590,000)	—	14,185,000	—
Change in non-cash working capital (note 5)	(3,705,073)	—	(8,604,068)	—
	(7,463,730)	**143,785**	**5,386,127**	**(281,162)**
Increase (decrease) in Cash	(9,878,169)	4,058,796	23,911,805	4,069,967
Cash, beginning of period	35,075,209	19,409	1,285,235	8,238
Cash, end of period	**25,197,040**	**4,078,205**	**25,197,040**	**4,078,205**
Interest paid	439,485	80,954	446,719	271,160

1. BASIS OF PRESENTATION AND GOING CONCERN

Canadian Phoenix Resources Corp. (the "Corporation" or "Canadian Phoenix") 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 $5,179,639 and negative operating cash flows before changes in non-cash working capital of $3,484,334 for the six months ended June 30, 2008. The Corporation had a positive net working capital of $28,329,568 at June 30, 2008.

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

1. On August 20, 2008 the Corporation closed the transaction contemplated on February 1, 2008, whereby 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. Associated with the transaction, the Corporation has committed to various share capital and property and equipment investments with Serrano (Note 16).

2. The Corporation is currently working to close the transaction contemplated on February 21, 2008 and approved by the shareholders of the Corporation on August 15, 2008, whereby 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. Associated with the transaction, the Corporation has committed to subscribing for 90 million Marble Point common shares and has provided a guarantee with respect to a $35 million credit facility provided to Marble Point (Note 16).

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 10).

4. From March 6 to June 11, 2008, the Corporation issued 133,307,088 common shares in conversion of 11,108,924 of secured convertible debentures (Note 10).

The Corporation has sufficient funds to complete the committed transactions, however, 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.

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 14).

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 14).

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 15).

4. CASH HELD IN TRUST

Pursuant to the agreement for the credit facility with Ionic Capital Corp. described in Note 13, on April 15, 2008, Canadian Phoenix placed $3,590,000 in trust as a security deposit on the credit facility. The funds, plus accrued interest, are to be released to Canadian Phoenix on the completion of the transaction with Marble Point Energy Ltd. (described in Note 16(b)). If the transaction is not completed, Ionic Capital Corp. will apply the funds to any outstanding balance owing on the credit facility.

5. ADVANCE RECEIVABLE

As at June 30, 2008, the Corporation had advanced to Serrano Energy Ltd. a total of $9,504,068 to be treated as a contribution against the cumulative net operating revenue from the Freemont property. Of the total advance, $4,850,000 was a general secured advance and $4,654,068 was for the funding of participation agreements for current drilling activities. Upon closing of the Freemont property sale (Note 16(a)), net operating revenue between June 1, 2007 and the closing date will be calculated to determine the adjusted purchase price.

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation Depletion Accretion	June 30, 2008 Net Book Value	Dec 31, 2007 Net Book Value
P&NG Properties	**$ 37,961,971**	**$ 6,775,344**	**$ 31,186,627**	**$ 32,477,351**
Field vehicle	**25,000**	**16,091**	**8,909**	**10,412**
Office assets	**326,074**	**150,197**	**175,877**	**155,710**
TOTAL	**$ 38,313,045**	**$ 6,941,632**	**$ 31,371,413**	**$ 32,643,473**

The depletion calculation excluded major development projects of $7,176,493 (December 31, 2007 - $7,176,493). The Corporation has not capitalized any general and administrative expenses for the period ended June 30, 2008 or 2007.

7. 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 $594,222 at June 30, 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 undiscounted amount of the asset retirement obligation is $4,536,742.

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

	June 30 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	28,316	48,931
Asset retirement obligation, end of period	**$ 594,222**	**$ 565,906**

8. BANK LOAN

The Corporation has a revolving line of credit with the National Bank of Canada. On April 15th, 2008 the parties agreed to suspend any and all credit facilities held by Canadian Phoenix with National Bank of Canada. This was a result of Canadian Phoenix entering into the credit agreement with Ionic Capital Corp. At June 30, 2008 the Corporation had a nil balance. Prior to suspension the 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 six months ended June 30, 2008, the Corporation incurred nil interest on this facility.

