



**TG World Energy Corp.**

**Management's Discussion and Analysis**

**For the Three Months Ended  
March 31, 2008 and 2007**



*The discussion and analysis that follows is intended to provide a summary of TG World Energy Corp. ("TG" or the "Company") results for the three months ended March 31, 2008 and 2007, as well as its financial position and future plans. It should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2008 and 2007, in addition to the audited financial statements for the years ended December 31, 2007 and 2006. All numbers in this discussion and analysis are expressed in Canadian dollars unless otherwise indicated. Additional information is available on TG's website at [www.tgworldenergy.com](http://www.tgworldenergy.com) or on SEDAR's website at [www.sedar.com](http://www.sedar.com). Information in this MD&A is as of May 20, 2008.*

## **Description of the Business**

TG is a Calgary-based, junior international oil and gas exploration company. The Company owns working interests in oil and gas properties located in Alaska and in the Republic of Niger.

### **Alaska**

On March 18, 2006, the Company entered into a joint venture ("JV") agreement with Brooks Range Petroleum Corporation ("BRPC"), a wholly owned subsidiary of Alaska Venture Capital Group, LLC ("AVCG"). Under the terms of the JV agreement, TG acquired a 25–35% interest in a majority of BRPC's existing oil and gas leases located on the Alaska North Slope. Total acreage controlled by the JV is 324,525 gross acres over 10 prospect areas, representing about 25% of exploration leases on State lands within the proven oil fairway. The JV agreement expires in March 2010; however, may continue thereafter unless terminated by either party. The Company and BRPC also entered into an exploration joint venture alliance, covering a defined Area of Mutual Interest, to pursue additional exploration and development opportunities in Alaska.

#### Winter 2007/2008 Program

On January 10, 2008, the North Shore #1 well was re-entered. The Ivishak and Sag River formations were perforated and completed behind sliding sleeves. The Ivishak Formation was successfully tested and flowed oil for 16 hours. The final 5 hours of testing recorded a stable oil flow rate of 2,092 bopd. The testing of the Sag River formation has not yet been completed due to operational difficulties. Coiled tubing was trapped in the hole. With the fish in the hole, the Sag River Formation was opened and shut-in for pressure build-ups – oil flowed at an estimated rate of 2 barrels/hour. Pressure transient analysis of the flow test and several step-rate pump-in tests indicate that the 22 foot interval of completion perforations was severely damaged. Predicted rates with no damages to the perforations were calculated to be 500 to 1,000 barrels of oil per day. Due to warming weather, the drilling rig was released on May 7, 2008 and the well was suspended after recovery of 700 feet of the tubing. TG has a 35% working interest in the area and paid 35% of the well costs.

On February 11, 2008, the joint venture spudded the Tofkat #1 exploratory well. The well encountered ten feet of gross and six feet of net oil pay in the Kuparuk formation. Three shallower formations also recovered oil, but were interpreted as tight reservoirs. Two sidetrack appraisal wells were drilled to the southeast and northwest of the discovery well but the Kuparuk was tight in both wells. The wellbore has been plugged back to the surface casing and suspended for possible re-entry as a future production well. Under the terms of the JV agreement, the Company paid 35.7% of the well costs to earn a 25% working interest in the complete Tofkat prospect area.

The JV acquired up to 210 square miles of 3-D seismic data over portions of its lease holdings in the Tofkat area prospects, for which TG paid 25% of the cost.

#### Outlook

The JV has begun planning for the development of the North Shore #1 well to find the optimal re-completion and sidetrack strategy.



The JV will use well results and the newly acquired Tofkat area 3-D seismic data in conjunction with the 130 square miles of 3-D seismic shot on the Gwydry Bay survey to decide on prospects for the 2008/2009 drilling program.

The JV is negotiating to secure a drilling rig for the next season, which is planned to be a multi-well drilling program.

