

CANADIAN PHOENIX RESOURCES CORP.
(formerly Arapahoe Energy Corporation)

Consolidated Financial Statements

For the nine months ended September 30, 2008 and 2007

(unaudited)

CANADIAN PHOENIX RESOURCES CORP.
Consolidated Balance Sheets
(Unaudited – in Canadian Dollars)

	September 30, 2008 \$	December 31, 2007 \$
Assets		
Current assets		
Cash	13,922,901	1,285,235
Cash held in trust (note 5)	2,002,258	17,775,000
Accounts receivable and accruals	10,908,419	1,561,834
Cash call deposits	2,019,505	—
Prepaid expenses	241,753	158,400
	<u>29,094,836</u>	<u>20,780,469</u>
Long term debt receivable- Marble Point (note 6)	41,500,000	—
Goodwill (note 4a)	6,176,734	—
Investment (note 4b)	64,750,870	—
Property, plant and equipment (note 7)	86,526,685	32,643,473
	<u>228,049,125</u>	<u>53,423,942</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	27,120,894	3,604,400
Operating loan payable (note 8)	—	1,980,000
Short term debt (note 9)	31,223,662	—
	<u>58,344,556</u>	<u>5,584,400</u>
Long term debt – debentures	—	9,019,153
Future income tax liability	5,312,236	1,947,086
Asset retirement obligation (note 10)	3,933,203	565,906
	<u>67,589,995</u>	<u>17,116,545</u>
Non-controlling interest (note 4, 11)	<u>24,054,760</u>	—
Shareholders' Equity		
Share capital (note 12b)	118,410,913	40,496,130
Warrants (note 12d)	33,110,915	2,445,731
Deficit	(17,490,454)	(8,795,550)
Contributed surplus (note 12e)	2,372,996	2,161,086
	<u>136,404,370</u>	<u>36,307,397</u>
	<u>228,049,125</u>	<u>53,423,942</u>
Going concern (note 1)		
Commitments & contingencies (note 14)		
Subsequent events (note 18)		

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

“Robert J. Chenery”

Director

“D. Barry Lee”

Director

CANADIAN PHOENIX RESOURCES CORP.Consolidated Statements of Loss, Comprehensive Loss, and Deficit
(Unaudited – in Canadian Dollars)

	Three Months ended September 30		Nine Months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue				
Oil and gas	3,217,518	1,258,812	5,298,252	4,187,054
Royalties	(713,301)	(194,317)	(1,078,342)	(890,016)
	2,504,217	1,064,495	4,219,910	3,297,038
Expenses				
Operating costs	737,420	347,994	1,205,239	1,139,763
Depletion, depreciation and accretion	1,734,653	641,835	3,229,835	2,006,480
Stock based compensation	2,141,937	129,581	2,359,073	129,581
Financing fees (note 13)	1,212,152	—	1,212,152	—
General and administrative	736,152	1,289,544	4,720,844	3,260,072
Interest accretion - debentures	—	1,057,451	1,575,283	1,852,022
Interest expense	638,826	72,275	1,553,150	343,433
	7,201,140	3,538,680	15,855,576	8,731,351
Other income				
Investment loss (note 4b)	(136,045)	—	(136,045)	—
Other income	186,255	—	353,062	1,246,244
Net loss for the period before taxes	(4,646,713)	(2,474,185)	(11,418,649)	(4,188,069)
Current income tax expense	(110,000)	(30,460)	(130,000)	(77,460)
Future income tax recovery	262,655	704,333	1,874,953	1,319,391
Non-controlling interest (note 11)	978,792	—	978,792	—
Net loss and comprehensive loss for the period	(3,515,266)	(1,800,312)	(8,694,904)	(2,946,138)
Deficit, beginning of period	(13,975,188)	(3,992,686)	(8,795,550)	(2,846,860)
Deficit, end of period	(17,490,454)	(5,792,998)	(17,490,454)	(5,792,998)
Net loss per share				
Basic & Diluted (note 12f)	(0.00)	(0.03)	(0.01)	(0.05)
Going concern (note 1)				

See accompanying notes to the financial statements

CANADIAN PHOENIX RESOURCES CORP.

