

NRG Investments Inc. (now known as Bucking Horse Energy Inc.)

Management's Discussion and Analysis
February 29, 2008

The following management's discussion and analysis ("**MD&A**") for NRG Investments Inc. was prepared by management based on information available as at February 29, 2008. It should be reviewed together with the unaudited interim consolidated financial statements for the quarter-ended February 29, 2008 and the MD&A and the audited consolidated financial statements for the year ended August 31, 2008. The Company's Prospectus, quarterly unaudited interim financial statements and year end audited annual financial statements are filed on SEDAR and are available for review at www.sedar.com.

As used in this MD&A, the terms "we", "us", "our", "NRG" and "the Company" mean NRG Investments Inc. and our subsidiaries, NRG Holdings Corp.(doing business as GRN Holdings Corp. in the province of British Columbia, Canada) and N Holdings Inc.

Unless otherwise noted, all dollar amounts are expressed in Canadian dollars ("**Cdn \$**" or "**\$**") and any references to common shares are to common shares in the capital of NRG Investments Inc., unless the context clearly requires otherwise.

Barrels of oil equivalent ("**boe**") amounts have been calculated using a conversion rate of six thousand cubic feet ("**Mcf**") of natural gas per barrel ("**bb1**") of oil or natural gas liquids ("**6:1**"). A conversion ratio of six Mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent equivalency at the wellhead. Boe disclosure may be misleading, particularly if used in isolation.

Forward-Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are statements that relate to future events or to our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing oil and natural gas, and market demand;
- the risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserve estimates;
- the uncertainty of estimates and projections relating to exploration, development and production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest);
- general economic conditions;
- the effect of acts of, or actions against, international terrorism;

- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; and
- the risks enumerated in the section of this MD&A entitled "Risk Factors", beginning on page 11.

These risks may cause our actual results or the actual results in our industry, or our levels of activity, performance, or achievement, to be materially different from any projected future results, levels of activity, performance or achievements that are expressed or implied in these forward-looking statements.

These forward-looking statements are based on the estimates and opinions of our management at the time they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Readers of this MD&A are cautioned not to rely on these forward-looking statements. Except as required by applicable law, we do not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

Overall Performance

The Company is engaged in the business of acquiring natural gas exploration, development and production properties.

Wainwright Property, Alberta, Canada:

On August 31, 2006, we purchased petroleum and natural gas property assets in the Wainwright area of Alberta for the amount of \$1,382,938 from a non-arm's length party. Our Wainwright asset includes a producing natural gas well and mineral rights to certain petroleum and natural gas substances within a one section area. Our working interest in the Wainwright assets is 68.75%. The Wainwright Property is a natural gas property located in east central Alberta, approximately 45 miles southwest of the city of Lloydminster, Alberta.

Columbia Basin Properties, Washington, USA:

On October 26, 2006, the Company through a wholly owned subsidiary, successfully bid US\$1,425,118.53 at a Washington State Department of Natural Resources ("DNR") oil and gas lease auction to acquire a 100% interest in 68 oil and natural gas leases totaling 36,436.77 acres. The DNR oil and gas leases were issued to NRG with seven year terms commencing February 1, 2007. The Columbia Basin Properties are located in six separate counties in central Washington State, within a 100 mile radius of the city of Yakima, Washington, USA.

Subject to concluding a Plan of Arrangement, described further in the Proposed Transactions section on page 6, the Company's objective is to continue to produce natural gas from the Wainwright Property and investigate and pursue business opportunities in the oil and natural gas industry.

Selected Quarterly Financial Information

The following table sets forth a summary of our financial results for the three-month and six-month period ended February 29, 2008 and February 29, 2007:

(Cdn \$)	Three Months Ended		Six Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Total Revenue	140,098	243,189	256,231	415,651
Net Loss	(118,382)	(49,857)	(350,963)	(71,385)
Basic Income (Loss) per Share	(0.01)	(0.01)	(0.04)	(0.01)
Total Assets	11,356,074	3,815,532	11,356,074	3,815,532
Total Long-term Financial Liabilities	1,623,797	1,576,287	1,623,797	1,576,287

Our revenue performance and the income that we realize will vary from period to period in relation to the number of wells that we have in production, our production volumes and the prices that we receive for our commodities from time-to-time. Our operations, if profitable, are also subject to taxes in the jurisdictions in which we conduct our business. The increase in total assets is due to the Company receiving \$8,000,000 into trust for the purposes of a potential investment in the Company pursuant to, and pending the anticipated closing of the Plan of Arrangement.

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Application of GAAP requires the use of estimates, judgements and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the revenues and expenses reported during the period. Changes in these estimates, judgements and assumptions will occur as a result of future events, and accordingly, actual results could differ from amounts estimated.

Results of Operations

Six-month period ended February 29, 2008 compared to the six-month period ended February 28, 2007:

Gross production revenues for the six-month period ended February 29, 2008 totaled \$256,231 compared to \$415,651 for the same period in 2007. The decrease in production revenues was primarily due to natural declines in production volumes and natural gas prices realized. The net loss for the six-month period ended February 29, 2008 was \$350,963 compared to a loss of \$71,385 for the same period in 2007.

