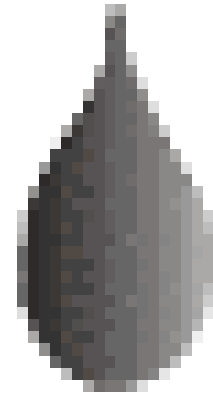


TUSCANY

ENERGY LTD.



Year Ended

December 31, 2008

TUSCANY ENERGY LTD.

Management's Report

The accompanying financial statements of Tuscany Energy Ltd. have been prepared by management in accordance with generally accepted and consistently applied accounting principles. The Company's accounting procedures and related systems of internal controls are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

PricewaterhouseCoopers LLP have been appointed by the shareholders of Tuscany Energy Ltd. and serve as the Company's independent auditors. The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the financial statements of Tuscany Energy Ltd., which are contained in this annual report.



John G.F. McLeod
President
April 22, 2009



Charles A. Teare
Chief Financial Officer

Auditors' Report

To the Shareholders of Tuscany Energy Ltd.

We have audited the consolidated balance sheets of Tuscany Energy Ltd. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income (loss) and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
April 22, 2009

TUSCANY ENERGY LTD.

BALANCE SHEETS

As at December 31,	2008	2007
		(as restated note 12)
Assets		
Current Assets		
Cash	\$ 5,124	\$ 598
Accounts receivable	555,743	487,702
Prepaid expense	36,492	11,803
	597,359	500,103
Property, plant and equipment (Note 4)	8,491,556	8,172,393
Future tax asset (Note 7)	243,927	696,186
Total Assets	\$ 9,332,842	\$ 9,368,682
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,756,951	\$ 1,333,819
Bank debt (Note 3)	1,645,000	1,985,000
	3,401,951	3,318,819
Asset retirement obligation (Note 6)	635,165	662,317
	4,037,116	3,981,136
Shareholders' Equity		
Share capital (Note 5)	5,686,428	6,137,712
Contributed surplus	265,870	150,651
Deficit	(656,571)	(900,817)
	5,295,727	5,387,546
Total Liabilities and Shareholders' Equity	\$ 9,332,843	\$ 9,368,682

Approved on behalf of the Board:



John G.F. McLeod, Director



Charles A. Teare, Director

TUSCANY ENERGY LTD.

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

Years Ended December 31	2008	2007
		(as restated note 12)
Revenue		
Petroleum and natural gas sales	\$ 4,848,168	\$ 2,114,314
Royalty expense	(584,563)	(134,097)
	4,263,605	1,980,217
Expenses		
Operating	1,714,827	1,015,429
General and administrative	685,184	795,702
Interest	146,582	193,460
Depletion, depreciation and accretion	1,275,600	879,385
Stock-based compensation (Note 5)	2,072	22,965
	3,824,265	2,906,941
Earnings (loss) before income tax	439,340	(926,724)
Future income tax (recovery)	195,094	(152,967)
Net earnings (loss) and comprehensive income (loss) for the year	244,246	(773,757)
Deficit, beginning of year	(900,817)	(127,060)
Deficit, end of year	\$ (656,571)	\$ (900,817)
Net earnings (loss) per share (Note 5)		
Basic	\$ 0.01	\$ (0.03)
Diluted	\$ 0.01	\$ (0.03)

The accompanying notes are an integral part of these financial statements.

TUSCANY ENERGY LTD.

STATEMENTS OF CASH FLOWS

	2008	2007
		(as restated note 12)
Cash provided by (used for):		
Operating Activities		
Net earnings (loss) for the year	\$ 244,246	\$ (773,757)
Non cash items		
Depreciation and depletion	1,222,615	827,608
Accretion	52,985	51,777
Stock based compensation	2,072	22,965
Future income tax (recovery)	195,094	(152,967)
	1,717,012	(24,374)
Change in non-cash working capital balances (Note 9)	(524,143)	492,341
	1,192,869	467,967
Financing Activities		
Share issuance costs	-	(500)
Issuance of flow through shares	-	1,000,000
Share repurchase	(80,974)	0
Bank loan advances (repayments)	(340,000)	(65,000)
	(420,974)	934,500
Investing Activities		
Purchase of property and equipment	(1,621,915)	(1,259,623)
Change in non-cash working capital balances (Note 9)	854,545	(143,963)
	(767,370)	(1,403,586)
Increase (decrease) in cash	4,525	(1,119)
Cash, beginning of year	598	1,717
Cash, end of year	\$ 5,123	\$ 598

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

1. The financial statements include the accounts of the Company

Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect Tuscany's financial position or results of operations.