 Consolidated Statements of Cash Flows
 (Unaudited – in Canadian Dollars)

	Three Months ended September 30		Nine Months ended September 30	
	2008	2007	2008	2007
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Net loss for the period	(3,515,266)	(1,800,312)	(8,694,904)	(2,946,138)
Items not affecting cash				
Depletion, depreciation & accretion	1,734,653	641,835	3,229,835	2,006,480
Investment loss	136,045	—	136,045	—
Stock-based compensation	2,141,937	129,581	2,359,073	129,581
Financing costs and payables settled with shares	1,212,152	—	1,212,152	167,500
Payable settled with debentures	—	—	—	923,745
Interest accretion on debentures	—	1,057,451	1,575,284	1,852,022
Current tax expense	110,000	30,460	130,000	77,460
Non-controlling interest	(978,792)	—	(978,792)	—
Future tax recovery	(262,655)	(704,333)	(1,874,951)	(1,319,392)
	578,074	(645,317)	(2,906,258)	891,258
Change in non-cash working capital	10,287,587	(235,130)	358,340	(6,391,391)
	10,865,661	(880,447)	(2,547,918)	(5,500,131)
Financing activities				
Decrease in bank loan	—	(1,050,000)	(1,980,000)	(1,525,000)
Issuance of capital stock	12,301,675	—	37,616,869	—
Cash paid for financing fees	(500,000)	—	(500,000)	—
Increase in long term debt receivable, net - Marble Point	(6,500,000)	—	(6,500,000)	—
Long term debenture issue	—	—	—	5,019,990
Share capital – conversion rights, warrants, and brokers warrants related to debenture issue (net of placement costs)	—	—	—	4,425,824
Net change in non-cash financing activities working capital	—	21,975	—	21,975
	5,301,675	(1,028,025)	28,636,869	7,942,789
Investing activities				
Business acquisition (net of cash acquired \$4,302,514)	(9,701,872)	—	(9,701,872)	—
Acquisition of petroleum and natural gas properties	(9,942,890)	(380,572)	(10,137,700)	(791,735)
Cash deposited in trust	1,587,742	—	15,772,742	—
Proceeds from disposal of petroleum and natural gas properties	—	851,044	—	981,046
Increase in investments	(11,603,086)	—	(11,603,086)	—
Change in non-cash working capital	2,218,631	—	2,218,631	—
	(27,441,475)	470,472	(13,451,285)	189,311
Increase (decrease) in Cash	(11,274,139)	(1,438,000)	12,637,666	2,631,967
Cash and cash equivalents, beginning of period	25,197,040	4,078,205	1,285,235	8,238
Cash and cash equivalents, end of period	13,922,901	2,640,205	13,922,901	2,640,205
Interest paid	488,803	72,275	928,322	343,435
Taxes paid	—	30,460	—	77,460

CANADIAN PHOENIX RESOURCES CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2008 and 2007

(Unaudited – Canadian Dollars)

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 consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“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 **\$8,694,904** and negative operating cash flows before changes in non-cash working capital of **\$2,906,258** for the nine months ended September 30, 2008. The Corporation had a net working capital deficit of **\$29,249,720** at September 30, 2008.

In August and September 2008 the Corporation closed business acquisitions of Marble Point Energy Limited (“Marble Point”), Serrano Energy Ltd. (“Serrano”), and certain assets of Blue Parrot Energy Inc. (“Blue Parrot”). The Corporation had sufficient funds to complete the above transactions, however, there can be no assurance that the Corporation will be sufficiently funded after these initiatives are executed. These circumstances create significant doubt 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 consolidated 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 consolidated financial statements of the Corporation are stated in Canadian dollars and have been prepared in accordance with Canadian GAAP. The preparation of consolidated 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 consolidated financial statements, and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. These consolidated financial statements include the accounts of the Corporation and its 50.01% ownership of Serrano.

CANADIAN PHOENIX RESOURCES CORP.

Notes to Consolidated Financial Statements

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(Unaudited – Canadian Dollars)

The acquisition of 56.51% of Marble Point is accounted for with the equity method. The equity method, pursuant to Section 3050.02 of the Canadian Institute of Chartered Accountants (“CICA”) Handbook, is a basis of accounting for long-term investments whereby the investment is initially recorded at cost and the carrying value adjusted thereafter to include the investor’s pro rata share of post-acquisition earnings of the investee, computed by the consolidation method. The amount of the adjustment is included in the determination of net income by the investor, and the investment account of the investor is also increased or decreased to reflect the investor’s share of capital transactions and changes in accounting policies and correction of errors relating to prior period financial statements applicable to post-acquisition periods. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

3. CHANGE IN ACCOUNTING POLICIES

On January 1, 2008, the Corporation adopted the following 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 16).