Production expenses for the six-month period ended February 29, 2008 totaled \$344,245 consisting of \$211,457 in non-cash accretion and depletion costs, \$79,382 in direct operating expenses and \$53,407 in royalties compared to production expenses for the six-month period ending February 28, 2007 of \$366,668 consisting of \$181,297 in non-cash accretion and depletion costs, \$53,004 in direct operating expenses and \$132,367 in royalties.

General expenses for the six-month period ended February 29, 2008 were \$327,087 and consisted of administration and office expenses of \$62,434, filing fees of \$17,741, interest expenses of \$119,879 and professional fees of \$127,033 of which \$84,361 pertain to legal fees relating to the Plan of Arrangement that is described in more detail on page 6 under the heading "Proposed Transactions" compared to general expenses for the six-month period ended February 28, 2007 of \$133,929 consisting of general and administration expenses of \$32,683, filing fees of \$2,000, interest expenses of \$68,299 and professional fees of \$30,946.

On October 2, 2007, the Company held its annual and special general meeting of shareholders. All resolutions, including the approval of the Arrangement, placed before the shareholders were voted in favour.

On September 28, 2007, the Company and Gemini entered into an agreement to extend the deadline for Gemini shareholders to deposit Transmittal Letters and Election Forms with Computershare Investor Services Inc., the Depository under the Arrangement, in order to elect to receive cash or NRG shares in exchange for their Gemini shares, in accordance with the terms of the Arrangement. The new deadline was 3:00 p.m. (Vancouver time) on October 17, 2007.

On November 30, 2007, the British Columbia Supreme Court granted final order approving the Arrangement.

Summary of Quarterly Results

The following table presents selected unaudited consolidated financial information for the last six quarters:

(Cdn \$)	2008		2007			
	Q2	Q1	Q4	Q3	Q2	Q1
Total Revenue	140,098	116,133	168,126	244,451	243,189	172,462
Net Income (Loss)	(118,382)	(232,582)	(226,224)	(42,011)	(76,979)	(21,528)
Basic per Share	(0.01)	(0.03)	(0.03)	(0.01)	(0.01)	0.00

Liquidity and Capital Resources

As of February 29, 2008, we had net working capital of \$701,058 compared to net working capital of \$959,733 at February 28, 2007. Cash and cash equivalent at February 29, 2008 totaled \$8,666,136 compared to \$794,393 at February 28, 2007. The increase of cash is due to the Company receiving \$8,000,000 into trust for the purposes of a potential investment in the Company pursuant to, and pending the anticipated closing of the Plan of Arrangement.

Our capital commitments in 2008 are limited to our participation in leasehold obligations relating to the Wainwright and Columbia Basin Properties, and general and administrative costs. We also have a long-term liability in the amount of \$9,506 for asset retirement obligations and a loan for \$1,500,000 described below in more detail. We have sufficient cash to pay for our capital commitments and consequently do not anticipate any problems meeting existing capital commitments as they become due.

There are 4,500,000 shares held in escrow as at February 29, 2008.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

The Plan of Arrangement as described below on page 6, will have a material future effect on our balance sheet financial condition should it come into effect.

We do not have any commitments under oil and gas forward sales contracts or other types of hedging arrangements which might expose us to commodity price or production volume risks. We do not have in place any off-balance sheet type arrangements.

Transactions with Related Parties

On August 31, 2006, the Company purchased petroleum and natural gas property assets in the Wainwright area of Alberta for the amount of \$1,382,938 from Netco Energy Inc. ("**Netco**"), a non-arm's length party. Netco is considered a non-arm's length party as John R. Hislop ("**Hislop**"), a director, President and a controlling shareholder of the Company, is also a control person of Netco. In addition, Gordon Nielsen, a director of the Company, is also President, Chief Executive Officer and a director of Netco.

On November 10, 2006, the Company entered into a Loan Agreement with Q Investments Ltd. ("**Q Investments**") pursuant to which Q Investments has provided the Company with a loan in the principal amount of \$1,500,000. Hislop is a director and a control person of Q Investments and the President, Chief Executive Officer and a director of the Company. The Company has accrued a total for the period ending February 29, 2008 of \$114,290 in interest payable on this loan.

On August 29, 2007, the Company and Gemini Energy Corp. ("**Gemini**") entered into a formal agreement pursuant to which the Company proposes to acquire all of the issued and outstanding securities of Gemini by way of a Plan of Arrangement under the *Business Corporations Act* (British Columbia), subject to regulatory and shareholder approval. The Arrangement Agreement is disclosed below in more detail under the heading "Proposed Transactions".

During the quarter ended February 29, 2008, the Company paid \$30,000 for administration services to a Company controlled by a director, compared to \$20,000 for the same period in 2007.

Second Quarter

Three-month period ended February 29, 2008 compared to the three-month period ended February 28, 2007:

Gross production revenues for the three-month period ended February 29, 2008 totaled \$140,098 compared to \$243,189 for the same period in 2007. The decrease in production revenues was primarily due to natural gas prices realized and to natural declines in production volumes. The net loss for the three-month period ended February 29, 2008 was \$118,382 compared to a loss of \$49,857 for the same period in 2007.