#### Petroleum Production Tax Credits

Under the terms of the Alaska Oil and Gas Petroleum Production Tax Credit ("PPT") program, TG is entitled to a credit in the amount of 45–65% of qualifying expenditures. The credits are issued in the form of transferable credit certificates that can be either sold back to the State for full value, or transferred to other parties who can utilize them, usually at a negotiated discount. In June 2007, TG filed a claim in the amount of approximately US\$3.6 million in connection with its Qualified Exploration Expenditures ("QEE") up to June 2007. The credit was sold to the State of Alaska for its full value and payment was received in October 2007. The Company applied for additional credits of US\$0.8 million and US\$4.3 million for expenditures in the third and fourth quarters of 2007 respectively. As the program is fairly new, the Company only records credits for which there is strong evidence of collection; therefore, the 2007 fourth quarter claim has not yet been recorded. The 2007/2008 winter program will generate further PPT credits.

#### **Tenere, Niger**

The Company has a 20% interest in an Establishment Agreement ("EA") and licenses consisting of 17.3 million acres within the Republic of Niger in the Tenere area. An 80% interest is retained by CNPC International Tenere Ltd. ("CNPCIT"), who is the operator of the Tenere project.

Under a separate agreement signed with CNPCIT signed in 2004, CNPCIT will pay 100% of TG's share of costs for the Minimum Work Program of the First Exploration Period of the EA, including project related general and administrative costs. The major components of the Program are acquiring, processing, and interpreting a minimum of 1,500 km of seismic data, and drilling three exploration wells. TG was also carried for additional seismic performed up to the completion of the second exploration well. Should the project result in petroleum production, TG will be required to repay its carried costs to CNPCIT, without interest, from a portion of its share of future production from the Tenere Block.

To date, CNPCIT has reprocessed 5,717 km of vintage seismic data located across the Tenere Block. In addition, CNPCIT acquired 3,965 km of new 2-D seismic data. CNPCIT paid all costs as the acquisition was prior to the completion of the second exploration well.

#### Outlook

The Company approved the drilling of the Facai-1 well, which is located 100 km to the north of previous well, Saha-1. Facai-1 will test Cretaceous sandstones in an anticlinal trap. Facai-1 is expected to spud in the second half of 2008, security conditions permitting. The well will be at no cost to the Company.

The budget has also been approved for a second exploration well, Oasis-1 well, expected to spud December 2008 and a third well to be selected from a further six mapped prospects, both subject to favourable security conditions. The Company will decide sequentially whether it will participate in these two additional exploratory wells, by paying its 20% share of costs, after completion of Facai-1 and upon review of additional geological studies, or elect to participate by paying a penalty after the wells have been drilled, upon seeing positive results.

The Company has the option to participate in an additional 2,000 km seismic program. The Company has agreed to participate in a minimum of 800 km of the program. TG's share of the cost is expected to be about US\$1.2 million. Further participation will be dependent upon ongoing geological studies. Due to security problems, the continuation of the seismic operations has been



postponed, pending the expiry of the Niger Government's suspension of all industrial operations in the Sahara region, currently in force until the end of May 2008.

### Selected Quarterly Information

(in thousands of Canadian dollars, except per share information)

	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net loss	142	72	297	463	252	389	214	226
Net loss per share (basic)	0.001	0.001	0.004	0.006	0.004	0.007	0.004	0.005
Working capital	16,482	25,184	7,577	6,228	10,057	15,178	20,892	218
P&NG assets	35,799	26,806	20,521	21,755	17,874	12,177	6,360	4,289
Total assets	57,790	55,245	31,951	31,970	28,183	27,649	27,526	4,710
Shareholders' equity	52,069	51,803	28,098	27,984	27,932	27,355	27,251	4,507

The following discussion highlights some of the more significant factors that changed results over the past eight quarters ended March 31, 2008:

- The American currency has been unstable, resulting in fluctuations in the unrealized foreign exchange account from monetary assets and liabilities, as well as through the translation of integrated foreign subsidiaries.
- Working capital increased in the third quarter of 2006 and in the fourth quarter of 2007 due to share issuances and private placement financing. Working capital decreases in other quarters are a result of investment in P&NG assets.
- Total P&NG assets generally increased over each quarter due to continual investment in the Alaska and Niger projects. The slight decrease in the third quarter of 2007 in comparison to prior periods is the receipt of the first PPT credit, which is netted against P&NG expenditures.