Section 3863, “Financial Instruments-Presentation.” This section establishes standards for the 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.

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 17).

Future accounting policy changes:

CICA handbook section 3064, “Goodwill and Intangible Assets” will be effective for periods beginning on or after October 1, 2008. The Company will be required to adopt this standard, which replaces CICA sections 3062 and 3450 and provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company does not expect that the adoption of this standard will have a material effect on the consolidated financial statements.

International Financial Reporting Standards. On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable profit-oriented enterprises will be required to use International Financial Reporting Standards (“IFRS”) in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Over the next three years, Canadian GAAP will be modified to converge with International Financial Reporting Standards (“IFRS”). The Company has begun to assess the impact of transitioning to IFRS on its financial reporting and its internal systems and processes.

CANADIAN PHOENIX RESOURCES CORP.

Notes to Consolidated Financial Statements

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(Unaudited – Canadian Dollars)

4. ACQUISITIONS

a) Purchase of interest in Serrano

Effective, August 20, 2008, pursuant to the executed term sheet dated February 1, 2008, with Serrano, the Corporation completed the transaction whereby the Corporation acquired 50.01% ownership of Serrano through a series of arm's length transactions for total consideration of \$29 million. These transactions include:

- (i) the Corporation sold the Freemont heavy oil property to Serrano, with an effective date of June 1, 2007, in exchange for 7.0 million shares of Serrano. The fair value of the Freemont property is \$10,280,000. The interim purchase price adjustment was \$2,549,240 which comprised revenue and expenses associated with the Freemont property from the effective date of sale of June 1, 2007 to closing on August 20, 2008;
- (ii) the Corporation subscribed for 2.0 million shares of Serrano at a price of \$5.00 per share;
- (iii) the Corporation agreed to farm-in on certain qualifying Canadian exploration expenses on Serrano properties of up to \$5.0 million and Serrano issued 2.0 million shares to the Corporation in consideration for the right to purchase the working interest of the Corporation in such properties for \$1.

The transaction has been accounted for using the purchase method with the Corporation as the acquirer. The allocation of the purchase price based on management's best estimates of fair values as at the date of acquisition was as follows:

Net assets acquired	
Working capital	\$ (4,982,964)
Property and equipment	55,701,735
Asset retirement obligations	(3,081,754)
Future income tax liability	(1,821,822)
Goodwill	6,176,734
Non-controlling interest	(22,957,543)
	\$ 29,034,386

Consideration	
Cash paid for Serrano common shares	\$ 10,000,000
Agreed farm-in expenditure value	5,000,000
Freemont property value	10,280,000
Interim purchase price adjustments	2,549,240
Transaction costs	1,205,146
	\$ 29,034,386

The final purchase price allocation is subject to change.

CANADIAN PHOENIX RESOURCES CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2008 and 2007

(Unaudited – Canadian Dollars)

b) Purchase of interest in Marble Point

Pursuant to the non-binding letter of intent as amended and executed April 16, 2008, with Marble Point, the Corporation completed the transaction on September 19, 2008 whereby the Corporation acquired a 56.51% 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 was redeemable to Marble Point by the issuance of a promissory note by Marble Point. Canadian Phoenix units (as described below) were purchased by Marble Point promissory note-holders through the assignment of the promissory note to Canadian Phoenix.
- (ii) the Corporation raised \$49,449,999 through the issuance of 329,666,661 subscription receipts at a price of \$0.15 per subscription receipt. Each subscription receipt entitled the holder to receive one unit, which was comprised of one Canadian Phoenix common share and one Canadian Phoenix common share purchase 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 excluding associated professional and other fees. Including fees the total purchase price was \$64.9 million. Payment for the common shares was by way of settlement of the promissory notes assigned by Marble Point of \$49.5 million and cash of \$9.0 million.

The investment in Marble Point is being accounted for on an equity basis whereby the investment is initially recorded at cost and the carrying value adjusted thereafter to include the pro rata share of post-acquisition earnings of Marble Point. Marble Point is not being accounted for on a consolidated basis as the Corporate Governance Agreement executed mutually by the Corporation and Marble Point does not fully satisfy control tests as determined by generally accepted accounting principles.