Production expenses for the three-month period ended February 29, 2008 totaled \$165,840 consisting of \$105,729 in non-cash accretion and depletion costs, \$32,498 in direct operating expenses and \$27,614 in royalties compared to production expenses for the three-month period ending February 28, 2007 of \$192,788 consisting of \$90,648 in non-cash accretion and depletion costs, \$23,739 in direct operating expenses and \$78,401 in royalties.

General expenses for the three-month period ended February 29, 2008 were \$135,610 and consisted of administration and office expenses of \$30,960, filing fees of \$5,796, interest expenses of \$63,783 and professional fees of \$35,071 of which \$28,735 pertain to legal fees relating to the Plan of Arrangement that is described in more detail on page 6 under the heading "Proposed Transactions" compared to general expenses for the three-month period ended February 28, 2007 of \$104,562 consisting of general and administration expenses of \$26,249, filing fees of \$nil, interest expenses of \$55,937 and professional fees of \$22,377.

The Company has entered an Arrangement Agreement with Gemini, Hislop and J. Bradley Windt ("**Windt**") pursuant to which NRG proposes to acquire all of the issued and outstanding securities of Gemini. If and when the Plan of Arrangement is successfully closed, then the transfer of the assets and liabilities to NRG represents a transaction with no substantive change in shareholder ownership and the transaction will be recorded at net book value and accounted for using continuity-of-interest accounting method, which is similar to the pooling-of-interests accounting

method. Under the continuity-of-interest method, the results of operations and assets and liabilities will be recorded at their carrying value as reported by Gemini immediately prior to the reorganization transaction.

NRG continues to work towards removing the remaining conditions to the completion of the Arrangement. The Arrangement is expected to close once all of the conditions have been waived or satisfied, at which time all of the outstanding securities of Gemini will be exchanged for either cash or common shares of NRG.

On December 20, 2007, 1,125,000 shares were released from escrow.

Proposed Transactions

On August 29, 2007, the Company, Gemini, Hislop and Windt entered into a formal arrangement agreement which provides for the Company to acquire all of the issued and outstanding securities of Gemini by way of a Plan of Arrangement under the *Business Corporations Act* (British Columbia).

The arrangement agreement contemplates that Gemini shareholders that are not U.S. Persons (as defined in Rule 902(k) of Regulation S, promulgated by the U.S. Securities and Exchange Commission under the United States Securities Act of 1933, as amended) will have the election of receiving either \$4.00 cash or one common share of NRG for each Gemini share acquired. Shares of Gemini common stock held by U.S. persons will be acquired for \$4.00 per share. On the closing date, all outstanding warrants and options of Gemini will be cancelled in exchange for payment by the Company to the holder of cash in an amount equal to the difference between the exercise price and \$4.00.

Gemini has four secured convertible debentures that are currently outstanding. Two of these debentures are held by Hislop and two are held by Windt. Each of the four secured convertible debentures entitles the holder to repayment of \$5,000,000 principal plus accrued interest.

Two of these convertible debentures, one held by Hislop and the other held by Windt, were issued on or about March 1, 2004 (the "**March Debentures**") and are convertible, in the aggregate, into a combined total of 4,000,000 units of Gemini at a conversion price of \$2.50 per unit, with each unit consisting of one share of Gemini common stock and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional share of Gemini common stock at an exercise price of \$3.25 until March 1, 2008 and at an exercise price of \$3.50 from March 1, 2008 until March 1, 2009, at which time the warrants will expire. Under the Arrangement, each of the March Debentures will be converted by Hislop and Windt and the resulting conversion shares will be transferred to the Company at closing and the share purchase warrants will be submitted to the Company at closing for cancellation. In consideration to each of Hislop and Windt in connection with the Gemini shares received pursuant to the conversion of the March Debentures and the warrants submitted for cancellation, the Company will issue two new convertible debentures, one to each of Hislop and Windt. Each new convertible debenture will be for a principal amount of \$9,500,000. These two convertible debentures will be for a ten year term, will earn interest at a rate of 10% during the first five years and 15% during the second five years and will be convertible into units during the first five years at a conversion price of \$4.875 per unit. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant will entitle the holder to purchase one additional common share of the Company for \$4.875 until the fifth anniversary of the closing date, at which date these share purchase warrants will expire.

The third and fourth currently outstanding Gemini secured convertible debentures, one held by each of Hislop and Windt, were issued on or about July 30, 2004 (the "**August Debentures**"), and are convertible, in the aggregate, into a combined total of 2,500,000 units, at a conversion price of \$4.00 per unit. Each unit consists of one share of Gemini common stock and one share

purchase warrant entitling the holder to purchase one additional share of Gemini common stock at an exercise price of \$4.00 per share until the fifth anniversary of the issuance of the August Debentures, at which time the warrants will expire. These July 30, 2004 secured convertible debentures will be assumed by the Company without alteration, except that they will be convertible into units of the Company post-closing, rather than Gemini.

