

**ODYSSEY PETROLEUM CORP.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31, 2008**

**Q1**

**(Unaudited – Prepared by Management)**

**These financial statements have not been reviewed by the Company's auditor.**

**ODYSSEY PETROLEUM CORP.**  
**Interim Consolidated Balance Sheets**  
**(Unaudited – Prepared by Management)**

	<b>Unaudited March 31, 2008 - \$ -</b>	<b>Audited December 31, 2007 - \$ -</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	222,212	77,389
Accounts receivable	886,878	737,209
Marketable securities (Note 2)	56,471	56,471
Inventory (Note 2)	296,483	294,090
Prepaid expenses	48,744	29,766
	<b>1,510,788</b>	<b>1,194,925</b>
<b>Due from a related party</b> (Note 8)	492,035	465,468
<b>Restricted cash</b>	24,856	24,856
<b>Property and equipment</b> (Note 4)	40,355,081	39,507,632
	<b>42,382,760</b>	<b>41,192,881</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,619,212	3,102,178
Current income taxes	225,000	85,000
Due to related parties (Note 8)	997,227	1,200,720
Current portion of long term debt (Note 5)	917,791	982,058
	<b>5,759,230</b>	<b>5,369,956</b>
<b>Long term debt</b> (Note 5)	1,753,888	1,712,566
<b>Future income taxes</b>	3,696,000	3,696,000
	<b>5,449,888</b>	<b>5,408,566</b>
	<b>11,209,118</b>	<b>10,778,522</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	59,681,916	59,571,329
Contributed surplus (Note 7)	4,985,173	4,836,938
Accumulated other comprehensive loss	(42,678)	(42,678)
Deficit	(33,450,769)	(33,951,230)
	<b>31,173,642</b>	<b>30,414,359</b>
	<b>42,382,760</b>	<b>41,192,881</b>

**Contingencies (Notes 1 and 11)**

**Commitments (Notes 5 and 9)**

**Subsequent Events (Note 12)**

**Approved by the Directors:**

*“Jurgen Wolf”*

*“Joe DeVries”*

**- See Accompanying Notes -**

**ODYSSEY PETROLEUM CORP.**  
**Interim Consolidated Statements of Operations and Deficit**  
**(Unaudited – Prepared by Management)**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>- \$ -</b>	<b>- \$ -</b>
<b>REVENUES</b>		
Petroleum and natural gas sales	2,972,801	1,797,379
Less royalties and taxes	766,423	371,828
	<u>2,206,378</u>	<u>1,425,551</u>
<b>EXPENSES</b>		
Consulting and management fees (Note 8)	37,500	52,996
Depletion and amortization	131,413	107,259
Foreign exchange	114,665	-
General and administrative	93,377	93,637
Interest and financing charges (Note 8)	130,579	64,500
Operating costs (Note 8)	910,148	1,038,559
Stock-based compensation (Note 6)	148,235	266,513
	<u>1,565,917</u>	<u>1,623,464</u>
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	640,461	(197,913)
<b>PROVISION FOR INCOME TAXES</b>	(140,000)	-
<b>NET INCOME (LOSS)</b>	500,461	(197,913)
<b>DEFICIT, BEGINNING</b>	(33,951,230)	(28,599,006)
<b>DEFICIT, ENDING</b>	(33,450,769)	(28,796,919)
<b>NET INCOME (LOSS) PER SHARE – BASIC AND DILUTED</b>	0.003	(0.001)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	162,680,060	145,361,408

- See Accompanying Notes -

**ODYSSEY PETROLEUM CORP.**  
**Interim Consolidated Statements of Comprehensive Loss**  
**(Unaudited – Prepared By Management)**

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	<b>Three Months Ended March 31</b>	<b>Year Ended December 31</b>
	<b>2008</b>	<b>2007</b>
	- \$ -	- \$ -
<b>NET INCOME (LOSS)</b>	500,461	(5,489,227)
Unrealized losses on marketable securities	-	(42,678)
<b>COMPREHENSIVE INCOME (LOSS)</b>	500,461	(5,531,905)