Property, Plant and Equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method, all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. Costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss, except where such a disposal would alter the depletion and depreciation rate by 20% or more.

Depletion and depreciation of capitalized costs are provided by using the unit of production method based on the Company's total estimated gross proven reserves, as determined by independent engineers. Natural gas reserves and production are converted to equivalent barrels of oil based on the relevant energy content. In determining the depletion base, the Company includes future costs to be incurred in developing proven reserves and excludes the costs of unproven land.

Depreciation is provided on furniture and fixtures at annual rates of 20%, and computer equipment at an annual rate of 30%, each on a declining balance basis.

An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

- the fair value of proved and probable reserves; and
- the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

In determining the depletion and depreciation provisions for crude oil and natural gas assets, the Company includes any excess of the net book value of those crude oil and natural gas assets over the fair value.

Asset Retirement Obligation

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated ARO is capitalized as part of the net capitalized asset base and the depletion of the capitalized asset retirement cost is determined on a basis consistent with

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

depletion of the Company's other assets. With time, accretion will increase the carrying amount of the obligation. Accretion is expensed.

Cash and Cash Equivalents

Cash includes cash and cash-like short-term investments that can be liquidated into cash on less than 90-days notice. Short-term investments are comprised of low risk, interest bearing securities.

Joint Ventures

The Company's activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

Share Based Compensation Plan

The Company has a stock based compensation plan, which is described in Note 5. The Company has adopted the fair value method for accounting for stock based compensation. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings initially in the period of the option grant and during the subsequent vesting period of the options.

Foreign Currency Translation

Foreign currency balances are expressed in Canadian dollars on the following basis:

- Monetary assets and liabilities – at the year end rate of exchange;
- Other assets and liabilities – at historical rates of exchange; and
- Revenues and expenses – at average rates of exchange for the period, except provisions for depreciation and depletion, which are translated on the same basis as the related assets.

Flow-Through Shares

Share capital is reduced by the future tax effect of renouncing income tax cost to the purchaser of flow-through shares when the tax pools are renounced. The tax effect is calculated using the expected rate of tax.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Company is recognized when title passes from the Company to its customers and collectability is reasonably assured.

Use of Accounting Estimates

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

2. Change in Accounting Policies

The Handbook Sections adopted in the first quarter affect disclosure and presentation requirements. The new Handbook Sections adopted are:

- 1) Handbook Section 1535, "Capital Disclosures", requires disclosure of information about Tuscany's capital and the objectives, policies, and processes for managing capital;
- 2) Handbook Section 3862, "Financial Instruments – Disclosures",
- 3) Handbook Section 3863, "Financial Instruments – presentation", were created to expand upon and replace Handbook Section 3861, "Financial Instrument Disclosures and Presentation"; and
- 4) Handbook Section 1400, "General Standards of Financial Statement Presentation" which aligns Canadian standards of financial statement presentation with those of the International Financial Reporting Standards ("IFRS"). The section includes new required disclosure if an entity is not preparing statements on a going concern basis which does not apply to Tuscany as it is a going concern.

Future Accounting Standards - International Financial Reporting Standards (IFRS)

During 2008, the CICA Accounting Standards Board ("ACSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations.

The International Accounting Standards Board has issued an exposure draft relating to certain amendments and exemptions to IFRS in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost accounting is expected to reduce the administrative burden in the transition from current Canadian Accounting Guideline 16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the requirement that an impairment test, under IFRS standards be carried out at the transition date.

To date, the CFO, the primary sponsor for the project, has prepared a summary level changeover plan for IFRS conversion that has been presented to the Audit Committee of the Board of Directors. Hallmarks of the change over plan include, initial definition of the tasks required for conversion, a timeline for the completion of the tasks, an estimate of the effort and duration associated with the conversion, prioritization of tasks, and the assignment of key personnel within the organization.

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

3. Bank Debt

The bank loan is a revolving non-reducing operating demand loan with a maximum amount available of \$3,300,000 (2007 - \$3,000,000). Amounts drawn down under the facility bear interest at the bank's prime rate plus 1%, resulting in an effective rate of 5.75% at December 31, 2008; there is a standby fee of 0.2 percent on undrawn amounts. At December 31, 2008, the amount drawn on the operating demand loan is \$1,645,000.

