

**DEREK OIL AND GAS CORPORATION**  
**QUARTERLY FINANCIAL STATEMENTS**  
**For the Three and Six Month Period Ended October 31, 2008 and 2007**

**Unaudited**  
**Prepared by Management**  
**Vancouver, B.C.**  
**December 23, 2008**

Derek Oil and Gas Corporation

Notice Pursuant to Part 4.3 (3) of the National Instrument 51-102  
Continuous Disclosure Obligations

The quarterly report of Derek Oil and Gas Corporation filed for the six months ended October 31, 2008 has been prepared by management without review by our auditors. These unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Generally Accepted Accounting Principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

Date: December 23, 2008

“Signed”

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Name: Greg Amor, C.A.  
Chief Financial Officer  
Derek Oil and Gas Corporation

**DEREK OIL AND GAS CORPORATION**

## Consolidated Balance Sheets

as at October 31, 2008 and April 30, 2008

	October 31, 2008	April 30, 2008
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	48,402	68,903
Prepaid expenses	4,852	15,173
Accounts receivable	29,684	82,718
	<hr/>	<hr/>
	82,938	166,794
Performance bonds (note 3)	121,352	95,901
Oil and gas properties (note 3)	18,552,343	18,067,924
Other assets-net of depreciation	28,789	33,357
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	18,785,422	18,363,976
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<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	192,498	576,713
Royalty payable	199,621	135,686
Short-term note payable	203,980	203,980
	<hr/>	<hr/>
	596,099	916,379
Long-term note payable	329,994	329,994
Asset retirement obligation	98,688	98,688
	<hr/>	<hr/>
	1,024,781	1,345,061
	<hr/> <hr/>	<hr/> <hr/>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 4)	34,054,563	33,138,158
Contributed surplus	2,973,074	2,706,886
Deficit	(19,266,996)	(18,826,129)
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	17,760,641	17,018,915
	<hr/>	<hr/>
	18,785,422	18,363,976
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Nature of operations and going concern (note 1)

Approved by the Directors

"John Lush", Director"Barry C.J. Ehrl", Director

The accompanying notes are an integral part of the consolidated financial statements  
Unaudited – Prepared by Management

**DEREK OIL AND GAS CORPORATION**

## Consolidated Statement of Operations

For the three and six months ended October 31, 2008 and 2007

	<b>Three Months Ended Oct. 31, 2008 \$</b>	<b>Three Months Ended Oct 31, 2007 \$</b>	<b>Six Months Ended Oct. 31, 2008 \$</b>	<b>Six Months Ended Oct. 31, 2007 \$</b>
<b>EXPENSES</b>				
Bank charges and interest	10,221	902	52,623	1,810
Consulting fees	10,966	10,870	21,833	17,521
Foreign exchange loss (gain)	18,400	(92,727)	24,324	(39,498)
Insurance expense	-	18,780	30,121	37,580
Legal and audit fees	14,865	3,630	29,565	21,678
Management fees	37,500	37,500	75,000	75,000
Office administration and other	32,190	13,130	30,940	19,621
Office rent and services	17,127	16,611	34,255	34,232
Salaries and benefits	61,876	56,906	132,672	125,201
Shareholder information	17,252	24,786	20,951	51,644
Stock exchange and filing fees	-	3,671	(5,560)	13,434
Stock option expense	-	39,158	-	159,119
Telephone and fax	3,761	6,328	7,208	10,318
Transfer fees	7,405	6,737	9,491	7,240
Travel	14,511	22,329	20,837	47,151
LAK royalty costs	-	17,734	-	26,111
	<u>(252,879)</u>	<u>(186,345)</u>	<u>(484,260)</u>	<u>(608,162)</u>
Interest and other income	35,085	2,085	43,393	10,676
Loss for the period	<u>(210,989)</u>	<u>(184,260)</u>	<u>(440,867)</u>	<u>(597,486)</u>
Deficit-opening balance	<u>(19,056,007)</u>	<u>17,909,796</u>	<u>(18,826,129)</u>	<u>(17,496,570)</u>
Deficit-closing balance	<u>(19,266,996)</u>	<u>18,094,056</u>	<u>(19,266,996)</u>	<u>(18,094,056)</u>
Basic and diluted loss per share	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average number of shares	59,363,450	47,479,795	55,205,483	47,479,795

The accompanying notes are an integral part of the consolidated financial statements  
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**DEREK OIL AND GAS CORPORATION**