For the three-month period ending March 31, 2008, the net loss decreased \$110,091 when compared to the comparable period in 2007:

Loss increase (decrease) due to:	<b>\$</b>
Management service charges - wages	34,505
Management service charges - placement fees	30,350
Stock based compensation expense	31,215
General and administrative costs	11,003
Interest income	(59,957)
Foreign exchange gains and losses	<u>(157,207)</u>
	<b><u>(110,091)</u></b>

Stock based compensation was \$408,618 during the three-month period ended March 31, 2008, of which \$118,154 was capitalized in the period. The increase in total expensed stock-based compensation from \$388,504 (\$129,255 capitalized) in the same period in 2007 is due to new options granted late in 2006 and throughout 2007.

Changes in other items of expenditure reflect variations in normal levels of business activity and new service contract rates for services provided by related parties approved by the independent directors of the Board. See comments under Related Party Transactions in this MD&A.

### Petroleum and Natural Gas (P&NG) Assets

During the three-month period a total of \$9.0 million (March 31, 2007 – \$5.7 million) in qualified expenditures was capitalized. Below is a summary of the Company's main capital expenditures in the year:



Alaska:	
Land acquisitions and lease rentals	\$ 297,562
Seismic	2,564,118
Drilling and completion	5,809,936
Capitalized consulting and travel costs	310,153
Stock based compensation	56,042
Asset retirement cost	(144,647)
	8,893,164
Niger:	
Capitalized consulting and travel costs	37,766
Stock based compensation	62,112
	99,878

### Accounts Receivable

The accounts receivable of \$0.8 million represent mainly PPT credits claimed from the State of Alaska for qualified expenditures. The remaining receivable relates mainly to GST receivable on purchases of supplies and services.

### Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased \$2.4 million due to an accrual for the February and March 2008 cash calls paid in April 2008 for the Alaska project. The remaining payables relate to general business expenses with timing differences from the prior period.

### Amounts due to Related Parties

Amounts due to related parties increased marginally to \$56,855 in the quarter from \$35,512 at December 31, 2007. The change is insignificant and is caused by fluctuations in amounts due for services provided in the normal course of business.

### Liquidity and Capital Resources

As at March 31, 2008, the Company had \$21.1 million in cash and cash equivalents and a working capital surplus of \$16.5 million to fund the Company's capital programs. Equity financing is the Company's main source of funds.

The number of common shares and equity instruments outstanding were as follows:

	May 20, 2008	March 31, 2008	December 31, 2007
Common shares issued	122,060,870	122,060,870	122,060,870
Stock options outstanding	6,854,898	6,854,898	6,854,898
Warrants outstanding	-	-	-

There has been no movement in the number of common shares outstanding in the Company during the three-months ending March 31, 2008.

### Related Party Transactions

All related party transactions are approved by the independent directors of the Board.

During the three-month period ending March 31, 2008, Seajay Management Enterprises Ltd. ("Seajay") charged the Company \$162,455 (March 31, 2007 - \$55,500) for management,



secretarial, and administration services. Seajay is a company controlled by an officer of the Company.

For the three-months ending March 31, 2008, TVI Pacific Inc. ("TVI") charged \$27,389 (March 31, 2007 - \$18,909) for rent and office maintenance costs. An officer and director of TG is also the President, CEO, Chairman, and a director of TVI.

### **Material Contracts, Commitments, and Contingencies**

As a part of the negotiations leading to the Joint Venture Agreement on the Alaska properties, the Company agreed to pay to a third party a Performance Remuneration fee for their services in the negotiation process. This remuneration consists of a Transaction Bonus of US\$100,000, which the Company paid in cash during March and April 2008. The third party will receive a 2% overriding royalty interest share of the Company's interest in hydrocarbons from the initially awarded oil and gas leases on the Alaska North Slope. In addition, the third party will receive a 1.25% overriding royalty of the Company's interest in hydrocarbons from leases acquired by the joint venture in the area of mutual interest, subsequent to the initially awarded leases on the Alaska North Slope. The third party has filed a claim against the Company alleging entitlement to 2.5% gross overriding ownership interest of the Company's interest in all leases on the Alaska North Slope. Legal proceedings are at an early stage and it is premature to make any conclusions respecting the final outcome.

