

Contact Exploration Inc.

Interim Consolidated Financial Statements
For the three and nine month periods ended
December 31, 2007



CONTACT EXPLORATION INC.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the three and nine month periods ended December 31, 2007.

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of Contact Exploration Inc. comprising the accompanying interim consolidated balance sheet as at December 31, 2007 and the interim consolidated statements of operations and deficit and cash flows for the three and nine month periods then ended are the responsibility of the Company's management.

These interim consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Kenway Mack Slusarchuk Stewart LLP. The interim financial statements have been prepared by management and include the selection of appropriate accounting policies, judgments and estimates necessary to prepare these interim consolidated financial statements in accordance with Canadian generally accepted accounting principles.

"Darold Parken"

Darold Parken, Director

"Darcy Spady"

Darcy Spady, Director



NOTICE TO READER

On the basis of information provided by management, we have compiled the consolidated balance sheet of Contact Exploration Inc. as at December 31, 2007 and the interim consolidated statements of operations and deficit and cash flows for the three and nine months periods then ended.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these financial statements may not be appropriate for their purposes.

Calgary, Alberta
February 20, 2008

Meyers Norris Penny LLP
Chartered Accountants

Contact Exploration Inc.
Interim Consolidated Balance Sheet
(Unaudited - See Notice to Reader)

	December 31, 2007 (Unaudited)	March 31, 2007 (Audited)
<u>Assets</u>		
Current Assets		
Cash	\$ 2,057,509	\$ 72,831
Receivables	246,589	241,326
Prepaid expenses	16,444	46,507
	2,320,542	360,664
Deposits	41,977	417,282
Property and equipment (note 3)	6,972,642	6,065,869
	\$ 9,335,161	\$ 6,843,815
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 855,196	\$ 323,875
Promissory notes payable	-	367,282
	855,196	691,157
Asset retirement obligation	527,967	403,449
	1,383,163	1,094,606
Shareholders' Equity		
Share capital (note 4b)	19,198,950	16,916,452
Contributed surplus	582,650	419,722
Deficit	(11,829,602)	(11,586,965)
	7,951,998	5,749,209
	\$ 9,335,161	\$ 6,843,815

Approved on behalf of the Board:

"Darold H. Parken"
Darold H. Parken, Director

"Darcy Spady"
Darcy Spady, Director

See accompanying notes to interim financial statements

Contact Exploration Inc.
Interim Consolidated Statements of Operations and Deficit
(Unaudited - See Notice to Reader)

	Three months ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
Revenue				
Petroleum and natural gas sales	\$ 388,344	\$ -	\$ 732,617	\$ 33,912
Less: Royalties, net of tax credits	<u>30,742</u>	<u>6,571</u>	<u>68,659</u>	<u>8,558</u>
	357,602	(6,571)	663,958	25,354
Expenses				
Production costs	187,885	4,053	354,689	5,101
General and administrative	172,634	157,987	491,112	394,294
Depletion, depreciation and accretion	44,673	2,165	206,428	44,523
Stock compensation	<u>81,660</u>	<u>126,362</u>	<u>271,863</u>	<u>126,362</u>
	<u>486,852</u>	<u>290,567</u>	<u>1,324,092</u>	<u>570,280</u>
Loss before other income	\$ (129,250)	\$ (297,138)	\$ (660,134)	\$ (544,926)
Interest income	16,452	14,007	37,522	69,227
Gain (loss) on sale of property	<u>-</u>	<u>-</u>	<u>25,975</u>	<u>(15,280)</u>
Loss before income tax	\$ (112,798)	\$ (283,131)	\$ (596,637)	\$ (490,979)
Future income tax (recovery) expense	<u>(354,000)</u>	<u>(4,145)</u>	<u>(354,000)</u>	<u>10,472</u>
Net and comprehensive income (loss) for the period	\$ 241,202	\$ (278,986)	\$ (242,637)	\$ (501,451)
Deficit, beginning of period	<u>(12,070,804)</u>	<u>(1,859,609)</u>	<u>(11,586,965)</u>	<u>(1,637,144)</u>
Deficit, end of period	<u>(11,829,602)</u>	<u>\$ (2,138,595)</u>	<u>\$ (11,829,602)</u>	<u>\$ (2,138,595)</u>
Income (loss) per share - basic and diluted	<u>\$ 0.004</u>	<u>\$ (0.007)</u>	<u>\$ (0.007)</u>	<u>\$ (0.014)</u>
Weighted number of common shares outstanding				
Basic	<u>42,447,515</u>	<u>34,454,039</u>	<u>39,460,203</u>	<u>31,785,354</u>
Diluted	<u>42,709,898</u>	<u>38,038,854</u>	<u>39,722,586</u>	<u>35,370,169</u>