At the closing of the Arrangement, Hislop will deliver an additional 2,500,000 shares of Gemini common stock to the Company at \$4.00 per share. In consideration, the Company will issue to Hislop a new convertible debenture in the principal amount of \$10,000,000. Also at the closing, Windt will deliver to the Company 2,075,043 shares of Gemini common stock at \$4.00 per share and cash in the sum of \$1,699,828. In consideration, the Company will issue to Windt two new convertible debentures totaling the principal amount of \$10,000,000. These convertible debentures will have a ten year term, will earn interest at a rate of 10% during the first five years and 15% during the second five years and will be convertible into units during the first five years at a conversion price of \$4.875 per unit. Each unit will consist of one common share and one share purchase warrant of the Company. Each share purchase warrant will entitle the holder to purchase one additional common share of the Company for \$4.875 until the fifth anniversary of the closing date, at which date these share purchase warrants will expire.

The Arrangement Agreement provides that as a condition to the closing of the Arrangement, Gemini will sell 12,000,000 shares of the common stock of Exxel Energy Corp. ("**Exxel**") to Q Investments, for total consideration of \$ 15,040,800. The purchase price will initially be paid by Q Investments issuance of a promissory note for the full amount of the purchase price, having a term of one year and bearing interest at the rate of 15% per annum. The note will be reduced to the extent of \$9,495,600 by Q Investments delivering 2,373,900 common shares of Gemini at \$4.00 per share pursuant to the Arrangement. The note will be further reduced by Q Investments surrendering a promissory note that it currently holds in the Company, in the principal sum of \$1,500,000 together with accrued interest.

The anticipated effect of the Arrangement on the Company is discussed in detail in the Company's Management Information Circular dated August 29, 2007, distributed in connection with the shareholders' meeting held October 2, 2007, at which the Arrangement was considered and approved by the Company's shareholders.

Subsequent events

On March 4, 2008, the Company closed the Arrangement pursuant to which it has acquired 100% of the issued and outstanding shares of Gemini, as contemplated in the arrangement agreement between the Company, Gemini, Hislop and Windt. Gemini will survive as a wholly owned subsidiary of the Company and its shares are now delisted from the TSX.

Prior to closing the Arrangement, the Company changed its name to "Bucking Horse Energy Inc." and closed a private placement of 2,000,000 common shares at \$4.00 per share, for gross proceeds of \$8,000,000. The proceeds from the private placement were used to provide a portion of the funds required to complete the Arrangement. The shares issued pursuant to the private placement are subject to a standard four month hold period under applicable securities law, expiring July 4, 2008.

Under the Arrangement, the Company paid \$19,291,944 and issued 12,836,713 common shares at a deemed value of \$4.00 per share to former Gemini shareholders. The Company also paid the aggregate sum of \$579,650 in exchange for the surrender and cancellation of existing Gemini stock options.

In connection with the Arrangement, Arrowhead Resources (USA) Ltd., as "Borrower" ("**Arrowhead**"), the Company, as "Guarantor", and Gemini, as "Guarantor", entered into a credit agreement (the "**Credit Agreement**") dated March 4, 2008 with a senior bank, as administrative

agent, and each of the lenders from time to time party thereto (collectively, the "**Lenders**") whereby the Lenders have agreed to make a five year senior revolving credit facility in the aggregate principal amount of up to US\$100,000,000, with an initial borrowing base of US\$30,000,000 (the "**Facility**"), available to the Borrower pursuant to the terms set out in the Credit Agreement. The Facility will be made available to provide working capital to Arrowhead and to enable Arrowhead to make distributions to Gemini which may then be further distributed to the Company for general corporate purposes. Pursuant to the Credit Agreement, the obligations and liabilities of the Borrower to the Lenders will be joint and severally guaranteed by the Company and by Gemini.

Prior to closing, Gemini had four secured convertible debentures outstanding, the March Debentures and the August Debentures. Hislop and Windt each held one March Debenture and one August Debenture.

The March Debentures were convertible into units at a conversion price of \$2.50 per unit, with each unit consisting of one Gemini common share and one share purchase warrant. Each of the March Debentures was converted prior to the closing of the Arrangement and the shares issued upon conversion were sold to the Company, together with the share purchase warrants, for the total sum of \$19,000,000, as contemplated under the Arrangement. The \$19,000,000 was paid by the issuance of two new convertible debentures by the Company, one to each of Hislop and Windt. Each new convertible debenture is in the principal amount of \$9,500,000, has a term of ten years, earns interest at a rate of 10% during the first five years and 15% during the second five years and is convertible into units during the first five years at a conversion price of \$4.875 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company for \$4.875 until the fifth anniversary of the date of issuance, at which date these share purchase warrants will expire.

The August Debentures were convertible into Gemini units at a conversion price of \$4.00 per unit. The obligations of Gemini under the August Debentures were assumed by the Company at the closing of the Arrangement without alteration, except that they will be convertible at the same \$4.00 conversion price into units of the Company post-closing, rather than Gemini.

At the closing of the Arrangement, Hislop delivered an additional 2,500,000 common shares of Gemini to the Company at \$4.00 per share and Windt delivered an additional 2,075,043 common shares of Gemini at \$4.00 per share together with \$1,699,828 in cash. As consideration, the Company issued to Hislop a new convertible debenture in the principal sum of \$10,000,000 and the Company issued to Windt two new convertible debentures totaling the principal sum of \$10,000,000. These new convertible debentures have a term of ten years, earn interest at the rate of 10% during the first five years and 15% during the second five years and are convertible into units of the Company during the first five years at a conversion price of \$4.875 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company for \$4.875 until the fifth anniversary of the closing date, at which date the share purchase warrants will expire.