The Company holds a 20% interest in the CNPCIT operated Tenere Permit, and CNPCIT is currently committed to carry TG's cost of the Minimum Work Program. However, the Tenere EA provides options for two additional three year terms that would include additional seismic and exploratory well commitments for which the Company would pay its share.

### **Integrity of Disclosure**

The Company's management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited financial statements. The Board of Directors approves the annual audited financial statements and MD&A on the recommendation of the Audit Committee. The interim financial statements and MD&A are reviewed by the Company's independent auditors and approved by the Audit Committee.

The Company has approved and distributed to all staff a series of policy papers that include Code of Business Conduct and Ethics, Whistle Blower Policy and Procedures, Insider Trading and Reporting Guidelines, Disclosure Policy, and Board Control System. The Terms of References define Audit Committee, Compensation and Governance Committees, and Disclosure Committee. The Company has a defined Board Mandate. Management prepares a top down Risk Analysis that identifies level of risk and potential impact.

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of March 31, 2008, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, is made known to them by others within the company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that disclosure controls and procedures provide a reasonable level of assurance, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.



## **Business Risks and Uncertainties**

The Company's business is subject to risks inherent in oil and gas exploration and development operations. In addition, there are risks associated with the Company's current and future operations in the foreign jurisdictions in which it operates. The Company has identified certain risks pertinent to its business including: exploration and reserve risks; drilling and operating risks; costs and availability of materials and services; capital markets and the requirement for additional capital; loss of or changes to production sharing, joint venture or related agreements; economic and sovereign risks; less developed legal systems; reliance on joint venture partner relationships; market risk; volatility of future oil and gas prices; and foreign currency risk.

The Company must rely on the management efficiencies and technical skills of its joint venture partners BRPC and CNPCIT as operators of the Alaska and Tenere projects respectively.

## **Advisory Regarding Forward-Looking Statements**

Certain information set out in this discussion and analysis constitutes forward-looking information. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "believe" and similar expressions. Forward-looking statements are based upon the opinions and expectations of management of the Company as at the effective date of such statements and, in some cases, information supplied by third parties. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions and that information received from third parties is reliable, it can give no assurance that those expectations will prove to have been correct. Forward-looking statements are subject to certain risks and uncertainties that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as political and civil unrest and the occurrence of other events of force majeure (including exacerbation of the local security situation in parts of Niger and government responses to that security situation), the volatility of prices for oil and gas and other commodities, commodity supply and demand, fluctuations in currency and interest rates, inherent risks associated with the exploration and development of oil and gas properties, ultimate recoverability of reserves, timing, results and costs of exploration and development activities, availability of financial resources or third-party financing, availability of drilling and related equipment and new laws and regulations (domestic and foreign). Accordingly, readers should not place undue reliance upon the forward-looking statements contained in this MD&A and such forward-looking statements should not be interpreted or regarded as guarantees of future outcomes. The forward-looking statements of TG World Energy Corp. contained in this MD&A are expressed qualified, in their entirety, by this cautionary statement. Additional information relating to various risk factors to which TG is exposed in the conduct of its business (and which may affect the expectations or outcomes reflected in the forward-looking statements contained in this MD&A) are described in publicly available documents filed by the Company with certain securities regulatory authorities in Canada, which are available through SEDAR at [www.SEDAR.com](http://www.SEDAR.com) and the Company's website at [www.tgworldenergy.com](http://www.tgworldenergy.com).