- See Accompanying Notes -

**ODYSSEY PETROLEUM CORP.**  
**Interim Consolidated Statements of Cash Flows**  
**(Unaudited – Prepared by Management)**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>- \$ -</b>	<b>- \$ -</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income (loss)	500,461	(197,913)
Items not involving cash		
Bad debt		-
Depletion and amortization	131,413	107,259
Current income tax	140,000	-
Future income tax recovery	-	-
Impairment loss on properties	-	-
Gain on sale of marketable securities	-	-
Stock-based compensation	148,235	266,513
	920,109	175,859
Net changes in non-cash working capital	430,014	509,449
	1,350,123	685,308
<b>CASH USED IN INVESTMENT ACTIVITIES</b>		
Property and equipment	(978,862)	(1,350,544)
	(978,862)	(1,350,544)
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>		
Due to related parties, net	(203,493)	-
Repayment of long term debt	(22,945)	(86,389)
Proceeds from debentures	-	358,055
Proceeds from short term loan	-	400,000
	(226,438)	671,666
<b>INCREASE (DECREASE) IN CASH</b>	<b>144,823</b>	<b>6,430</b>
<b>CASH, BEGINNING</b>	<b>77,389</b>	<b>60,149</b>
<b>CASH, ENDING</b>	<b>222,212</b>	<b>66,579</b>

**Supplemental Cash Flow Information (Note 10)**

- See Accompanying Notes -

**ODYSSEY PETROLEUM CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2008**  
**(Unaudited – Prepared by Management)**

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**NOTE 1 – NATURE OF BUSINESS AND GOING CONCERN**

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Odyssey Petroleum Corp. (the “Company”) is incorporated under the laws of British Columbia and engaged in the acquisition, exploration and development of oil and gas properties. The Company has acquired controlling interests in certain oil and gas properties in Texas, Mississippi, and Louisiana providing the right to develop wells containing proven and probable reserves.

**Going Concern**

These financial statements are prepared on a going concern basis, which implies the Company will continue realizing its assets and discharging its liabilities in the normal course of business. Prior to the period ended March 31, 2008, the Company had not generated profitable results from its oil and gas operations and will need to invest additional funds in carrying out its planned exploration, development and operational activities and raise additional capital to settle outstanding debts. At March 31, 2008 the Company had an accumulated deficit of \$33,450,769 and a working capital deficiency of \$4,248,442. Accordingly, the ability of the Company to continue operations as a going concern is dependent on raising additional funds to repay debts and to provide funding to carry out planned exploration and development of its oil and gas properties. Management is of the opinion sufficient working capital will be obtainable from external financing to meet the Company’s liabilities and commitments as they become due, although there is risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**Principles of Consolidation**

The financial statements have been prepared on a consolidated basis and include the accounts of the Company and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

**Oil and Gas Properties**

The Company follows the full cost method of accounting for its oil and gas operations whereby all cost related to the acquisition of petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. Proceeds from the disposal of oil and gas interests are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20% or more in the depletion rate.

Depletion of the capitalized costs is computed using the unit-of-production method based on the estimated proven reserves of oil and gas determined by independent consultants.

Estimated future removal and site restoration costs are provided over the life of proven reserves on a unit-of-production basis. Costs, which include the cost of production equipment removal and environmental clean-up, are estimated each period by management based on current regulations, costs, technologies and industry standards. The charge is included in the provision for depletion and the actual restoration expenditures are charged to the accumulated provision accounts as incurred.

All of the Company’s oil and gas interests are held in the United States and accordingly, the Company has a single cost centre, being the United States. Certain oil and gas activities are conducted jointly with others and accordingly the accounts reflect only the Company’s proportionate interest in such activities.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, site restoration, and income tax costs plus the lower of cost or estimated net realizable value of unproved properties.

Under the full cost method of accounting, a “ceiling test” is performed to recognize and measure impairment, if any, of the carrying amount of petroleum and natural gas properties. Impairment is recognized if the carrying amount of the petroleum and natural gas properties, less the cost amount of undeveloped properties not subject to depletion, exceeds the estimated undiscounted future cash flows from the Company’s proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows from the Company’s proved and probable reserves. The future cash flows are discounted at the Company’s risk-free interest rate, using forecasted prices and costs, and are exclusive of indirect costs such as interest charges, general and administrative expenses and future income taxes.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to determination of depletion and impairment of the carrying value of oil and gas properties, determination of fair value for financial instruments, the current portion of loans payable, the fair value of stock based compensation and future income tax rates. Financial results as determined by actual events could differ from those estimates.

### **Equipment**

Equipment is recorded at cost with amortization being provided using the declining balance basis at the following rates:

Office furniture and equipment	20%
Computer equipment	30%

The carrying values of all categories of equipment are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value is based on estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups through use or future disposition.

### **Inventory**

Inventory consists solely of oil and the value is determined at the lower of average cost or net realizable value. Cost includes all direct and indirect costs incurred.

### **Revenue Recognition**

Oil and natural gas revenues are recorded when title passes, the amount is determinable and collection is reasonably assured.