The following table provides a reconciliation of the loss realized within the period between acquisition on September 19, 2008 and the quarter ended September 30, 2008 for Canadian Phoenix's proportionate share of the investment in Marble Point:

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Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2008 and 2007

(Unaudited – Canadian Dollars)

Revenue	\$
Oil and gas	740,593
Royalties	(129,002)
	611,591
Expenses	
Operating costs	271,946
Depletion, depreciation and accretion	263,350
General and administrative	232,266
Interest accretion- financing costs	34,819
Interest expense	90,454
	892,835
Net loss before taxes	(281,244)
Tax recovery on loss	40,499
Net loss after taxes from investment	(240,745)
Proportional share of loss at 56.51%	(136,045)

c) Purchase of oil and natural gas assets from Blue Parrot

On September 30, 2008, pursuant to the asset acquisition agreement with Blue Parrot, the Corporation purchased certain oil and natural gas assets for the purchase price of \$6.4 million subject to adjustments. The purchase price was paid through the issuance of 95 million units. Each unit consisted of one Canadian Phoenix common share and one-half of a purchase warrant whereby each whole warrant entitles 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.

The acquisition of these assets from Blue Parrot is arm's length and has been accounted for based on the fair value of the assets and liabilities as follows:

CANADIAN PHOENIX RESOURCES CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2008 and 2007

(Unaudited – Canadian Dollars)

Property and equipment	\$6,734,811
Asset retirement obligations	(351,775)
Net assets acquired	\$6,383,036

Purchase Price:

95,000,000 common shares	\$5,700,000
47,500,000 warrants	524,510
Cash paid for transaction costs	158,526
Total purchase price	\$6,383,036

The final purchase price adjustments are subject to change.

5. CASH HELD IN TRUST

Pursuant to the terms of the transaction with Marble Point, Marble Point redeemed all of its outstanding preferred shares concurrently with the Canadian Phoenix acquisition by the delivery of promissory notes to the holders of the Preferred Shares to Canadian Phoenix for and on behalf of such former holders of the Preferred Shares.

Upon redemption of the Marble Point Preferred Shares, Canadian Phoenix entered into an Indemnity Agreement with Marble Point for any withholding taxes payable applicable to non-resident dispositions in respect of the former holders of Marble Point Preferred Shares. A total of \$1,750,000 was posted in escrow by Canadian Phoenix to secure a portion of any potential withholding tax liability. The Corporation anticipates that all conditions under the Escrow Agreement will be met in early 2009 at which time the cash in trust will be released.

As at September 30, 2008 the Corporation had an additional \$232,243 held in a restricted bank account. These funds are held as part of its License Liability Rating with the Energy Resources and Conservation Board.

6. LONG TERM DEBT RECEIVABLE

Pursuant to the terms of the acquisition of Marble Point, the Corporation loaned \$41.5 million to Marble Point. The loan is due December 31, 2010 and bears interest at 8 percent per annum, payable monthly. The loan is secured by the assets of Marble Point. Subsequent to September 30, 2008, the loan was repaid by Marble Point and the funds were used by the Corporation to repay the credit facility due to an arm's length lender.

CANADIAN PHOENIX RESOURCES CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2008 and 2007

(Unaudited – Canadian Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation, Depletion and Accretion	Sept 30, 2008 Net Book Value	Dec 31, 2007 Net Book Value
P&NG Properties	\$99,951,651	\$13,677,855	\$86,273,796	\$32,477,351
Field vehicle	—	—	—	10,412
Office assets	442,308	189,419	252,889	155,710
TOTAL	\$100,393,959	\$13,867,274	\$86,526,685	\$32,643,473

The depletion calculation excluded undeveloped properties of the Corporation with a cost of \$15,423,164 (December 31, 2007 - \$7,176,493). The Corporation has not capitalized any general and administrative expenses for the period ended September 30, 2008 or 2007.

8. OPERATING LOAN

Canadian Phoenix had a revolving line of credit with an arm's length lender. On April 15, 2008 the parties agreed to suspend any and all credit facilities held by the Corporation with the lender. This was as a result of Canadian Phoenix entering into the credit agreement with another arm's length lender.

At September 30, 2008 the facility remained suspended with a nil balance. Prior to suspension, the facility bore an interest at the lender's prime rate plus 1% and was secured with a general security agreement over the property and assets of the Corporation. During the nine months ended September 30, 2008, the Corporation incurred \$7,234 in interest on this facility.