## Consolidated Statement of Changes in Financial Position

For the three and six months October 31, 2008, and 2007

	<b>Three Months Ended October 31 2008 \$</b>	<b>Three Months Ended October 31 2007 \$</b>	<b>Six Months Ended October 31 2008 \$</b>	<b>Six Months Ended October 31 2007 \$</b>
<b>Cash flows from operating activities</b>				
Loss for the period	(210,989)	(184,260)	(440,867)	(597,486)
Items not affecting cash				
Amortization of other assets	1,754	1,149	4,568	2,298
Stock option expense	-	39,158	-	159,119
Changes in non-cash working capital				
Accounts receivable	120,751	2,078	53,034	(9,833)
Prepaid expenses	-	18,780	10,321	(3,192)
Accounts and royalty payable	58,761	(630,242)	(320,280)	(554,078)
	(29,723)	(753,337)	(693,324)	(1,003,172)
<b>Cash flows from (for) investing activities</b>				
Short-term investments	-	-	-	415,257
Oil and natural gas interests	(456,529)	(168,340)	(484,419)	(519,765)
Performance bonds posted	(23,906)	10,992	(25,451)	14,893
Other assets	-	3,817	-	5,172
Contributed surplus	-	252,864	-	252,864
	(480,435)	99,333	(509,870)	168,421
<b>Cash flows from (for) financing activities</b>				
Shares issued for cash	(17,407)	15,182	1,182,593	720,402

		15,182		720,402
	(17,407)		1,182,593	
<b>Increase (Decrease) in cash and short term deposits</b>		(638,822)		(114,349)
	(527,565)		(20,501)	
<b>Cash –Beginning of Period</b>	575,967	708,590	68,903	184,117
<b>Cash – End of Period</b>		69,768		69,768
	48,402		48,402	

The accompanying notes are an integral part of the consolidated financial statements  
Unaudited – Prepared by Management

## DEREK OIL and GAS CORPORATION

Notes to Consolidated Financial Statements  
October 31, 2008 and 2007

### 1. NATURE OF OPERATIONS, GOING CONCERN AND BASIS OF PRESENTATION

#### **Nature of operations**

The Company is engaged in the acquisition, exploration and development of oil and gas properties. The Company's current oil and gas activities are in the pre-production stage and the Company is attempting to advance the development of the LAK Ranch Project (which is located in Wyoming, USA) to commercial production through earn-in agreements with third parties (see note 3). Commercial production has not yet commenced.

#### **Going concern**

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern that contemplates the realization of assets and the settlement of liabilities in the normal course of business as they come due.

The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity or debt financing and the attainment of profitable operations. While management has been successful in obtaining additional sources of financing in the past, there can be no assurance that it will be able to do so in the future.

The Company has a history of operating losses and of negative cash flows from operations. In the six months ended October 31, 2008, the Company incurred a loss of \$421,021 and cash outflows from operating activities of \$674,435. The Company's deficit at October 31, 2008 totaled \$19,247,150. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

#### **Basis of presentation**

The unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information.

Accordingly, they do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended October 31, 2008 are not necessarily indicative of the results that may be expected for the year ended April 30, 2009.

The balance sheet at April 30, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Management prepared the interim financial statements in accordance with the accounting policies described in the Company's annual financial statements for the year ended April 30, 2008. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended April 30, 2008.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 2 of the audited consolidated financial statements for the year ended April 30, 2008 and have been consistently followed in the preparation of these consolidated financial statements except that the Company has adopted the following CICA guidelines effective for the Company's first quarter commencing May 1, 2007:

- a) Section 3855 - Financial Instruments - Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are reported at cost and not adjusted to fair market value.
- b) Section 1530 - Comprehensive Income. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized.
- c) The adoption of Sections 1530 and 3855 has no impact on the opening equity and losses of the Company nor for the current quarter.

### 3. Oil and natural gas properties

<b>LAK RANCH PROJECT</b>	<b>October 31, 2008</b>	<b>April 30, 2008</b>
<b>Acquisition costs</b>	<b>\$</b>	<b>\$</b>
Opening balance	1,108,588	1,091,616
Acquisition costs	6,220	16,972
Closing balance	1,114,808	1,108,588
<b>Exploration and development costs</b>		
Opening balance	16,959,336	16,051,084
Lease operating costs	559,578	1,580,667
Lease well/drilling costs	-	532,719
Steam plant costs	216,400	36,442
Proceeds from sale of oil	(262,326)	(464,556)
	17,472,988	17,736,336
Less: SEC Oil and Gas Partnership contribution	(35,453)	(777,000)
Closing balance	17,437,535	16,959,336
<b>Total</b>	<b>18,552,343</b>	<b>18,067,924</b>

In April, 2001 the company was granted a 100% interest in the LAK Ranch Project, located near Newcastle, Wyoming, subject to various minimum and production royalty payments.