As a result of the foregoing transactions and a share purchase transaction between Gemini and Q Investments Ltd. (QI. TSX-V) referred to above, Gemini is now a wholly owned subsidiary of the Company. As a result of the issuance of the new debentures and the assumption of the August Debentures, the Company has outstanding convertible debentures in the aggregate principal amount of \$49,000,000, held in equal amounts by Hislop and Windt.

As of March 4, 2008, the Company's shares have been listed for trading on the Toronto Stock Exchange (TSX) under the trading symbol BUC. The Company's shares were delisted from the Canadian Trading and Quotation System (CNQ) at the close on March 4, 2008.

The Company's Board of Directors (the "**Board**") has been reconstituted in connection with the closing of the Arrangement. The Board now consists of Gordon Nielsen (President and Chief Executive Officer), Michael Schoen, Lorne Hanson and Raymond Deere. Daniel Weisbeck retains the office of Chief Financial Officer and has been appointed Secretary and Treasurer.

In a related transaction, Gemini has also closed its sale to Q Investments of 12,000,000 common shares of Exxel for total consideration of \$15,040,800. The purchase price was initially paid by Q Investments' issuance of a promissory note in favour of Gemini. The amount owing under the promissory note was then reduced by \$9,495,600 by Q Investments delivering 2,373,900 common shares of Gemini at \$4.00 per share pursuant to the Arrangement. The amount owing was further reduced by Q Investments surrendering a promissory note that it held that had been issued by the Company, in the principal sum of \$1,500,000 together with accrued interest. The promissory note has a term of one year and bears interest at the rate of 15% per annum.

Significant Accounting Policies

The significant accounting policies used by the Company are disclosed in the notes to the Company's annual audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discussion outlines such accounting policies and is included in the MD&A to aid the reader in assessing the significant accounting policies and practices of the Company and the likelihood of materially different results being reported. The Company's management reviews its estimates regularly.

The following significant accounting policies outline the major policies involving critical estimates.

Proved Oil and Gas Reserves

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. The estimated quantities of proved crude oil, natural gas liquids and natural gas are derived from geological and engineering data that demonstrate with reasonable certainty the amounts that can be recovered in future years from known reservoirs under existing economic and operating conditions. Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests. The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and gas reserves on the financial position of the Company is described under the headings "Depletion Expense" and "Impairment of Long Lived Assets".

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development, are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the units-of-production method based upon proved oil and gas reserves. With all other factors remaining constant, an increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. With all other factors remaining constant, a decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Impairment of Long Lived Assets

The Company is required to review the carrying value of all property, plant and equipment including the carrying value of oil and gas assets, for potential impairment. The carrying value of the Company's petroleum and natural gas properties must not exceed their fair value. The fair value is equal to the estimated future cash flows from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate.

If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long lived asset is charged to income.

Asset Retirement Obligation

Asset retirement obligations are initially measured at fair value when they are incurred, which is the discounted future value of the estimated liability. This requires an estimate to be made of the future costs of retiring the asset at the point in time the asset is acquired.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Financial Instruments and Other Instruments

The Company recognizes the fair value for the unrealized portion of the derivative contract at each reporting date on the financial statements. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments given future market prices and other relevant factors. As the fair value is based on a number of subjective estimates such as future prices and volatility in commodity markets, estimates could differ from actual results realized.

The CICA released new standards related to financial instruments in April 2005 – *Financial Instruments – Recognition and Measurement*, Section 3855, *Hedges*, Section 3865, *Comprehensive Income*, Section 1530, *Financial Instruments – Disclosure and Presentation*, Section 3861 and *Equity*, Section 3251. These sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet. These sections will require a financial instrument or non-financial derivative to be measured at fair value or using cost-based measures; establish how gains and losses are to be recognized and presented, including introducing comprehensive income, specify how hedge accounting should be applied; establish new disclosures about an entity's accounting for designated hedging relationships and the methods and assumptions applied in determining fair values.

We have adopted these new standards commencing September 1, 2007 and as at the date of the MD&A cannot reasonably estimate the full effect on our financial statements.

Stock-based Compensation

The Company adopted Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* using the fair value method. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company's stock.

Legal, Environmental Remediation and Other Contingent Matters

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires our 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 amounts of revenues and expenses during the reporting periods.

Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified certain accounting policies that are the most important to the portrayal of our current financial condition and results of operations.

The key elements and assumptions that we have made under these principles and their impact on the amounts reported in the annual consolidated financial statements remain substantially unchanged from those described in our 2007 audited consolidated financial statements.

Please refer to Note 2 of our 2007 audited consolidated financial statements for our Significant Accounting Policies.

Changes in Accounting Policies Including Initial Adoption

We have not adopted any changes in our accounting policies.