9. CREDIT FACILITY

Pursuant to the terms of the acquisition of Marble Point, Marble Point assigned the \$35 million credit facility due to an arm's length lender to the Corporation. The credit facility is due March 31, 2009. The interest rate under the credit facility is 12 percent per annum payable monthly. The facility was entered into on April 30, 2008 at which time Marble Point and the Corporation each paid 50 percent of the interest costs. For the nine months ended September 30, 2008, the Corporation has paid \$928,000 of interest under the facility.

Subsequent to September 30, 2008, the Corporation has repaid the entire \$35 million balance outstanding under the credit facility. The following table provides a reconciliation of the carrying amount of the obligation, net of related fees to be amortized through payout of \$3,776,338.

CANADIAN PHOENIX RESOURCES CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2008 and 2007

(Unaudited – Canadian Dollars)

	Sept. 30, 2008
	Carrying value of debt obligation
Unadjusted carrying value	\$30,011,511
Accretion costs during period, attributable to fees	1,212,151
Outstanding – end of period	31,223,662
Unamortized fees	3,776,338
Balance to be repaid in subsequent period	\$35,000,000

10. 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 \$3,933,203 at September 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 credit adjusted 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 \$8,293,458.

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

	Sept. 30 2008	Dec. 31 2007
Asset retirement obligation, beginning of period	\$565,906	\$556,300
Liabilities incurred (disposed) during period	(105,712)	(74,922)
Liabilities acquired – Serrano Energy	3,081,754	—
Liabilities acquired – Blue Parrot	351,775	—
Adjustments to estimates	—	35,597
Accretion expense	39,480	48,931
Asset retirement obligation, end of period	\$3,933,203	\$565,906

11. NON-CONTROLLING INTEREST IN SUBSIDIARIES

A non-controlling interest exists when shares of a subsidiary company are held by other than the parent company. Since the transaction which takes place at the date of purchase does not involve the non-controlling interest in the subsidiary's assets and liabilities, it is appropriate to reflect this interest in terms of the carrying values recorded in the accounting records of the subsidiary company.

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(Unaudited – Canadian Dollars)

	Sept. 30, 2008
Non-controlling interest as at acquisition, August 20, 2008	22,957,543
Increase in non-controlling interest in relation to issued and outstanding options and warrants	2,076,009
Current operations	(978,792)
Balance, end of period	\$ 24,054,760

The non-controlling interest shown at the date of acquisition represents the acquired subsidiary's carrying value of net assets based on their proportionate holdings at acquisition. The non-controlling interest is further adjusted by the outstanding options and warrants as at the acquisition date.

The following is a summary of Serrano's share capital:

Canadian Phoenix holdings, September 30, 2008	11,050,000	50.01%
Non-controlling interest, September 30, 2008	11,044,732	49.99%
Balance, September 30, 2008	22,094,732	100.00%

The following is a summary of Serrano's options:

	Outstanding	Weighted Average	
		Remaining term	Exercise \$
At acquisition	783,250	4.1	\$ 0.50
Issued	1,307,445	5.0	\$ 2.64
Balance, September 30, 2008	2,090,695	3.7	\$ 1.97

The following is a summary of Serrano's warrants:

	Outstanding	Weighted Average	
		Remaining term	Exercise \$
At acquisition	850,000	3.6	\$ 3.60
Issued	—	—	—
Balance, September 30, 2008	850,000	3.6	\$ 3.60

The expense associated with the outstanding options has been reflected as stock based compensation in the consolidated income statement.

12. SHARE CAPITAL**a) Authorized**

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

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(Unaudited – Canadian Dollars)

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	—	3,200,313
Flow-through common shares issued	102,200,000	12,775,001
Common share units issued in private placement	40,000,000	3,779,779
Share issue costs (2006 & 2007 Flow Through)	—	(261,951)
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 (i)	1,000,000	160,000
Common shares issued in private placement (ii)	222,617,800	9,116,409
Common shares issued on exercise of warrants	124,000	21,700
Common shares issued on debenture conversion (iii)	91,317,408	7,714,492
Common shares issued on debenture conversion (iv)	41,989,680	2,879,945
Common shares issued to arm's length lender (v)	27,547,220	3,988,489
Common shares issued on completion of Marble Point transaction (vi)	329,666,661	40,827,829
Common shares issued to Global Resource Investments (vii)	4,316,070	404,068
Common shares issued to Global Resource Investments (viii)	18,131,666	2,245,532
Common shares issued to arm's length lender (ix)	10,000,000	500,000
Common shares issued in private placement (x)	82,011,167	7,677,819
Common shares issued- Blue Parrot asset purchase (xi)	95,000,000	5,700,000
Balance- September 30, 2008	1,122,727,104	118,410,913

- (i) 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.
- (ii) 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. The value attributed to warrants was \$16,183,286 with the remainder being attributed to common shares at \$9,116,409.
- (iii) During the three months ended 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.
- (iv) During the three months ended 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 \$2,879,945 from long term debt to share capital.