Contact Exploration Inc.
Interim Statement of Cash Flow
(Unaudited - See Notice to Reader)

	Three months ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
Operating Activities				
Net loss for the period	\$ 241,202	\$ (278,986)	\$ (242,637)	\$ (501,451)
Items not affecting cash				
(Gain) loss on sale of property	-	-	(25,975)	15,280
Stock based compensation	182,963	126,362	373,166	126,362
Depletion, depreciation and accretion	44,673	2,165	206,428	44,523
Future income taxes	(354,000)	(4,145)	(354,000)	10,472
Funds flow from operations	114,838	(154,604)	(43,018)	(304,814)
Net changes in non-cash operating working capital	248,655	(473,268)	24,801	(937,956)
	<u>363,493</u>	<u>(627,872)</u>	<u>(18,217)</u>	<u>(1,242,770)</u>
Investing Activities				
Deposits	8,023	-	8,023	(154,430)
Changes in non-cash investing working capital	360,795	673,278	531,321	614,802
Additions to retirement obligation	108,468	278,082	108,468	314,360
Proceeds on oil and gas properties and equipment	-	-	2,000,000	350,000
Expenditures on oil and gas properties and equipment	(1,702,965)	(4,824,469)	(3,071,178)	(11,895,578)
	<u>(1,225,679)</u>	<u>(3,873,109)</u>	<u>(423,366)</u>	<u>(10,770,846)</u>
Financing Activities				
Future income tax on flow through shares	354,000	1,738,229	354,000	1,738,229
Issuance of share capital, net of costs	2,068,376	2,146,132	2,068,376	7,452,732
Adjustment on share capital	-	-	3,885	-
	<u>2,422,376</u>	<u>3,884,361</u>	<u>2,426,261</u>	<u>9,190,961</u>
(Decrease) increase in cash	1,560,190	(616,620)	1,984,678	(2,822,655)
Cash and cash equivalents, beginning of period	497,319	1,869,050	72,831	4,075,085
Cash and cash equivalents, end of period	<u>\$ 2,057,509</u>	<u>\$ 1,252,430</u>	<u>\$ 2,057,509</u>	<u>\$ 1,252,430</u>
Supplementary information:				
Interest paid	<u>\$ 299</u>	<u>\$ 364</u>	<u>\$ 442</u>	<u>\$ 1,362</u>

Contact Exploration Inc.
Notes to the Interim Consolidated Financial Statements
December 31, 2007
(Unaudited – See Notice to Reader)

1. **BASIS OF PRESENTATION**

The interim consolidated financial statements of Contact Exploration Inc. (the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods in computation as the consolidated financial statements for the fiscal year ended March 31, 2007, with the exception of the new standards adopted as described in note 2. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended March 31, 2007.

2. **CHANGE IN ACCOUNTING POLICY**

Effective April 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to the recognition, measurement, disclosure and presentation of financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

(i) *Comprehensive income (Section 1530)*

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recognized as part of net income (loss) to be presented in "other comprehensive income" until it is considered appropriate to be recognized in net income (loss). This standard also requires the presentation of accumulated other comprehensive income, and its components. Accordingly, the Company now includes comprehensive income (loss) within its consolidated statement of operations and deficit.

(ii) *Financial instruments – Recognition and measurement (Section 3855)*

This standard requires all financial instruments within its scope, including derivatives, to be accounted for at either fair value, or in circumstances where fair value may not be considered the most relevant, at cost or amortized cost. Changes in fair value are recognized in the statement of loss.

All financial assets and liabilities are recognized when the Company becomes a party to the underlying contract. As such, all of the Company's financial assets and liabilities were re-measured in accordance with the new standard as at April 1, 2007. The application of these standards did not result in comprehensive loss differing from net loss for the period presented or in prior periods.

Contact Exploration Inc.
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3. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value
2007			
Petroleum and natural gas properties and equipment	\$ 20,432,922	\$ 13,467,598	\$ 6,965,324
Office furniture and equipment	12,210	4,892	7,318
	<u>\$ 20,445,132</u>	<u>\$ 13,472,490</u>	<u>\$ 6,972,642</u>
2006			
Petroleum and natural gas properties and equipment	\$ 18,196,612	\$ 2,308,913	\$ 15,887,699
Office furniture and equipment	5,276	3,085	2,191
	<u>\$ 18,201,888</u>	<u>\$ 2,311,998</u>	<u>\$ 15,889,890</u>

4. SHARE CAPITAL

a) Authorized capital

Unlimited number of common voting shares without nominal or par value.
Unlimited number of first series preferred shares.
Unlimited number of second series preferred shares.