Risk Factors

Exploration, Development and Production Risks: Oil and natural gas exploitation involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Company currently has no specific exploration or development plans for the Wainwright Property or the Columbia Basin Properties. Management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and corporate policies. The long-term commercial success of the Company as a junior oil and gas producer depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that the Company will be able to obtain financing for further exploration and development. In this regard, the Company has not entered into any contracts relating to the acquisition or participation in any properties other than as set forth herein nor have any letters of intent been executed. The

Company has a limited history of operations and has an interest in only one producing natural gas property. See "Overall Performance – Wainwright Property".

Future oil and gas exploitation may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploitation, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition of the Company.

Insurance: The Company's involvement in the exploration for, and development of oil and gas properties may result in the Company becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although the Company may obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a materially adverse effect on the Company's financial position, results of operations or prospects.

Prices, Markets and Marketing of Crude Oil and Natural Gas: Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Company's oil and gas reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company are in part determined by the borrowing base of the Company. A sustained material decline in prices from historical average prices could limit or reduce the Company's borrowing base, therefore reducing the bank credit available to the Company, and could require that a portion of any existing bank debt of the Company be repaid.

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of any oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space in pipelines which deliver natural gas to commercial markets. The Company will also likely be affected by

deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements and Liquidity: The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. The Company may have limited ability to secure the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

If the Company requires additional funds in order to finance proposed operations, it may sell additional securities in its capital stock. If such additional securities are sold, existing shareholders will experience a dilution of their equity interest in the Company.

Competition: The Company will actively compete for reserve acquisitions, exploitation leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Company. The Company's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. The Company's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company.

Certain of the Company's natural gas customers and potential customers may themselves be exploring for oil and natural gas, and the results of these exploration efforts could affect the Company's ability to sell or supply oil or gas to these customers in the future. The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Environmental Risks: All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions, federal, provincial, state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations.

The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with this legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to various levels of government and third parties and may require the Company to incur costs to remedy such discharge. No

assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Reserve Replacement: The Company's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators and Key Employees: The Company may not be the operator of certain oil and gas properties in which it acquires an interest. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on these operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependent upon the performance of management and key employees. The Company does not have any full time employees and is dependent on its ability to hire and retain highly skilled and qualified personnel. The Company faces competition for qualified personnel from numerous industry sources, and there can be no assurance that we will be able to attract and retain qualified personnel on acceptable terms. The Company does not have any 'key man' insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a materially adverse effect on the Company.

Corporate Matters: To date, the Company has not paid any dividends on its outstanding common shares. Certain of the directors and officers of the Company are involved in managerial and/or director positions of other oil and gas companies, partnerships or other entities involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers, managers or directors of the Company and as officers and directors of these other companies, partnerships or other entities. Conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the British Columbia *Business Corporations Act*.

Permits and Licenses: The operations of the Company may require permits and licenses from various governmental authorities. There can be no assurance that the issuer will be able to obtain all necessary permits and licenses that may be required to carry out exploration and development of its projects.

Additional Funding Requirements: The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms.

Issuance of Debt: From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's

articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions: Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Property Defects: Although we have obtained title reports with respect to some of our properties, we have not obtained title reports with respect to all of our current properties. Title reports are not title insurance and they do not act as a guarantee of title. Our properties may be subject to prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research or which have been asserted since the date the research was completed. Additionally, the land upon which we hold leases may not have been surveyed; therefore, the precise area and location of such interests may be subject to challenge.

Risks Relating to the Industry

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. All current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

Potential Profitability of Oil and Gas Ventures Depends upon Factors beyond our Control: The potential profitability of oil and gas properties is dependent upon many factors that are beyond the Company's control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These changes and events may materially affect our financial performance.

A productive well may become uneconomic or unmarketable in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. The marketability of oil and gas that we may acquire or discover could be affected by numerous factors beyond the Company's control. These factors include the proximity and capacity of pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production, adverse weather conditions and environmental protection. The extent of these factors cannot be accurately predicted and the combination of these factors may result in our Company not receiving an adequate return on invested capital.

Canadian Government Regulation: The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other oil and gas companies of similar size.

- (a) Pricing and Marketing – Oil: In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance. Oil exports may be made pursuant to export contracts with terms not exceeding one (1) year in the case of light

crude, and not exceeding two (2) years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board (“NEB”). Any oil export to be made pursuant to a contract of longer duration (to a maximum of twenty-five (25) years) requires an exporter to obtain an export license from the NEB and the issue of such a license requires the approval of the Governor in Council.

- (b) Pricing and Marketing – Natural Gas: In Canada, the price of natural gas sold in interprovincial and international trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two (2) years or for a term of two (2) to twenty (20) years (in quantities of not more than 30,000 m³/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of twenty-five (25) years) or a larger quantity requires an exporter to obtain an export license from the NEB and the issue of such a license requires the approval of the Governor in Council.