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- (v) On April 15, 2008, Marble Point as borrower, and Canadian Phoenix as guarantor, entered into a secured credit facility with an arm's length lender. Marble Point borrowed an initial amount of \$7.25 million from the lender 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 the lender in partial consideration of the initial advance under the facility. A further 23,165,467 common shares were issued to the lender on April 30, 2008 when the full amount of \$42 million was advanced to Marble Point under the Facility.
- (vi) On September 19, 2008, concurrently with the completion of the Marble Point Transaction, Canadian Phoenix completed a private placement of units that consisted of 329,666,661 at a price of \$0.15 per unit. Each unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional Canadian Phoenix Share for a period of two years at a price of \$0.20 per share. However, in the event that the closing price of Canadian Phoenix shares on the TSX Venture Exchange is at least \$0.30 for a minimum of at least 30 trading days, Canadian Phoenix may reduce the exercise period to that date which is 30 days following the date on which the Warrant holder receives written notice of the shortened exercise period. The value attributed to warrants was \$8,622,170 with the remainder being attributed to common shares at \$40,827,829.
- (vii) On August 11, 2008, Global Resource Investments Ltd., ("Global") a party at arm's length to Marble Point and Canadian Phoenix, acted as finder in connection with a portion of the placement of 80,344,500 subscription receipts. Global was paid a fee equal to 5.5% of the gross proceeds of a portion of the subscription receipt financing, payable with the issue of 4,316,070 Canadian Phoenix units at a price of \$0.15 per unit. At the date of issue the fair value was \$647,412. 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 the second anniversary of the Escrow Release Date upon payment of the exercise price of \$0.20 per common share. However, in the event that the closing price of Canadian Phoenix shares on the TSX Venture Exchange is at least \$0.30 for a minimum of at least 30 trading days, Canadian Phoenix may reduce the exercise period to that date which is 30 days following the date on which the Warrant holder receives written notice of the shortened exercise period ("Warrant Terms"). The value attributed to warrants was \$243,344 with the remainder being attributed to common shares at \$404,468.
- (viii) Global also acted as finder on behalf of Marble Point in connection with the private placement of preferred shares. In consideration of its services as finder, Global was paid a fee equal to 5.5% of the gross proceeds of such financing. Marble Point issued promissory notes in the total amount of \$2,719,750 to Global in payment of such finders fees. Marble Point assigned the notes to Canadian Phoenix, who subsequently issued 18,131,666 units to Global in satisfaction of the indebtedness under the notes. Each unit consisted of one common share and one common share purchase warrant. Each warrant carries the same terms as the previously defined Warrant Terms in note 12b (vii). The value attributed to warrants was \$474,218 with the remainder being attributed to common shares at \$2,245,532.
- (ix) Canadian Phoenix issued 10,000,000 common shares at a price of \$0.05 per common share to an arm's length lender in connection with fees payable for extensions granted by the lender in order to close the transaction between Canadian Phoenix and Marble Point.
- (x) On September 19, 2008, a non-brokered private placement of 82,011,167 units was completed at a price of \$0.15 per share for gross proceeds of \$12,301,675. Each unit consisted of one common share of Canadian Phoenix and one common share purchase warrant. Each warrant carries the same terms as the previously defined Warrant Terms in note 12b (vii). An officer of the Corporation participated in the private placement for 1,666,667 units. The value attributed to warrants was \$4,623,856 with the remainder being attributed to common shares at \$7,677,819.