The preferred shares may be issued in one or more series and the Directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

Contact Exploration Inc.
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4. SHARE CAPITAL (continued)

b) Outstanding

The issued and outstanding common shares are as follows:

	2007		2006	
	# of Shares	Consideration	# of Shares	Consideration
Balance, March 31	37,958,385	\$ 16,916,452	27,987,300	\$ 8,971,271
Common shares issued for cash	7,000,000	2,800,000	7,696,085	9,146,997
Contributed surplus portion of:				
Expiry of options	-	49,200	-	-
Cancelled options	-	161,037	-	-
Exercise of warrants	-	-	1,250,000	537,500
Exercise of options	-	-	450,000	80,500
Share issue costs	-	(377,624)	-	(681,136)
Tax effect of flow through shares issued	-	(354,000)	-	(1,738,229)
Adjustments to share capital	-	3,885	-	-
Balance, December 31	<u>44,958,385</u>	<u>\$ 19,198,950</u>	<u>37,383,385</u>	<u>\$ 16,316,903</u>

c) Stock options

The Company's stock option plan limits the number of common shares reserved under the plan from exceeding a "rolling maximum" of ten (10) percent of the Company's issued and outstanding common shares from time to time. Under the plan, the number of shares for any one (1) individual may not exceed 5% of the issued and outstanding shares. The stock options vest at the discretion of the Board of Directors. The number of options, with weighted average exercise prices is summarized below.

	2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, March 31	2,636,976	\$ 0.78	1,700,000	\$ 0.29
Granted	900,000	0.47	770,000	1.21
Expired and cancelled	(700,000)	(1.36)	-	-
Exercised	-	-	(425,000)	(0.19)
Balance, December 31	<u>2,836,976</u>	<u>\$ 0.70</u>	<u>2,045,000</u>	<u>\$ 0.65</u>
Exercisable, December 31	<u>1,244,476</u>	<u>\$ 0.62</u>	<u>2,045,000</u>	<u>\$ 0.65</u>

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4. SHARE CAPITAL (continued)

c) Stock options (continued)

The following table summarizes information about the stock options outstanding at December 31, 2007.

Number of common shares under option	Exercise price per common share	Expiry Date
75,000	0.32	May, 2008
* 46,550	1.00	December, 2008
* 210,426	1.15	December, 2008
25,000	0.60	March, 2009
125,000	0.60	March, 2009
75,000	0.40	June, 2009
* 490,000	0.40	November, 2009
300,000	0.29	December, 2009
290,000	1.28	May, 2011
200,000	1.00	November, 2011
440,000	0.71	January, 2012
225,000	0.60	March, 2012
300,000	0.60	June, 2012
35,000	0.39	October, 2012
<u>2,836,976</u>		

Options to purchase 2,161,976 (2006 – 570,000) common shares were outstanding during the period but were not included in the diluted earnings per share because the exercise prices of the options were greater than the average market price of the common shares.

* Included in the above are 746,976 broker options with a weighted average exercise price of \$0.65.

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4. SHARE CAPITAL (continued)

d) Warrants

	2007		2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, March 31	4,251,250	\$ 1.42	3,556,250	\$ 0.42
Granted	4,000,000	0.60	2,201,976	1.62
Exercised	-	-	(1,250,000)	(0.43)
Expired	-	-	-	-
Balance, December 31	<u>8,251,250</u>	<u>\$ 1.02</u>	<u>4,508,226</u>	<u>\$ 1.43</u>
Exercisable, December 31	<u>8,251,250</u>	<u>1.02</u>	<u>4,508,226</u>	<u>1.43</u>

At December 31, 2007, the following warrants are outstanding:

<u>Number of common shares under warrant</u>	<u>Exercise price per common share</u>	<u>Expiry Date</u>
2,306,250	\$1.20	February, 2008
1,600,000	\$1.75	July, 2008
345,000	\$1.40	June, 2008
4,000,000	\$0.60	May, 2009
<u>8,251,250</u>		

The weighted average life of the warrants is 0.81 years.

Warrants to purchase 8,251,250 (2006 – 1,945,000) common shares were outstanding during the period but were not included in the diluted earnings per share because the exercise prices of the warrants were greater than the average market price of the common shares.

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4. SHARE CAPITAL (continued)

e) Stock-based compensation

The Company has recorded \$373,166 (2006 - \$126,362) in stock-based compensation related to stock options in the nine months ended December 31, 2007 and the vesting of options previously granted. \$271,863 (2006 - \$126,362) of this amount is included in general selling and administration expense on the income statement and \$101,303 (2006 - \$nil) is recorded in share capital on the balance sheet and a corresponding amount is credited to contributed surplus.