9. 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, 2007 Tranche	Debt Settlement	June, 2007 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, 11,108,924 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 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. On March 5, 2008, the Trust Indenture was amended such that the definition of a Business Combination Transaction included the completion of a private placement by the Corporation for gross proceeds of not less than $20 million, provided that the Corporation had entered into a definitive agreement providing for a transaction that would satisfy one of the other sub-terms of the definition of a Business Combination Transaction. As such, the Corporation was entitled to call for the conversion of the outstanding debentures into common shares (each $1.00 invested in the debenture into 12 common shares) on the earlier of (i) the completion of the transaction with Serrano Energy Ltd. (as described in Note 16) and (ii) the completion of the private placement. The private placement was completed on March 17, 2008. As at June 30, 2008, all debenture units were converted into common shares of the Corporation.

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 Initial Debenture Units accrued interest at a rate of 20% per annum from May 1, 2008 until maturity on April 11, 2009 or the date of conversion, whichever is earlier. The Corporation's Initial Debenture Units were classified as debt with a portion of the proceeds allocated to equity representing the value of the detachable warrants and conversion rights. The debt component was transferred to share capital once the debentures were converted to equity. Prior to the conversion, the debt component was accreted 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

	Dec. 31, 2007		**Dec. 31, 2007**	**June 30, 2008**	**June 30, 2008**
	Equity Component		$	$	$
	Warrants	Conversion Rights	Debt Component	Equity Component	Debt 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 June 30, 2008 interest accretion					1,575,286
Conversion to common shares Mar/08 - June 30/08				(10,594,438)	
Carrying value	666,708	3,200,313	9,019,152		—

10. 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, 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	9,116,409
Common shares issued on exercise of warrants	124,000	21,700
Common shares issued on debenture conversion (v)	91,317,408	7,714,492
Common shares issued on debenture conversion (vi)	41,989,680	2,879,945
Balance- June 30, 2008	**556,054,320**	**57,067,176**

(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 consisted 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 consisted 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. Each finder's unit also had one warrant attached for a total of 20,219,800 warrants.

(v) As at March 31, 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.

(vi) As at June 30, 2008, the Corporation issued 41,989,680 common shares in conversion of 2,872,140 of secured convertible debentures. The conversion resulted in a transfer of $2,879,946 from long term debt to share capital.

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 June 30, 2008 and changes during the six months ended June 30, 2008:

		2008
	# Shares	**Weighted average exercise price ($)**
Outstanding – beginning of period	7,819,181	0.26
Granted during period	3,180,000	0.125
Expired during period	—	—
Cancelled during period	—	—
Outstanding – end of period	**10,999,181**	**0.22**

The following table summarizes information about stock options outstanding at June 30, 2008:

Exercise price	**Outstanding Jun. 30, 2008**	**Weighted average remaining contractual life in years**	**Weighted average exercise price at Jun. 30, 2008**	**Number exercisable**	**Weighted average exercise price**
$0.125 - $0.76	7,819,181	3.31	$0.26	5,145,348	$0.33
$0.125	3,180,000	4.62	$0.125	1,590,000	$0.125
	10,999,181	**3.69**		**6,735,348**	**$0.28**

Compensation cost of $217,135 has been recognized for the first six months of 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

d) Warrants

A summary of the status of the Corporation's warrants as at June 30, 2008 and changes during the six months ended June 30, 2008:

	# Warrants	2008 Weighted average exercise price ($)
Outstanding – beginning of period	85,074,236	0.164
Issued	202,398,000	0.15
Issued	20,219,800	0.15
Exercised	(124,000)	0.125
Expired	(638,540)	0.61
Outstanding – end of period	**306,929,496**	**0.153**

Warrants	**$ Value**
Opening Balance - January 1, 2008	2,445,731
Value of equity component- common share warrants, Mar. 17, 2008	14,713,400
Value of equity component- common share warrants, Mar. 17, 2008	1,469,886
Fair value attributed to exercise of warrants	(6,200)
Balance – June 30, 2008	**$18,622,817**

The following table summarizes information about warrants outstanding at June 30, 2008:

Exercise price	**Outstanding Jun. 30, 2008**	**Weighted average remaining contractual life in years**	**Weighted average exercise price at Jun. 30, 2008**	**Number exercisable**	**Weighted average exercise price**
$0.125	44,311,696	.78	$0.125	44,311,696	$0.125
$0.15	20,219,800	1.71	$0.15	—	$0.15
$0.20	40,000,000	.49	$0.20	40,000,000	$0.20
$0.15	202,398,000	1.71	$0.15	—	$0.15
	306,929,496			**84,311,696**	

There were 44,494,936 warrants issued during the year ended December 31, 2007 as part of the debenture issue (Note 9). 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 222,617,800 warrants issued on March 17, 2008.