The loan is secured by an interest over all property, a general assignment of book debts and a floating charge on all lands. The facility is subject to both an annual review by May 31, 2009 and certain affirmative financial covenants. As at December 31, 2008 the Company was in compliance with the covenants.

4. Property, Plant and Equipment

As at December 31, 2008	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$ 12,404,684	\$ 3,932,240	\$ 8,472,444
Furniture and fixtures	40,927	21,815	19,112
	\$ 12,445,611	\$ 3,954,055	\$ 8,491,556

As at December 31, 2007	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$ 10,862,907	\$ 2,716,155	\$ 8,146,752
Furniture and fixtures	40,927	15,286	25,641
	\$ 10,903,834	\$ 2,731,441	\$ 8,172,393

At December 31, 2008, unproven property costs of \$204,348 were excluded from the depletable cost base (2007 - \$163,151). No administrative expenses related to exploration and development activities were capitalized as part of property, plant and equipment.

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. Future costs were \$210,000 (2007 \$62,500).

At December 31, 2008 the Company reviewed the carrying value of the oil and gas properties for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable from the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. For the year ended December 31, 2008, no impairment of the properties was indicated.

The Company based its estimates on the future price quotes for natural gas at AECO to the end of 2011 and held constant thereafter. Oil prices used were WTI adjusted for quality differentials.

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

	WTI @ Cushing	Edmonton Reference	Henry Hub	Alberta Spot
	\$US/Bbl	\$Cdn/Bbl	\$US/Mmbtu	\$Cdn/Mmbtu
2009	54.45	65.26	6.11	6.31
2010	63.88	76.13	7.13	7.36
2011	68.82	82.11	7.31	7.54
	Constant thereafter			

5. Share Capital

Authorized

An unlimited number of common voting shares;
 Unlimited number of first preferred shares; and
 Unlimited number of second preferred shares.

The preferred shares may be issued from time to time in one or more series, each series consisting of a number of preferred shares as determined by the Board of Directors of the Company who may also fix the designations, rights, privileges, restrictions and conditions attaching to each series of preferred shares. There are no preferred shares issued.

Issued

	Number of Shares	Amount
Balance at December 31, 2006	26,550,836	\$ 5,246,330
Future tax effect on 2006 issue of flow-through shares		(108,118)
Issue of flow-through shares	10,000,000	1,000,000
Share issue cost (Net of tax effect)		(500)
Balance at December 31, 2007	36,550,836	\$ 6,137,712
Repurchased for cancellation	(1,156,000)	\$ (194,119)
Future tax effect on 2007 issue of flow-through shares		(257,165)
Balance at December 31, 2008	35,394,836	\$ 5,686,428

Contributed Surplus

	2008	December 31 2007
Contributed surplus		
Balance, beginning of the period	150,651	127,686
Shares purchased in excess of Paid up capital	113,147	-
Option compensation	2,072	22,965
Balance, end of year	265,870	150,651

Earnings (Loss) Per share

The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations. The diluted weighted average shares outstanding

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

for December 31, 2008, does not include the conversion of any of the outstanding options into 220,000 common shares, as the conversion would be anti-dilutive.

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into earnings (loss) attributable to the shareholders.

Diluted earnings (loss) per share are calculated by dividing the basic weighted average aggregate outstanding shares into the earnings (loss) for the period using the diluted weighted average number of shares.

Weighted Average Shares Outstanding

	Years Ended December 31	
	2008	2007
Weighted average shares outstanding	36,408,679	28,441,247
Dilutive effect of stock options	-	-
Diluted weighted average shares outstanding	36,408,679	28,441,247

In October 2008 the Company filed and received approval to acquire and cancel up to 5% of the outstanding shares of the company over a one-year period pursuant to a normal course issuer bid. In the year the Company acquired 1,156,000 shares for cancellation at an average cost of \$0.07 per share.

Stock Option Plan

As at December 31, 2008, there are a total of 220,000 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.26 per share, all of which are exercisable.