The fair value of the stock options granted during the nine month period are estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield – nil; expected volatility – 96%; risk free interest rate – 4% and a weighted average life of 3.12 years. The fair value is amortized over the vesting period of the options, if applicable, on a straight-line basis.

5. COMMITMENTS

The Company conducts all work in Atlantic Canada on the basis of work commitments. The Company has the option to carry out the work itself, bring in partners or relinquish the applicable acreage. The Company has no contractual obligations other than these work commitments. Gross and net work commitments for fiscal 2008 are estimated at approximately \$458,000 and \$452,000 respectively. Gross and net work commitments for the remainder of the life of all lease obligations are estimated at \$1,627,000 and \$1,528,000 respectively. Should the Company decide not to continue work commitments on any exploration block, the costs expended on the block may become impaired and any related deposit forfeited.

6. RELATED PARTY TRANSACTIONS

For the nine months ended December 31, 2007, the Company incurred \$60,000 (2006 – \$nil) in directors fees from Darold H. Parken, a director of the Company. The Company also incurred \$nil (2006 - \$54,000) in legal fees from a firm in which the same Darold H. Parken is principal. The fees are paid at a monthly rate of \$6,000 plus a one time payment of \$6,000 and have been included in general and administrative expenses.

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6. RELATED PARTY TRANSACTIONS (continued)

For the nine months ended December 31, 2007, the Company incurred \$66,250 (2006 - \$75,500) for management services from private companies of which Terry Brown, a director of the Company, is the principal shareholder. Of this amount, \$56,800 (2006 - \$45,500) has been capitalized to petroleum and natural gas properties and the remainder included in general and administrative expenses. The Company also incurred \$8,000 (2006 - \$2,000) for engineering services from private companies of which Terry Brown is the principal shareholder. Of this amount \$8,000 (2006 - \$nil) has been capitalized to petroleum and natural gas properties and \$nil (2006 - \$2,000) included in general and administrative expenses. The above expenditures are paid at a fixed monthly rate of \$7,000 (effective June 1, 2007) plus compensation in consideration of time spent, degree of difficulty and time constraints on projects not included in the scope of the fixed monthly rate contract.

For the nine months ended December 31, 2007, the Company incurred \$6,000 (2006 - \$77,000) for geological services from a private company in which George Langdon, a director of the Company, is the principal shareholder. These fees have been included in accounts as additions to petroleum and natural gas properties.

For the nine months ended December 31, 2007, the Company incurred \$54,000 (2006 - \$85,000) for land consulting services from a private company controlled by Jim Beattie, an officer of the Company. The fees are paid at a monthly rate of \$6,000, and have been included in the accounts as additions to petroleum and natural gas properties.

For the nine months ended December 31, 2007, the Company incurred \$81,000 (2006 - \$10,000) for geological consulting services from a private company in which Edwin Macdonald, an officer of the Company, is the principal shareholder. These fees are accrued on a time spent basis at a monthly rate of \$10,000 and have been included in the accounts as additions to petroleum and natural gas properties. The Company also incurred \$16,000 (2006 - \$nil) for well site supervision services from a private company in which Edwin Macdonald is the principal shareholder. These fees have been included in the accounts as additions to petroleum and natural gas properties.

For the nine months ended December 31, 2007 the Company incurred \$45,500 (2006 – Nil) for management services from a private company in which Darcy Spady, officer and director of the Company, is the principal shareholder. The fees are paid at a monthly rate of \$7,000 have been included in general and administrative expenses. The Company also incurred \$19,140 (2006 - \$nil) for equipment rental from a company in which Darcy Spady has a significant interest. These fees have been included in the accounts as additions to petroleum and natural gas properties.

Contact Exploration Inc.
Notes to the Interim Consolidated Financial Statements
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(Unaudited – See Notice to Reader)

6. RELATED PARTY TRANSACTIONS (continued)

All of the above transactions are considered to be in the normal course of operations and have been recorded at their exchange amounts, which is the amount of consideration established and agreed to by the related parties.

Accounts payable includes \$26,074 (2006 - \$ nil) owing to related parties.

7. SUBSEQUENT EVENTS

During the quarter, the Company entered into an agreement with Toreador Hungary Ltd. for participation in two exploratory wells and the acquisition of 170 square kilometers of 3-D seismic in the shallow gas Szolnok prospect. Subsequent to the end of the year, in light of current market conditions and the viability of raising funds for exploratory activities, The Company has made a decision to not continue participating in the Szolnok shallow gas exploration project in Hungary. The Company has commenced transferring its unearned interest to a third party.

8. COMPARATIVE FIGURES

The comparative income statement figures have been adjusted to conform to the current year presentation.