The debenture warrants have been capitalized within share capital bearing a value of $1,225,511. The warrants issued on December 31, 2007 have been capitalized within share capital bearing a value of $1,220,220.The warrants issued on March 17, 2008 have been capitalized with a value of $16,183,286. 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:

Volatility factor of expected market price	107.45%
Weighted average risk-free interest rate	4.00%
Weighted average expected life in years	2
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	2
Weighted average expected annual dividends per share	Nil

e) Contributed surplus

	Period ended Jun. 30, 2008	Year ended Dec. 31, 2007
Balance December 31, 2007	$2,161,087	$1,701,419
Stock Based Compensation	217,135	459,668
Balance June 30, 2008	**$2,378,222**	**$2,161,087**

f) Per share amounts

For the six month period ended June 30, 2008 the weighted average number of shares outstanding was 387,541,055 (2007 - 55,518,139). For the three month period ended March 31 to June 30, 2008 the weighted average number of shares outstanding was 534,804,156 (2007 – 55,733,210). 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 June 30, 2008. Given the share price at June 30, 2008, no options or warrants were considered to be dilutive and therefore were not factored into the weighted average number of shares outstanding.

11. GENERAL AND ADMINISTRATIVE ("G&A")

The major cost categories comprising G&A were consulting fees (52%), legal fees (17%), and salaries (4%). Of the total consulting fees, $1,265,000 was directly attributable to ongoing costs and fees related to the structuring and development of transactions involving Serrano Energy, Marble Point Energy and Blue Parrot Energy. Legal costs directly related to the above mentioned transactions totaled $248,000. These costs are non-recurring and if not for the increased level of complexity of these business transactions, would not be so substantial.

12. 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.

13. COMMITMENTS & CONTINGENCIES

(see note 16 for additional future commitments)

a) At June 30, 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.

b) At June 30, 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 June 30, 2008, $nil had been incurred with respect to this commitment.

c) The Corporation provided a guarantee to Ionic Capital Corp. ("Ionic") with respect to Marble Point Energy Ltd. ("Marble Point") obligations under a $35 million secured credit facility with Ionic. Interest on the credit facility is at a rate of 12% per annum. Pursuant to an Indemnity Agreement between Marble Point and Canadian Phoenix, Canadian Phoenix has agreed to reimburse Marble Point for one-half of the interest charges on the credit facility. In the event that Canadian Phoenix owns 65% or more of the Marble Point shares, Canadian Phoenix shall be responsible for the payment of the entirety of the interest accruing on the credit facility. For the three and six months ended June 30, 2008, Canadian Phoenix paid $439,000 of interest to Marble Point for its share of the interest owing under the credit facility.

In addition, Canadian Phoenix has agreed to pay all of the fees owing under the Ionic credit facility. As such, the Corporation has issued 4,381,753 common shares to Ionic in partial payment of the fees payable for the initial advance under the credit facility and issued an additional 23,165,467 common shares to Ionic in partial payment for the second advance under the credit facility. The common shares are being held in escrow until the transaction with Marble Point (as described in Note 16) is completed. If the transaction is not completed, the shares will be returned to Canadian Phoenix for cancellation and Canadian Phoenix and Marble Point will be obliged to pay the fee amounts to Ionic in cash. The value of the common shares issued has been classified as a current liability until the transaction closes, with the offset included in other assets.

14. 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 June 30, 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 six months ended June 30, 2008.

15. 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:

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.

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.