### **Foreign Currency Translation**

The financial statements are presented in Canadian dollars. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates. Revenue and expenses are translated at average rates of exchange during the year. The Company’s subsidiaries are integrated and therefore translated using the temporal method. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

### **Stock-based Compensation**

The Company applies the fair value method of valuing all grants of stock options after January 1, 2002. The fair value of options granted is estimated at the date of grant using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, volatility factor of the expected market price of the Company’s stock, and a weighted average expected life of the options. The estimated fair value of the options is recorded over the options’ vesting period. Any consideration paid on amounts attributable to stock options is credited to share capital.

### **Income Taxes**

Future income taxes are recognized for the future income tax consequences attributable to differences between financial statement carrying values and their corresponding tax values. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that, in the opinion of management, is more likely than not to be realized.

### **Income (loss) per Share**

The Company uses the treasury stock method for the computation and disclosure of income (loss) per share. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments which assume that proceeds received from in-the-money stock options are used to repurchase common shares at the prevailing market rate. Basic income (loss)-per-share figures have been calculated using the weighted monthly average number of shares outstanding during the respective periods. Diluted income (loss)-per-share figures are equal to those of basic income (loss)-per-share for each year since the anti-dilutive effects of options and warrants have been excluded.

### **Risk Management**

The Company is engaged primarily in oil and gas exploration, development and production and manages related industry risk issues directly. The Company's functional currency is the Canadian dollar. All current resource operations occur within the United States and accordingly the Company is exposed to foreign exchange risk. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency or commodity risk.

### **Asset Retirement Obligations**

The Company reviews and recognizes obligations associated with the retirement of tangible long-lived assets, including rights to explore or exploit natural resources. When such obligations are identified and measurable, the estimated fair values of the obligations are recognized on a systematic basis over the remaining period until the obligations are expected to be settled. Mineral property related retirement obligations are capitalized as part of deferred exploration and development costs and are accounted for in the same manner as all other capitalized costs.

### **Impairment of Long-Lived Assets**

The carrying value of plant and equipment are reviewed for impairment whenever events or circumstances indicate that the recoverable amount may be less than the carrying value. The determination of when to recognize an impairment loss for a long-lived asset to be held and used is made when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. When impairment is indicated, the amount of the impairment loss is determined as the excess of the carrying value of the amount over its fair value based on estimated discounted cash flows from use or disposition.

### **Financial Instruments**

Effective January 1, 2007 the Company adopted three new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

**Financial instruments** - (CICA Handbook Section 3855) - In accordance with this standard the Company now classifies all financial assets as either held-to-maturity, available-for-sale, held for trading or loans and receivables, and classifies all financial liabilities as held for trading or other financial liabilities. Financial assets held to maturity, loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of loss and deficit.

The Company's financial instruments consist of cash, marketable securities, amounts due from related parties, accounts payable, amounts due to related parties, debentures and long term debt. Management has determined the fair value of cash, accounts receivable, amounts due from related parties, accounts payable, and amounts due to related parties approximates their fair carrying value due to their immediate or short-term maturity. The fair value of long term approximates its carrying value as these debts bear interest at market rates. Marketable securities are recorded at their fair value and classified as available for sale with any increase or decrease in fair value being recorded as a component of Other Comprehensive loss until realized. At December 31, 2007, \$42,678 was recorded as Other Comprehensive loss resulting from a decrease in the fair value of marketable securities. Unless otherwise noted, it is management's opinion the Company is not exposed to significant interest or credit risks arising from these financial instruments.

**Comprehensive income** (CICA Handbook Section 1530) – Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. This standard includes guidance for reporting a statement of comprehensive loss and accumulated other comprehensive income in the shareholders' equity section of the balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale, foreign exchange gains and losses on self-sustaining foreign operations and the effective portion of cash flow hedges, if any.

**Hedges** (CICA Handbook Section 3865) – The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Company has not yet designated any hedging relationships.

### **Recent Account Pronouncements**

The CICA has issued the following new accounting standards: 1535 Capital Disclosures, 3031 Inventories, 3064 Goodwill and Intangible Assets, and 3862 Financial Instruments – Disclosures and 3863 Financial Instruments - Presentation, which are applicable to the Company's 2008 and 2009 fiscal years.

CICA Handbook Section 1400 General Standards of Financial Statement Presentation: The CICA accounting standards board amended section 1400 to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect the adoption of this amendment to have an impact on its consolidated financial statements.