The following summarizes information about fixed stock options outstanding:

Stock Options

	2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance at January 1,	670,000	\$ 0.28	870,000	\$ 0.29
Options granted	-	-	600,000	0.15
Options expired	450,000	0.29	350,000	0.17
Options cancelled	-	-	450,000	0.22
Balance at December 31, - outstanding	220,000	\$ 0.26	670,000	\$ 0.28
Balance at December 31, - exercisable	220,000	\$ 0.26	596,667	\$ 0.27

Exercise Price	Outstanding December 31, 2008	Weighted Average Remaining Life (years)	Exercisable December 31, 2008
\$0.25	200,000	1.3	200,000
\$0.34	20,000	2.3	20,000
	220,000	1.4	220,000

The Company accounts for its stock based compensation plan using the fair value method whereby compensation costs have been recognized in the financial statements for share options granted to employees and directors. The impact on compensation costs of using the

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

fair value method increased compensation costs for the twelve months ended December 31, 2008 by \$2,072 (2007 - \$22,965).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions as follows:

	Risk Free Interest Rate (%)	Expected Life (Years)	Expected Volatility	Dividends per Share
2006	3.53	4.3	0.67	n/a
2007	4.30	4.3	0.69	n/a

6. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	2008	2007
Asset Retirement Obligation, beginning of year	\$ 662,317	\$ 610,410
Liabilities incurred	12,330	17,627
Change in Estimates	(92,467)	(17,497)
Accretion expense	52,985	51,777
Asset Retirement Obligation, end of year	\$ 635,165	\$ 662,317

The total undiscounted amount of estimated cash flows required to settle the obligation is \$1,016,200, which has been discounted using an average credit-adjusted risk free rate of 8%. The Company expects most of these obligations to be paid between 2010 and 2020.

7. Income Tax

The provision for income taxes in the statement of operations and deficit varies from the amount that would be computed by applying the expected tax rate to loss before income taxes. The expected tax rate used was 29.72% (2007 - 32.33%). The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

Income tax reconciliation	2008	2007 *
Expected rate	31.0%	33.3%
Earnings (Loss) before income taxes	439,340	(926,724)
Computed expected income tax recovery	134,253	(315,710)
Tax effect of expenses not deductible for tax purposes:		
Stock-based compensation	633	7,664
Tax effect of expenses deductible for tax purposes:		
Non deductible Expenses	684	2,152
Adjustment to prior tax pools	116,447	1,206
Impact of lower future tax rates and other	(56,923)	151,721
Provision for future income taxes	195,094	(152,967)

* Restated see note 12

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

The significant components of the income tax asset are as follows:

Components	2008	2007 *
Net book value of properties and equipment	(2,218,326)	(2,416,015)
Tax pools	2,264,027	2,895,220
Asset retirement obligations	164,166	170,325
Share issue costs	23,207	46,656
Future tax asset	233,074	696,186

* Restated see note 12

As at December 31, 2008 the Company had the following tax deductions available to reduce future taxable income. The non capital losses carry forward expires between 2008 and 2027 with \$488,000 expiring prior to the year of 2010.

Deductions	2008	2007 *
Canadian oil and gas property expense	4,083,085	4,969,240
Canadian foreign exploration expense	1,631,035	1,812,261
Undepreciated capital cost	1,277,071	1,580,574
Non-capital loss carry forward	1,494,098	907,483
Canadian exploration expense	-	374,059
Canadian development expense	143,811	194,987
ACRI	145,588	145,588
Other	77,771	155,249
Total	8,852,459	10,139,441

* Restated see note 12

8. Related Party Transactions

At December 31, 2008, Humboldt Capital Corporation and certain of its officers and directors owned 35.9% (2007 – 23.7%) of the outstanding shares of Tuscan. Tuscan and Humboldt have certain common officers and directors. Humboldt's business includes the ownership, acquisition and sale of securities in other companies in the oil and gas industry and Humboldt owns significant interests in companies in the oil and gas sector, which compete with Tuscan and operate jointly with Tuscan, from time to time, in certain areas.

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

During the period a company owned by the CFO charged the company \$43,000 in consulting fees. In addition the Company shared certain overhead costs with a related company, with Tuscany's share totaling \$58,000.

9. Supplemental Cash Flow Information

	2008	2007
Interest paid	\$ 146,582	\$ 193,460
Changes in non-cash working capital balances		
Receivables	\$ (68,041)	\$ 20,395
Prepaid expenses	(24,689)	8,568
Accounts payable and accruals	423,132	319,415
	\$ 330,402	\$ 348,378
Allocated to:		
Operating activities	\$ (524,143)	\$ 492,341
Investing activities	854,545	(143,963)
	\$ 330,402	\$ 348,378

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

10. Capital Disclosure

Tuscany's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- To provide an adequate return to shareholders by investing in oil and gas activities commensurate with the level of risk management deems acceptable.