May 20, 2008



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**Share Listing:**

TSX Venture Exchange Symbol: TGE

**Auditors:**

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Calgary, Alberta, Canada T2P 5L3



**TG World Energy Corp.**

**Consolidated Financial Statements**

**For the three months ended  
March 31, 2008 and 2007  
(unaudited)**



	March 31, 2008	December 31, 2007
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 21,139,688	\$ 27,543,796
Short term investments	9,173	8,081
Accounts receivable and prepaid expenses	842,556	726,966
	<u>21,991,417</u>	<u>28,278,843</u>
Long-term receivable (note 3)	-	160,109
Petroleum and natural gas properties (note 3)	35,798,618	26,805,708
	<u>57,790,035</u>	<u>\$ 55,244,660</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,452,216	\$ 3,059,741
Due to related parties (note 4)	56,855	35,512
	<u>5,509,071</u>	<u>3,095,253</u>
Asset retirement obligation (note 5)	211,499	346,268
	<u>5,720,570</u>	<u>3,441,521</u>
<b>Shareholders' Equity</b>		
Share capital (note 6(b))	53,602,014	53,603,258
Contributed surplus (note 6(f))	5,327,793	4,919,175
Deficit	(6,858,158)	(6,716,018)
Accumulated other comprehensive loss	(2,184)	(3,276)
	<u>52,069,465</u>	<u>51,803,139</u>
	<u>\$ 57,790,035</u>	<u>\$ 55,244,660</u>

**Contingencies (note 8)**

See accompanying notes to the unaudited interim consolidated financial statements

**Approved by the Board of Directors:**

"Clifford M. James"  
 Clifford M. James, Director

"Edward (Ted) W. Best"  
 Edward (Ted) W. Best, Director

**TG World Energy Corp.**Unaudited Interim Consolidated Statements of Operations, Comprehensive Loss,  
Deficit, and Accumulated Other Comprehensive Loss

March 31, 2008 and 2007

(in Canadian dollars)



	<b>Three months ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Interest income	\$ 207,491	\$ 146,563
Expenses		
General and administrative	544,035	437,339
Foreign exchange gain	(194,404)	(38,545)
	349,631	398,794
Net loss	(142,140)	(252,231)
Change in fair value of investments	1,092	-
Comprehensive loss	\$ (141,048)	\$ (252,231)
Net loss per share		
Basic and diluted (note 7)	(0.001)	(0.004)
Weighted average number of common shares		
Basic and diluted (note 7)	122,060,870	71,366,002
Deficit, beginning of period	\$ (6,716,018)	\$ (5,632,781)
Net loss	(142,140)	(252,231)
Deficit, end of period	\$ (6,858,158)	\$ (5,885,012)
Accumulated other comprehensive loss, beginning of period	\$ (3,276)	\$ -
Other comprehensive income	1,092	-
Accumulated other comprehensive loss, end of period	\$ (2,184)	\$ -

See accompanying notes to the unaudited interim consolidated financial statements

**TG World Energy Corp.**

Unaudited Interim Consolidated Statements of Cash Flows

March 31, 2008 and 2007

(expressed in Canadian dollars)



	<b>Three months ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Cash provided by (used in):		
Operating activities:		
Net loss for the period	\$ (142,140)	\$ (252,231)
Items not involving cash:		
Stock-based compensation expense	290,464	259,249
Amortization	132	-
Accretion	(1,754)	-
Unrealized foreign exchange (gain)/loss	676	(38,545)
	147,378	(31,527)
Changes in non-cash working capital	(302,212)	(5,031)
	(154,834)	(36,558)
Financing activities:		
Due to related parties	21,343	41,084
Shares issued for warrants and options	-	439,738
Share issue costs	(1,243)	-
	20,100	480,822
Investing activities:		
Expenditures on petroleum and natural gas properties	(9,003,071)	(5,530,658)
Short-term investments	-	4,935,450
	(9,003,071)	(595,208)
Changes in non-cash working capital	2,695,755	-
	(6,307,316)	(595,208)
Effect of foreign exchange rates on cash	37,942	-
Increase (decrease) in cash and cash equivalents	(6,404,108)	(150,944)
Cash and cash equivalents, beginning of period	27,543,796	10,388,924
Cash and cash equivalents, end of period	\$ 21,139,688	\$ 10,237,980
Supplemental information:		
Interest received	\$ 226,925	\$ 213,647

See accompanying notes to the unaudited interim consolidated financial statements.