CICA Handbook Section 1535 Capital Disclosures: The new standard is effective for annual and interim periods beginning on or after October 1, 2007 and requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

CICA Handbook Section 3862 Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation: This new standard replaces accounting standard 3861 Financial Instruments - Disclosure and Presentation and is effective for annual and interim periods beginning on or after October 1, 2007. Presentation requirements have not changed. Enhanced disclosure is required to assist users of financial statements in evaluating the significance of financial instruments on the Company's financial position and performance, including qualitative and quantitative information about the Company's exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and will have no effect on the financial results of the Company.

In 2006, Canada's Accounting Standards Board (AcSB) ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by public companies, with International Financial Reporting Standards over a transitional period. The AcSB has developed and published a detailed implementation plan, with a changeover date for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and International Financial Reporting Standards.

### **Comparative Figures**

Certain of the comparative figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results.

### **NOTE 3 – BASIS OF PRESENTATION**

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These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are necessary for a fair presentation of results for the interim periods. Operating results for the three month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. Unless otherwise noted, these interim financial statements follow the same accounting policies as, and should be read in conjunction with, the Company's 2007 annual audited financial statements and notes thereto.

All amounts in these interim consolidated financial statements are stated in Canadian dollars unless otherwise indicated.

#### NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 31, 2008	December 31, 2007
	- \$ -	- \$ -
Proven oil and gas properties, subject to depletion	40,831,708	39,988,237
Unproven oil and gas properties, not subject to depletion	1	1
Accumulated depletion	(1,005,301)	(905,301)
	39,826,408	39,082,937
Equipment	717,071	581,680
Accumulated amortization	(188,398)	(156,985)
	528,673	424,695
	40,355,081	39,507,632

#### OIL AND GAS PROPERTIES

At March 31, 2008 the Company's oil and gas properties were as follows:

	<u>Working interest</u>	<u>Net revenue interest</u>
<b>Proven and producing:</b>		
Pelahatchie Field, Rankin County, Mississippi	100%	72.5%
Puckett Field, Rankin and Smith Counties, Mississippi	82.5%	62%
Verba Field, Jasper County, Mississippi	95.0%	74.1%
Barber Creek Field, Scott County, Mississippi	100%	78.25%
Iowa Field, Lake Charles County, Louisiana	70.0%	51.1%
<b>Unproven and producing:</b>		
Palopinto and Jack Counties, Texas	4% - 40%	4% - 32%

In the prior year, after a review of Company plans of its business activities, management determined that its future activities should be concentrated on its oil and gas properties in Mississippi and not to continue with any further developmental work on its other properties. Accordingly, an impairment charge of \$7,821,048 was recorded to reduce the carrying values of its Louisiana and Texas oil and gas properties to \$1 respectively.

#### Drilling Obligations

As the Company has effective controlling interests in all its oil and gas properties, it has no obligations to third parties or contractual agreements whereby it is committed to drilling programs other than those undertaken at the discretion of management.

#### NOTE 5 – LONG TERM DEBT

At March 31, 2008 the Company had long term debt as follows:

	March 31, 2008	December 31, 2007
	- \$ -	- \$ -
<b>Loans Payable</b>		
Loan payable relating to the Barber Creek Field (Note 3)	359,228	387,361
Loan payable relating to the Verba Field (Note 3)	190,848	254,344
	550,076	641,705
<b>Debentures - Series 1 and Series 2</b>	471,167	471,167
<b>Convertible Debenture</b>	1,632,983	1,560,656
<b>Equipment Loan</b>	17,453	21,096
	2,671,679	2,694,624
Less current portion	917,791	982,058
	1,753,888	1,712,566

## **Loans Payable**

The loans bear interest at the rate of 8% per annum, compounded annually and are denominated in US Dollars. Repayment of principal and interest is by way of Production Payments equal to 20% of the net revenue received from the sale of oil and gas from related oil and gas properties. The current portion payable has been estimated based on production forecasts of the related fields for 2008. The debt is secured by leases in the Verba and Barber Creek fields and proceeds generated therefrom.

## **Series 1 Debentures**

The Company entered into subscription agreements commencing in August 2006 with debenture holders to provide financing to re-enter and if warranted, to commence commercial production from certain specified wells previously drilled in its fields. The debentures bear interest, payable quarterly, at 10% per annum on the capital amount outstanding plus a guaranteed return of capital of 10% per annum on the remaining balance. On obtaining commercial production, 40% of the net operating revenue from the financed wells shall be distributed to the debenture holders by way of interest and repayment of capital subject to the minimum guarantees described above. In the event that 40% of the net operating income in any one year exceeds the guaranteed amount of interest and capital payable to the debenture holders, the excess shall be credited against any payments due to the debenture holders in the following fiscal year. The debenture shall be due and payable on December 31, 2016 if not previously repaid out of commercial production. The debentures are secured by a Deed of Trust granting the debenture holders all the oil, gas and mineral lease interests in respect of the specified wells financed.