16. SUBSEQUENT EVENTS

a) Effective, August 20, 2008, pursuant to the executed term sheet dated February 1, 2008, with Serrano Energy Ltd. ("Serrano") the Corporation completed the transaction whereby the Corporation acquired 50.1% ownership of Serrano through a series of arm's length transactions for total deemed consideration of $55 million. The deemed consideration of $55 million was determined by the value of 11,000,000 Serrano common shares being acquired by Canadian Phoenix at a price of $5.00 per Serrano common share. These transactions include:

i. the Corporation will sell the Freemont 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 value of the Freemont Assets based on proved and probable reserves, discounted at 10%, as calculated by independent reserve engineers as at December 31, 2007 is $7,369,000;

ii. the Corporation will subscribe for 2.0 million shares of Serrano at a price of $5.00 per share;

iii. the Corporation will farm-in on certain qualifying Canadian exploration expenses on Serrano properties of up to $5.0 million and Serrano will issue 2.0 million shares to Canadian Phoenix in consideration for the right to purchase the working interest of the Corporation in such properties.

On August 20, 2008, this transaction closed. At this time, $6.5 million was paid to Serrano for the net consideration against the purchase and sale adjustments that were due on the closing of the Freemont property sale. As at August 27, 2008, Canadian Phoenix has participated in $5.9 million in farm-in opportunities with Serrano.

b) Pursuant to the non-binding letter of intent as amended and executed April 16, 2008, with Marble Point Energy Ltd. ("Marble Point") the Corporation is working towards completing the transaction whereby the Corporation will acquire 60% ownership of Marble Point through a series of arm's length transactions:

i. Marble Point conducted a private placement of preferred shares at a price of $0.65 per share for gross proceeds of $49,449,999. Each preferred share is redeemable to Marble Point by the issue of a promissory note by Marble Point. Canadian Phoenix units (as described below) can be purchased by Marble Point promissory note-holders through the assignment of the promissory note to Canadian Phoenix.

ii. The Corporation would raise up to $125 million through the issue of up to 833,333,334 subscription receipts at a price of $0.15 per subscription receipt. Each subscription receipt entitles the holder to receive one unit, which is comprised of one Canadian Phoenix common share and one Canadian Phoenix common share warrant with an exercise price of $0.20 and an expiry, at the latest, of the second anniversary of the completion of the financing.

iii. The Corporation subscribed for 90 million common shares of Marble Point at a price of $0.65 per share for a total subscription amount of $58.5 million.

iv. On April 15, 2008, Marble Point as borrower, and Canadian Phoenix as guarantor, entered into a secured credit facility with Ionic Capital Corp. Marble Point borrowed an initial amount of $7.25 million from Ionic to fund the payment of the deposits and fees for the purchase of oil and gas assets. Canadian Phoenix issued 4,381,753 common shares on April 15 to Ionic in partial consideration of the initial advance under the facility. A further 23,165,467 common shares were issued to Ionic on April 30, 2008 when the full amount of $42 million was advanced to Marble Point under the Facility. The shares are held in trust until the completion of the Marble Point transaction.

The acquisition will be accounted for using the purchase method with Canadian Phoenix as the acquirer.

c) Pursuant to the asset acquisition agreement with Blue Parrot Energy Inc. dated June 11, 2008, the Corporation has proposed to purchase certain oil and natural gas assets for the purchase price of

$14,250,000, subject to adjustments. The purchase price will be paid through the issuance of 95 million units at a price of $0.15 per unit. Each unit will consist of one Canadian Phoenix common share and one-half of a purchase warrant whereby each whole warrant will entitle the holder to purchase one common share at an exercise price of $0.20 per share, expiring on the second anniversary of the completion of the transaction. If the closing price of the Corporation's shares on the TSXV is at least $0.30 for a minimum of at least 30 trading days, the Corporation may reduce the exercise period to that date which is 30 days following the date on which the holders of the warrants receive written notice of the shortened exercise period.

d) On August 11, 2008, the Corporation issued 80,344,500 subscription receipts (described in Note 16(b)(ii)) at a price of $0.15 per subscription receipt for gross proceeds of $12,051,675. The gross proceeds have been deposited into escrow to be released on the date that all of the conditions to be completed in the transaction with Marble Point are met or waived.