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- (xi) On September 30, 2008, Canadian Phoenix issued 95 million units as consideration for certain oil and natural gas properties from Blue Parrot. Each unit consisted of one common share of Canadian Phoenix and one-half common share purchase warrant. Each whole warrant carries the same terms as the previously defined Warrant Terms in note 12b (vii). The valuation of the shares were determined by the market price at closing of the transaction of \$0.06.

c) Stock Option Plan

On August 15, 2008, the Corporation changed its stock option plan whereby the aggregate number of shares that may be reserved for issuance under the plan shall not exceed 10% of the issued and outstanding Canadian Phoenix shares. 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 September 30, 2008 and changes during the nine months ended September 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	(165,834)	0.72
Forfeited during period	(4,647,347)	0.28
Outstanding – end of period	6,186,000	0.17

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

Exercise price	Outstanding Sept. 30, 2008	Weighted average remaining contractual life in years	Weighted average exercise price at Sept. 30, 2008	Number exercisable	Weighted average exercise price
\$0.125 - \$0.68	3,006,000	3.38	\$0.21	2,404,500	\$0.21
\$0.125	3,180,000	4.37	\$0.125	1,590,000	\$0.125
	6,186,000	3.89	\$0.17	3,994,500	\$0.18

Compensation cost of \$211,910 has been recognized for the first nine 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

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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

The following table is a summary of the status of the Corporation's warrants as at September 30, 2008 and changes during the nine months ended September 30, 2008:

Date	Warrants	Weighted Average Exercise Price	\$ Value
Opening	85,074,236	\$ 0.164	2,445,731
Expired	(638,540)	\$ 0.125	–
Exercised	(124,000)	\$ 0.610	(6,200)
17-Mar-08	222,617,800	\$ 0.150	16,183,286
11-Aug-08	86,327,237	\$ 0.200	4,867,199
19-Sep-08	347,798,327	\$ 0.200	9,096,389
30-Sep-08	47,500,000	\$ 0.200	524,510
	788,555,060		33,110,915

The following table is a summary of information about warrants outstanding at September 30, 2008:

Exercise price	Outstanding Sept. 30, 2008	Weighted average remaining contractual life in years	Weighted average exercise price at Sept. 30, 2008	Number exercisable
\$0.125	44,311,696	.52	\$0.125	44,311,696
\$0.20	40,000,000	.24	\$0.20	40,000,000
\$0.15	222,617,800	1.46	\$0.15	222,617,800
\$0.20	481,625,564	1.88	\$0.20	481,625,564
	788,555,060			788,555,060

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The fair value of warrants granted was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

Warrants issued	Issue date	Value	Volatility	Risk free rate	Life in years	Dividend/share
222,617,800	17-Mar-08	\$ 16,183,286	99.10%	4.00%	2	NIL
86,327,237	11-Aug-08	\$ 4,867,199	84.74%	4.00%	2	NIL
347,798,327	19-Sep-08	\$ 9,096,389	114.46%	4.00%	2	NIL
47,500,000	30-Sep-08	\$ 524,510	116.64%	4.00%	2	NIL

e) Contributed surplus

	Nine months ended Sept. 30, 2008
Balance December 31, 2007	\$2,161,086
Stock Based Compensation	211,910
Balance September 30, 2008	\$2,372,996

f) Per share amounts

For the nine month period ended September 30, 2008 the weighted average number of shares outstanding was 632,934,925 (2007 - 56,049,268). For the three month period ended September 30, 2008 the weighted average number of shares outstanding was 744,210,488 (2007 - 56,805,432). 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 September 30, 2008. Given the share price at September 30, 2008, no options or warrants were considered to be dilutive and therefore were not factored into the weighted average number of shares outstanding.

13. FINANCING FEES

The total financing fees of \$1,212,152 was directly attributable to costs related to the debt facility established with a third party lender in conjunction with the Marble Point transaction.

14. COMMITMENTS & CONTINGENCIES

- a) At September 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.

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- b) At September 30, 2008, the Corporation had an obligation to incur \$7,227,163 of qualifying exploration expenditures by December 31, 2008 in relation to a flow-through share issuance. The Corporation has entered into four separate agreements with industry partners to participate in qualifying exploration expenditures. The Corporation has identified and is participating in sufficiently valued projects to fulfill this commitment in 2008.
- c) Future minimum lease payments relating to operating leases for office space are as follows:

2008	\$ 52,324
2009	\$ 209,298
2010	\$ 68,380

15. RELATED PARTY TRANSACTIONS

Included in administrative expenses, share issue costs and transaction fees are amounts totaling \$87,674 which were charged to the Corporation by a legal firm in which a director, who was appointed on August 15th, 2008, and the corporate secretary of the Corporation is a partner. These billings include only those billed after appointment, and are in the normal course of business and are measured at the exchange amount which is also considered to be the fair value. Included in accounts payable and accrued liabilities as at September 30, 2008 is \$1,994 in respect of these amounts.

David Tuer, a director and executive of Marble Point, is also a director of Canadian Phoenix.