During the year ended April 30, 2002, as part of certain financings, the company granted additional royalties of US \$0.14 per barrel of oil produced on the LAK Ranch Project. In addition the property carries additional gross royalties of 20.95% to various parties. The Company has to date repurchased 4.42 % of these royalties for its own account. Of these repurchased royalties, 3.3% are subject to LAK ranch producing 600 barrels of oil per day by April 9, 2009.

In October 2003, the Company entered into an agreement with SEC Oil and Gas Partnership ("SEC"), whereby SEC could earn a 5% working interest in the LAK ranch project by advancing to the Company the sum of US\$600,000 for expenditure on the LAK ranch project (spent). SEC will under this agreement receive a 10% revenue share until 1.2 times payback (\$US720,000) at which time their revenue interest will revert to 5%. As at October 31, 2008, SEC has received \$175,917.68 from the LAK Ranch Project.

In January 2004, the Company concluded an agreement with Ivanhoe Energy, whereby Ivanhoe will earn up to a 60% interest in the LAK Ranch Project by expending \$5,000,000 US on capital development. On December 1, 2006, Derek repurchased 100% of Ivanhoe's interest in LAK Ranch for US\$800,000, payable by US\$600,000 cash on signing (paid) and US\$200,000 represented by a 5% royalty on Derek's share of production sales from the property.

Also in December 2006, the Company entered into an agreement with SEC whereby the Company, as Operator, and SEC would develop a portion of the property with 12 wells. For these 12 wells only, the Company and SEC's working interest will be 50% each until the program reaches payback and then will be owned as to 60% to Derek and 40% to SEC. SEC advanced \$1,500,000 for their share of the costs of the program, these monies were spent by the quarter ended July 31, 2007. As an additional incentive for SEC to enter into this arrangement they were granted 1,000,000 share purchase warrants, convertible at \$0.75 for the first nine months after the wells begin production, and convertible at \$1.00 for the next twelve months. The 12 wells began production in October 2007 setting the expiry date of the warrants at July 31, 2009. These warrants were assigned an estimated fair value of \$78,413.

The company has posted performance bonds of US \$95,000 in relation to the LAK property.

#### 4. Capital Stock

- a) Authorized  
Unlimited common shares of no par value

Issued common shares	Number of Shares	Amount
Balance-April 30, 2007	45,126,550	32,112,087
Private placement – net of issue costs	3,185,000	531,252
Shares issued as commission	73,000	13,300
Options exercised	362,250	54,338
Warrants exercised	26,650	10,662
Shares issued as financing costs	500,000	100,000
Balance – April 30, 2008	49,273,450	33,138,158
Private placement-net of issue costs	10,000,000	923,012
Shares issued as commission	90,000	10,800
Balance – October 31, 2008	59,363,450	34,071,970

During the quarter, the Company issued 10,090,000 units pursuant to a private placement for net cash proceeds of \$1,200,000. Each unit consisted of one share and one share purchase warrant. Each share purchase warrant can be exercised into one share of the company at an exercise price of \$0.20 per share for a period of two years, expiring July 14, 2010. The warrants associated with this placement have an estimated fair value of \$266,188 that has been included in contributed surplus.

- b) Stock Options Outstanding

	Stock Options	Weighted Average Exercise Price
Balance as at April 30, 2007	3,880,080	0.42
Forfeited	(370,000)	0.47

Exercised	(362,250)	0.15
Granted	650,000	0.40
Balance as at April 30, 2008	3,797,830	0.49
Forfeited	1,092,830	0.19
Balance as at October 31, 2008	2,705,000	0.50

The Company follows the fair value method of accounting for stock options. During the period ended October 31, 2008, no options were granted at a fair value of \$nil (October 31, 2007 quarter – 150,000 options were granted at a fair value of \$39,158). The Black-Scholes method of options valuation was used with the following assumptions:

Dividend yield	nil
Risk free interest rate	3.88%
Expected life	5 years
Expected volatility	63%

#### c.) Share Purchase Warrants Outstanding

Each of the company's common share purchase warrants is convertible into one common share, upon payment of the exercise price.

	Share purchase warrants	Weighted Average Price
Balance as at April 30, 2007	5,637,500	0.56
Expired	(1,970,000)	0.70
Exercised	(26,650)	0.40
Issued	3,258,000	0.40
Balance as at April 30, 2008	6,898,850	0.46
Issued	10,090,000	0.20
Expired	(2,123,000)	0.40
Balance as at October 31, 2008	14,865,850	0.30

In addition to the private placement warrants documented in the above table, a total of 4,695,000 share purchase warrants were re-priced from \$0.50 to \$0.40 during the first quarter.

#### 5. Contingency and Commitments

The Company renewed its office lease for a three-year term starting May 1, 2007. The lease commits the Company to rent charges of approximately \$5,870 per month.