The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

- (c) The North American Free Trade Agreement (“NAFTA”): On January 1, 1994, NAFTA became effective among the governments of Canada, the United States of America and Mexico. NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the United States of America or Mexico will be allowed provided that any export restrictions do not: (i) reduce the proportion of energy resource exported relative to domestic use (based upon the proportion prevailing in the most recent 36-month period); (ii) impose an export price higher than the domestic price; and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements. NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.
- (d) Royalties and Incentives: In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced. From time-to-time the governments of Canada, Alberta, British Columbia and Saskatchewan have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced planning projects. The Alberta government has also introduced a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 30, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

In the Province of Alberta, the royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new gas, and between 15% and 35%, in the case of old gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying exploratory gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 is eligible for a royalty exemption for a period of 12 months, up to a prescribed maximum amount. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 meters is also subject to a royalty exemption, the amount of which depends on the depth of the well.

On October 25, 2007, the Alberta government issued "The New Royalty Framework" report summarizing the upcoming changes to the Alberta Royalty Program. The government has indicated that all changes to the royalty structure are to take effect January 1, 2009. The Company will be assessing the full impact of these royalty changes on its operations and will provide additional details when available.

In Alberta, a producer of oil or natural gas is entitled to a credit on qualified oil and gas production against the royalties payable to the Crown by virtue of the Alberta Royalty Tax Credit ("**ARTC**") program. The ARTC program is based on a price-sensitive formula, and the ARTC rate varies between 75%, at prices for oil below \$100 per m³ and 25%, at prices above \$210 per m³. The ARTC rate is applied to a maximum of \$2,000,000 of Alberta Crown royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from corporations claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate is established quarterly based on the average "par price", as determined by the Alberta Department of Energy for the previous quarterly period.

Producers of oil and natural gas in the province of British Columbia are also required to pay annual rental payments in respect of Crown leases and royalties and freehold production taxes in respect of oil and gas produced from Crown and freehold lands, respectively. The amount payable as a royalty in respect of oil depends on the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), the quantity of oil produced in a month and the value of the oil. Oil produced from newly discovered pools may be exempt from the payment of a royalty for the first 36 months of production. The royalty payable on natural gas is determined by a sliding scale based on a reference price which is the greater of the amount obtained by the producer and a prescribed minimum price. Gas produced in association with oil has a minimum royalty of 8% while the royalty in respect of other gas may not be less than 15%.

Oil and natural gas royalty holidays and reductions for specific wells reduce the amount of Crown royalties paid by the Company to the provincial governments. In Alberta, the ARTC program provides a rebate on Alberta Crown royalties paid in respect of eligible producing properties. Both of these incentives have the effect of increasing the net income of the Company.

- (e) Land Tenure: Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

The Company obtained a title report with respect to the Wainwright Property. Title reports are not title insurance and do not act as a guarantee of title. The Wainwright Property may be subject to prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research or which have been asserted since the date the research was completed.

- (f) Canadian Environmental Regulation: The oil and natural gas industry is currently subject to environmental regulation pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and gas industry operations. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in the imposition of fines and penalties.

In Alberta, environmental compliance has been governed by the Alberta Environmental Protection and Enhancement Act ("**AEPEA**") since September 1, 1993. In addition to replacing a variety of older statutes which related to environmental matters, the AEPEA also imposes certain new environmental responsibilities on oil and natural gas operators in Alberta and in certain instances also imposes greater penalties for violations.

Risk of Foreign Operations: Some of the Company's oil and gas operations and assets are located in the United States. As a result, they are subject to political, economic and other uncertainties for reasons that include:

- (a) changes in energy policies or the personnel administering them;
- (b) expropriation of property without fair compensation;
- (c) cancellation or modification of contract rights;
- (d) foreign exchange restrictions;
- (e) currency fluctuations;
- (f) royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted; and
- (g) risks of loss due to civil strife and acts of war.

The Company's international operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or, in the alternative, may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. In addition, the Company's existing interests in the United States were acquired pursuant to, and the Company's operations are governed by, a number of legal and contractual relationships. The effectiveness of, and enforcement of these contracts and relationships with parties in these jurisdictions cannot be assured. Consequently, the Company's future foreign exploration, development and production activities could be substantially affected by factors beyond the Company's control, any of which could have a materially adverse effect on the Company and the Company's business.

Future Sales of Common Shares by Existing Shareholders: Sales of a large number of common shares in the public markets, or the potential for such sales, could decrease the trading price of the common shares and could impair the Company's ability to raise capital through future sales of common shares. Accordingly, certain shareholders of the Company have an investment profit in the common shares that they may seek to liquidate.

Management: The success of the Company is currently largely dependent on the performance of its directors and officers. The loss of services of any of these persons could have a materially

adverse effect on the Company's business and prospects. There is no assurance the Company can maintain the services of its directors, officers or other qualified personnel required to operate its business.

Conflicts of Interest: Some of the directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other corporations, and situations may arise where these directors and officers will be in direct competition with the Company. Conflicts, if any, will be dealt with in accordance with the relevant provisions of the British Columbia *Business Corporations Act*. Some of the directors and officers of the Company are or may become directors or officers of other companies engaged in other business ventures. In order to avoid the possible conflict of interest which may arise between the directors' duties to the Company and their duties to the other companies on whose boards they serve, the directors and officers of the Company have agreed to the following:

1. participation in other business ventures offered to the directors will be allocated between the various companies and on the basis of prudent business judgment and the relative financial abilities and needs of the companies to participate;
2. no commissions or other extraordinary consideration will be paid to such directors and officers; and
3. business opportunities formulated by or through other companies in which the directors and officers are involved will not be offered to the Company except on the same or better terms than the basis on which they are offered to third party participants.