Marble Point, a subsidiary accounted for by the equity method, was in debt to the Corporation in the amount of \$41.5 million as at September 30th, 2008. Interest of \$103,807 was paid by Marble Point to the Corporation in the period.

The Corporation has executed Corporate Governance Agreements with Marble Point and Serrano. These agreements detail certain rights and restrictions the Corporation has in its relationships with its subsidiaries.

16. FINANCIAL INSTRUMENTS

The Corporation's financial instruments that are included in the consolidated balance sheet are comprised of cash, accounts receivable and all current liabilities. The nature of these instruments and its operations expose the Corporation to market risk, credit risk and liquidity risks. The Corporation manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Corporation's risk management framework.

Fair Values of Financial Assets and Liabilities

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

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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. To date the Corporation has not used any hedging strategies. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at September 30, 2008, neither the Corporation nor its subsidiary had hedging contracts or derivatives outstanding.

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.

The Corporation is incurring significant capital expenditures due to the flow-through obligations required to be met within 2008. The Corporation has the necessary cash resources in order to meet these obligations. In addition the Corporation is negotiating with a potential lender to renew an operating line to be used to fund capital projects, acquisitions, and general working capital needs.

A subsidiary of the Corporation carried a working capital deficit of \$7,394,934 at September 30, 2008 as a result of an intensive capital program. The subsidiary closed a private placement transaction on November 19, 2008 wherein it sold common shares for \$7,000,000. The subsidiary, upon closing of the Private Placement, will continue to experience challenges to fund the planned capital program. The subsidiary may be required to seek additional financing, debt or equity, to continue under the current capital plan. In conjunction with the potential difficulty of obtaining additional financing, the current capital expenditure plan may need to be diminished.

Credit Risk

A substantial portion of the Corporation and its subsidiary's accounts receivable are concentrated with a limited number of purchasers of commodities and joint venture partners in the oil and gas industry and are subject to normal industry credit risk. Management considers this concentration of credit risk to be limited, as commodity purchasers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies. In addition, the Corporation and its subsidiary's high working interest in its major operating properties mitigates the risk of partner default. The Company requires cash calls from its partners on major field projects in advance of commencement. Receivables related to the sale of the Corporation and its subsidiary's production are normally collected on the 25th day of the month following delivery.

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Interest Rate Risk

The Corporation's has a credit facility with a fixed interest rate of 12 percent per annum. The Corporation had no interest rate swaps or financial contracts in place at or during the nine months ended September 30, 2008.

Foreign exchange

Although the Corporation and its subsidiary's product revenues are denominated in Canadian dollars, the underlying market prices are affected by the exchange rate between the Canadian and the United States dollar. As at September 30, 2008, the Corporation had no contracts in place to reduce foreign exchange risk.

17. 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 quarter 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.

18. SUBSEQUENT EVENTS

1. On November 5, 2008, the \$41.5 million loaned by the Corporation to Marble Point was repaid in full. The associated indebtedness of \$35 million owed to the arm's length lender was concurrently repaid in full.
2. On October 22, 2008 Serrano, a subsidiary of Canadian Phoenix, completed a private placement of 1,400,000 Common Shares issued on a flow-through basis at a price of \$5.00 per Flow-Through Share for gross proceeds of \$7,000,000.

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Serrano also signed a letter of intent with Pearl Exploration and Production Ltd. ("Pearl") pursuant to which:

- (a) Serrano will transfer to Pearl E&P Canada Ltd., a wholly-owned subsidiary of Pearl ("Pearl E&P"), 3/7ths of its interest (or a net 15% working interest) in its Blackrod oil sands leases located south of Fort McMurray, Alberta;
- (b) The resulting working interests in the Blackrod project will be 20% for Serrano and 80% for Pearl (through its wholly-owned subsidiaries) and Serrano will transfer operatorship of the project to Pearl;
- (c) Serrano will fund the next \$6.25 million of gross expenditures on the Blackrod project, which expenditures will qualify as Canadian Exploration Expense under the Income Tax Act (Canada); and
- (d) Pearl will transfer to Serrano all of its 4,037,344 common shares in the capital of Serrano for cancellation and the Pearl nominee will resign from the board of directors of Serrano.

The transaction with Pearl is subject to completion of definitive agreements and applicable regulatory approvals and has not been completed to date.

Following the private placement and the completion of the transactions with Pearl under the letter of intent, Serrano will have 19,457,389 Common Shares outstanding.