**1) Basis of presentation**

TG World Energy Corp. (the "Company") is engaged in the business of international petroleum exploration and development with the major focus on Niger, through its wholly owned subsidiary, TG World Petroleum Limited ("TG World") and Alaska, through its wholly-owned subsidiary, TG World Energy, Inc. ("TG Inc."). The unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies. All significant intercompany balances and transactions have been eliminated.

**2) Significant accounting policies**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2007, except as disclosed below. These financial statements should be read in conjunction with those audited consolidated financial statements for the year ended December 31, 2007.

**a) Capital Disclosures**

In December 2006, the CICA issued Section 1535, "Capital Disclosures," which establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies, and processes for managing capital and quantitative disclosure about what a company regards as capital are required. The Company adopted the standard on January 1, 2008.

**b) Financial instruments, hedging relationship and other comprehensive income**

In December 2006, the CICA issued Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". Section 3862 and Section 3863 replace 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The Company adopted these standards on January 1, 2008.

**3) Petroleum and natural gas properties**

	<b>March 31, 2008</b>		<b>December 31, 2007</b>	
Alaska	\$	33,351,763	\$	24,458,599
Niger		2,445,231		2,345,353
Other		2,509		2,509
		35,799,503		26,806,461
Accumulated amortization		(885)		(753)
	<b>\$</b>	<b>35,798,618</b>	<b>\$</b>	<b>26,805,708</b>



### 3) Petroleum and natural gas properties (continued)

#### Alaska

The Company has a Joint Venture Agreement with Brooks Range Petroleum Corporation (“BRPC”), a wholly-owned subsidiary of Alaska Venture Capital Group, to explore oil and gas properties acquired on the Alaska North Slope. The Company’s working interests vary from 25% to 35% of an 80% net revenue interest in ten prospective areas.

During 2007, the Company applied for Petroleum Production Tax Credits (“PPTC”) from the State of Alaska, which are credited against capital expenditures. The Company received US\$3,621,697 (\$3,503,630) and accrued US\$768,467 (\$759,322). As the program is fairly new, the Company only records credits for which there is strong evidence of collection. As such, the Company has not recorded the additional application for credits of US\$4,260,604 (\$4,379,475) for qualifying expenditures in the fourth quarter of 2007.

#### Eastern Niger

CNPC International Tenere Ltd. (“CNPCIT”), the operator, carried nearly 100% of TG World’s 20% share of costs for the minimum work program, which consist of 1,500 km of seismic and three exploration wells. The Company has the option to drill an additional two exploration wells and participate in an additional 2,000 km of seismic, of which the Company has committed to a minimum of 800 km. The Company would be responsible for its own 20% share of costs on the seismic program and the two option exploration wells.

### 4) Related party transactions

Under the normal course of business, the Company acquires services at exchange amounts that approximate fair market value from Seajay Management Enterprises Ltd. (“Seajay”) and TVI Pacific Inc. (“TVI”) under contracts approved by the independent members of the Board of Directors. The Company’s President and CEO is also an officer and director of Seajay and TVI.

	<b>Three months ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Management, secretarial and administrative services charged by Seajay	\$ 162,455	\$ 55,500
Rent and office maintenance costs charged by TVI	27,389	18,909
	<b>\$ 189,844</b>	<b>\$ 74,409</b>



## 5) Asset retirement obligation

The following table reconciles the asset retirement obligation associated with the Company's properties in Alaska:

	Three months ended March 31, 2008		Year ended December 31, 2007	
Balance, beginning of period	\$	346,268	\$	-
Change in estimates		(184,676)		-
Additions		40,029		346,268
Accretion expense		3,291		-
Foreign currency translation		6,587		-
<b>Balance, end of period</b>	<b>\$</b>	<b>211,499</b>	<b>\$</b>	<b>346,268</b>
<b>Key assumptions:</b>				
Inflation rate		2%		2%
Credit adjusted risk free rate		8%		8%
Undiscounted estimated cash flow required to settle obligation		420,996		619,032

## 6) Share capital

### a) Authorized

Unlimited number of common shares.