Tuscany targets the level of capital in proportion to its risk of achieving sufficient annualized operating cash flows to maintain its debt repayability ratio to less than twenty-four months cash flow. The Company plans to make adjustments to capital and planned expenditures in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Tuscany may issue new shares, sell assets or increase its debt.

The ratio of net current debt to annualized cash flow from operations is the primary ratio of capital that Tuscany uses. Net current debt repayability is a calculation to determine the number of months required to repay net debt from recent historic cash flow from operations. The ratio is calculated as follows:

Debt Repayability

Thousands, Except months

	Years Ended December 31	
	2008	2007
Net Debt	\$ 2,805	\$ 2,819
Annualized cash flow from operations	\$ 1,717	\$ (97)
Months estimated to repay debt	19.6	n/a

The debt repayability in 2007 was unacceptable with debt levels of \$2.8 million and a cash flow deficiency. The increase in cash flow in 2008 combined with the \$1,000,000 in new equity raised in the fourth quarter of 2007 resulted in the Company reaching its repayability target in 2008 based on the full year's cash flow. However based on the lower prices and annualized Q4 2008 cash flow the repayability rate increased to an unacceptable 48 months. Anticipated production levels for 2009 combined with lower anticipated commodity prices and the overhead costs should result in a lower cash flow from operations during 2009. Management's plan for the current year is to match overall capital spending and commitments with anticipated operating cash flows for the year. The Company plans to explore opportunities to continue to reduce the Company's debt levels.

The Company's \$3.3 million credit facility imposes a capital restriction that the Company's debt to equity ratio cannot exceed 2:1 and the Company's net debt cannot exceed its credit facility.

11. Financial Instruments

Fair values of financial assets and liabilities

All Financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents and restricted cash are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivables and deposits are designated as "loans and receivables" and are carried at amortized cost. Accounts payable and accrued liabilities are designated as "other financial liabilities" and are carried at amortized cost. The current value of financial instruments approximates fair value due to the short term nature of the instruments.

Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Liquidity risk

The Company's principal source of liquidity is its cash flows which are uncertain and difficult to predict. This risk is mitigated by continuously monitoring forecast and actual cash flows and matching expenditures to the cash flow from operations. The Company currently expects to fund any future capital expenditures through a combination of operating cash flows, new equity issuance and asset sales.

Commodity risk

Inherent to the Company's business of producing petroleum and natural gas is the commodity price risk where fluctuations in the market price of petroleum and natural gas could significantly impact the Company's ability to generate cash flow from operations. Given that certain items, including but limited to, the amounts of capital expenditures are dependent upon the level of cash flow generated from operations, fluctuations in petroleum and natural gas prices impact the Company's liquidity. The Company continuously monitors forecast and actual commodity prices.

TUSCANY ENERGY LTD.

(Notes To The Financial Statements)

12. Restatement

During the year ended December 31, 2008, the Company identified amounts relating to 2007 and prior years resulting in an overstatement of fiscal 2007 royalties in the amount of \$83,964 and prior years royalties in the amount of \$222,562. This resulted in the understatement of Future income tax expense for 2007 in the amount of \$21,596 and \$57,243 for prior years. The Company has restated its balance sheets at December 31, 2007 and statements of operations, comprehensive loss and deficit and cash flows as at and for the year ended December 31, 2007 as follows:

	As previously reported	As restated	Restatement
Accounts receivable	\$ 181,176	\$ 487,702	\$ 306,526
Future tax asset (Note 7)	\$ 775,025	\$ 696,186	\$ (78,839)
Royalties	\$ 218,061	\$ 134,097	\$ (83,964)
Future income tax (recovery)	\$ 174,563	\$ 152,967	\$ (21,596)
Net loss and comprehensive loss for the year	\$ 836,125	\$ 773,757	\$ (62,368)
Net loss per share, basic and fully diluted	\$ 0.03	\$ 0.03	\$ 0
Deficit, beginning of the year	\$ 292,379	\$ 127,060	\$ 165,319
Deficit, at end of year	\$ 1,128,504	\$ 900,817	\$ 227,687

CORPORATE INFORMATION

Directors

Robert W. Lamond⁽¹⁾
Calgary, Alberta

John G. F. McLeod⁽¹⁾
Okotoks, Alberta

Charles A. Teare
Calgary, Alberta

Donald K. Clark⁽¹⁾
Calgary, Alberta

⁽¹⁾Member of the Audit committee

Officers

John G.F. McLeod
President and CEO

C. A. Teare
Chief Financial Officer

Head Office

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Auditor

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Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Banker

ATB Financial
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol: TUS

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