Financial Considerations: The Company's decision as to whether its properties contain commercial oil and gas deposits and whether these should be brought into production will require substantial funds and depend upon the results of exploration programs, feasibility studies and the recommendations of duly qualified engineers, geologists, or both. This decision will involve consideration and evaluation of several significant factors including but not limited to: (1) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies, and construction of production facilities; (2) availability and costs of financing; (3) ongoing costs of production; (4) market prices for the oil and gas to be produced; (5) environmental compliance regulations and restraints; and (6) political climate, governmental regulation and control. Many of the factors taken into consideration are beyond the Company's control and may have a material effect on the outcome of our decision.

Need to Manage Growth: The Company could experience rapid growth in production, revenues, personnel, complexity of administration and in other areas. There can be no assurance that the Company will be able to manage the impact that future growth could place on its administrative infrastructure, systems, and controls. If the Company is unable to manage future growth effectively, its business, operating results and financial condition may be materially and adversely affected.

Uncertainty of Estimates of Reserves

Under applicable regulatory requirements, we will be required to identify and disclose as proved oil and gas reserves, estimated quantities of crude oil, natural gas and natural gas liquids. This geological and engineering data demonstrates with reasonable certainty the estimated quantities of crude oil, natural gas and natural gas liquids, which will be recoverable in future years from known reservoirs under existing economic and operating conditions. However, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir, and as a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from our estimations from year to year. Any significant variance in the assumptions could materially affect the estimated quantities and present values of reserves. For example, a material drop in oil and gas prices, or a material

increase in applicable taxes, will require management to reassess whether known reservoirs can continue to be reasonably judged as economically productive from one year to the next. In addition, the reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our Company's control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to the reserves will likely vary from the estimates presented herein, and such variances may be material.

Declining Reserves

In general, production rates from oil and gas properties decline as reserves are depleted. The decline rates depend on reservoir characteristics and vary from steep declines to the relatively slow declines characteristic of long-lived fields in other regions. Should one or more of the above risks materialize or should NRG's underlying assumptions prove incorrect, NRG's actual results may materially differ from NRG's current expectations. Therefore in evaluating forward-looking statements, readers should specifically consider the various factors that could cause the Company's actual results to materially differ from such forward-looking statements.

Reserves Data and Other Oil and Gas Information

Our independently prepared reserves assessment and evaluation of oil and gas properties effective August 31, 2007 have been prepared in accordance with mandated National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of Canadian Securities Administrators. A summary of our reports is available on SEDAR at www.sedar.com.

Outstanding Share Data

As of February 29, 2008, NRG was a publicly traded company and our common shares were listed for trading on the CNQ under the symbol NRGI.

The Company had the following securities outstanding as at February 28, 2008:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	8,225,000

There are 4,500,000 common shares held in escrow and no common shares are subject to pooling.

Additional Information

Disclosure Controls and Procedures:

The Company's Chief Executive Officer and Chief Financial Officer (the "**Responsible Officers**") are responsible for establishing and maintaining disclosure controls and procedures for the Company, designed to provide reasonable assurance that material information relating to the Company and its subsidiary is made known to the Responsible Officers by others within the organization, particularly during the period in which the Company's quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 for the quarter ended February 29, 2008. Based on this evaluation, they have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the Company's size, structure and stage of development. Management is currently in the process of formalizing the disclosure controls and procedures. These controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives are met.

Internal Controls Over Financial Reporting:

The Company's Responsible Officers are responsible for establishing and maintaining internal controls and procedures for the Company, designed to provide reasonable assurance that material information relating to the Company and its subsidiary is made known to the Responsible Officers by others within the organization, particularly during the period in which the Company's quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of the Company's internal controls and procedures as defined in Multilateral Instrument 52-109 for the quarter ended February 29, 2008. Based on this evaluation, they have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the Company's size, structure and stage of development. Management is currently in the process of formalizing the internal controls and procedures. These internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives are met. Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company utilizes outside assistance and advice on complex financial, taxation and reporting issues, which is common with companies of a similar size. We have assessed the design of our internal control over financial reporting and during this process we identified potential weaknesses in internal controls over financial reporting which are as follows:

- Due to the limited number of staff at the Company it is not feasible to achieve complete segregation of incompatible duties. The Company has mitigated this weakness in controls by adding management review procedures over the areas where segregation is an issue.
- The Company does not retain staff with specialized and current income tax, financial reporting and complex accounting expertise. The Company reports current and future income tax expenses and liabilities and other complex accounting calculations based on management's estimates and relies on reviews by management, external consultants and audit committee for quality assurance.

There have been no significant changes to the internal controls in this quarter. As a result of our assessment of the design of our internal control over financial reporting, we conclude that there is only a remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Additional information relating to our Company, including periodic quarterly and audited financial reports are available on SEDAR at www.sedar.com. Information can also be obtained by contacting the Company by mail at #1100 – 609 West Hastings Street, Vancouver, British Columbia, V6B 4W4 or by telephone at (604) 331-3398.