### b) Issued

Common shares	Three months ended March 31, 2008		Year ended December 31, 2007	
	Number	Amount	Number	Amount
Balance, beginning of period	122,060,870	\$ 53,603,258	71,125,674	\$ 29,486,139
Shares issued:				
On issuance of private placement	-	(1,244)	50,000,000	23,378,561
On exercise of options	-	-	666,671	272,637
On exercise of warrants	-	-	268,525	465,921
<b>Balance, end of period</b>	<b>122,060,870</b>	<b>\$ 53,602,014</b>	<b>122,060,870</b>	<b>\$ 53,603,258</b>

### c) Private placement financing

In November 2007, the Company completed a private placement of 50,000,000 common shares at \$0.50 per share for gross proceeds of \$25,000,000 and net proceeds of \$23,378,561 after \$1,621,439 of direct expenses. During the period ended March 31, 2008, the Company incurred additional share issue costs related to the private placement.

### d) Share options

The Company has a share option plan pursuant to which options may be granted to directors, officers, employees, and consultants of the Company. The options vest over periods of three years and expire no more than five years from the date of grant.

**6) Share capital (continued)**

The following table summarizes information about options outstanding and exercisable:

	March 31, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	6,854,898	\$ 1.09	5,074,898	\$ 1.17
Granted	-	-	2,530,000	0.73
Exercised	-	-	(666,671)	0.27
Expired	-	-	(41,662)	1.36
Forfeited	-	-	(41,667)	1.63
<b>Options outstanding, end of period</b>	<b>6,854,898</b>	<b>\$ 1.09</b>	<b>6,854,898</b>	<b>\$ 1.09</b>
<b>Options exercisable, end of period</b>	<b>3,441,469</b>	<b>\$ 1.06</b>	<b>2,935,366</b>	<b>\$ 1.03</b>

Options outstanding and exercisable at March 31, 2008:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Exercisable
\$ 0.10	781,668	0.9	781,668
0.58	1,930,000	4.5	321,667
0.60	50,000	1.8	50,000
0.62	250,000	4.2	62,500
0.99	1,035,000	2.4	862,500
1.10	208,230	3.1	121,468
1.56	100,000	3.9	33,333
1.70	250,000	3.8	83,333
1.90	2,250,000	3.4	1,125,000
<b>\$ 1.09</b>	<b>6,854,898</b>	<b>3.3</b>	<b>3,441,469</b>

**e) Warrants**

During 2007, there were 268,525 warrants exercised for proceeds of \$399,525. The remaining 9,874,476 warrants expired on August 23, 2007. The fair value of exercised warrants of \$66,396 was transferred to share capital and the fair value of expired warrants of \$2,420,991 was transferred to contributed surplus.

**f) Stock-based compensation and contributed surplus**

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$ 4,919,175	\$ 1,014,016
Stock-based compensation	408,618	1,601,786
Options forfeited	-	(24,695)
Transfer to share capital on exercise of options	-	(92,923)
Transfer from warrants upon expiry	-	2,420,991
<b>Balance, end of period</b>	<b>\$ 5,327,793</b>	<b>\$ 4,919,175</b>

## **6) Share capital (continued)**

There were no options granted during the three months ended March 31, 2008. For the year ended December 31, 2007, the average risk-free interest rate was 4%; expected life was 5 years; and expected volatility was 79%. The weighted average fair value of stock options granted in 2007 is \$0.47 per share.

During the three months ended March 31, 2008, a total of \$408,618 (March 31, 2007 – \$388,504) of stock-based compensation was charged, of which \$118,154 (March 31, 2007 – \$129,255) was capitalized.

## **7) Per share amounts**

The basic weighted average number of common shares outstanding during the three months ended March 31, 2008 was 122,060,870 (March 31, 2007 – 71,366,002). No addition is made to the basic weighted average number of shares when calculating diluted weighted average number of shares as the diluted per share amounts are anti dilutive.

## **8) Contingencies**

As a part of the negotiations leading to the Joint Venture Agreement on the Alaska properties, the Company agreed to pay a third party a transaction bonus of US\$100,000, of which US\$50,000 was paid in March 2008, and US\$50,000 was paid in April 2008. The third party will receive a 2% overriding royalty interest share of the Company's interest in hydrocarbons from the initially awarded oil and gas leases on the Alaska North Slope. In addition, the third party will receive a 1.25% overriding royalty of the Company's interest in hydrocarbons from leases acquired by the joint venture in the area of mutual interest, subsequent to the initially awarded leases on the Alaska North Slope. The third party has filed a claim against the Company alleging entitlement to 2.5% gross overriding ownership interest of the Company's interest in all leases on the Alaska North Slope. Legal proceedings are at an early stage and it is premature to make any conclusions respecting the final outcome.

## **9) Capital disclosures**

The Company's objective when managing capital is to maintain balance sheet strength to ensure the Company's strategic objectives are met while providing an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, issue debt, and make adjustments to its capital expenditures program.

The Company does not have externally imposed capital requirements. Consistent with other capital intensive companies, the Company monitors capital on the basis of the debt-to-equity ratio, the debt-to-assets ratio, and the working capital surplus. Debt is calculated as the sum of accounts payable and accrued liabilities and due to related parties. Equity comprises all components of equity other than amounts in accumulated other comprehensive income. Assets are defined as petroleum and natural gas properties and receivables.

**9) Capital disclosures (continued)**

	March 31, 2008	December 31, 2007
Debt	5,509,071	3,095,253
Equity	52,071,649	51,806,415
Assets	36,641,174	27,692,783
Debt-to-equity	0.11	0.06
Debt-to-assets	0.15	0.11
Working capital surplus	16,482,346	25,183,590

**10) Financial instruments**

**a) Analysis of total financial assets and financial liabilities**

The tables below set out the Company's classification for each of its financial assets and liabilities at March 31, 2008.

	Financial assets held for trading	Loans and receivables	Other financial liabilities	Total carrying value
Cash and cash equivalents	21,139,688	-	-	21,139,688
Short term investments	9,173	-	-	9,173
Accounts receivable and prepaid expenses	-	842,556	-	842,556
Accounts payable and accrued liabilities	-	-	(5,452,216)	(5,452,216)
Due to related parties	-	-	(56,855)	(56,855)
	21,148,861	842,556	(5,509,071)	16,482,346

**b) Fair values of financial assets and financial liabilities**

The carrying value of the Company's financial assets and liabilities consisting of cash and cash equivalents, short term investments, accounts receivable and prepaid expenses, accounts payable and accrued liabilities, and due to related parties approximate their fair value at March 31, 2008 and 2007 due to their short term nature.

**c) Currency risk**

The Company faces currency risks mainly due to the substantial cross-border element of its operations. The Company's head office is located in Canada and it obtains its financing in Canadian dollars. However, the Company's main expenditures are denominated in US dollars. There are no forward sales, and the Company does not engage in currency hedging activities.

The Company publishes its consolidated financial statements in Canadian dollars and as a result, it is also subject to foreign currency exchange translation risk in respect of the results and underlying net assets of its foreign operations.



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**10) Financial instruments (continued)**

**d) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances.

The Company continues to be a development stage enterprise and engages in exploration and development of properties located in Alaska and Eastern Niger. As such, the Company currently has no producing petroleum and natural gas properties and no production revenue. However, currently the Company has substantial current assets in excess of its current liabilities. The Company will continue to monitor its capital and operating expenditures to ensure financial obligations can be met when they fall due.

**e) Credit risk**

The Company does not have a significant concentration of credit risk on its outstanding receivables as they are mainly due from government agencies. The Company maintains its cash and investments in accounts from highly reputable banks, which are approved by the Board of Directors. The Company currently does not have a policy to mitigate credit risk.

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**Share Listing:**

TSX Venture Exchange Symbol: TGE

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