## **Series 2 Debentures**

In 2007, the Company entered into Series 2 debenture subscription agreements with debenture holders to provide financing to re-enter and, if warranted, to commence commercial production from certain specified wells previously drilled in its fields. The debenture bears interest, payable quarterly, at 10% per annum on the capital amount outstanding plus a guaranteed return of capital of 10% per annum on the remaining balance. On obtaining commercial production, 40% of the net operating revenue from the financed wells shall be distributed to the debenture holders by way of interest and repayment of capital subject to the minimum guarantees described above. In the event that 40% of the net operating income in any one year exceeds the guaranteed amount of interest and capital payable to the debenture holders, the excess shall be credited against any payments due to the debenture holders in the following fiscal year. The debentures are due on December 31, 2016 if not previously repaid out of commercial production. Funds totaling US\$300,000 were received from subscription proceeds of the Company's Series 2 Debentures. The debentures are secured by a Deed of Trust granting the debenture holders all the oil, gas and mineral lease interests in respect of the specified wells financed.

On July 27, 2007, the Company settled certain Series 1 and Series 2 debentures in the sum of \$1,332,690 by the issuance of 17,692,200 common shares at a price of \$0.075 per share.

## **Convertible Debenture**

On October 31, 2007 the Company issued a 30 month \$1,500,000 convertible debenture. The convertible debenture is convertible into common shares of the Company at the rate of \$0.15 of principal outstanding in the first two years and at \$0.165 for the final 6 months at the option of the convertible debenture holder. Interest of 10% per annum is payable monthly, plus a redemption rate surcharge of 12.5% on the principal amount being redeemed resulting in an effective interest rate of approximately 18%. As at March 31, 2008, the Company is obliged to pay, or convert the equivalent if the option is exercised by the holder, the convertible debenture holder the greater of \$1,400,045 or 1,010,134 Euros at the maturity date or time of conversion.

The convertible debenture is secured by a pledge of the shares of all of the Company's subsidiaries.

## **Equipment Loan**

The equipment loan is repayable over five years commencing February 14, 2006. The loan is unsecured and bears interest at a rate of 3% per annum.

**NOTE 6 – SHARE CAPITAL**

Authorized: Unlimited number of common shares without par value  
10,000,000 preference shares without par value

	# Shares	- \$ -
Common shares issued:		
Balance at December 31, 2006	147,175,137	56,668,102
- shares issued for cash on private placement	12,749,664	956,225
- shares issued for settlement of debt	25,489,432	1,911,707
- re-allocated from contributed surplus	-	45,500
- cash received from subscriptions received	-	5,400
- share issue costs	-	(15,605)
Balance at December 31, 2007	185,414,233	59,571,329
- shares issued for cash on private placement	-	-
- shares issued for settlement of debt	1,474,500	110,587
Balance at March 31, 2008	186,888,733	59,681,916

**Three months ended March 31, 2008:**

In January 2008, the Company settled outstanding debts in the amount of \$110,587 by the issuance of 1,474,500 common shares at a price of \$0.075 per common share.

**Year ended December 31, 2007:**

The Company issued 12,749,664 units at a price of \$0.075 per unit pursuant to a non-brokered private placement for total proceeds of \$956,225. Each unit consists of one common share and one-half share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.15 per share on or before August 22, 2008. The Company paid a finder's fee of \$15,605 in connection with this private placement. The grant date fair value of these warrants has been included in share capital on a net basis and accordingly has not been recorded as a separate component of shareholders' equity.

The Company issued 25,489,432 common shares pursuant to a shares-for-debt settlement at a price of \$0.075 per share to settle outstanding debts totaling \$1,911,707.

**Stock Options and Warrants****Three months ended March 31, 2008:**

In February 2008, the Company granted 6,000,000 stock options exercisable at \$0.075 due to expire on February 12, 2010. The options are subject to vesting provisions of 25% on the date of the grant, and 12.5% each quarter thereafter. In the period, the Company recorded a stock-based compensation expense of \$148,235 as calculated using the Black-Scholes option pricing model to determine fair value.

**Year ended December 31, 2007:**

The Company did not grant any stock options. However, during 2007 the Company recorded stock-based compensation of \$1,087,506 in connection with the vesting of certain stock options granted during the year ended December 31, 2006.

## NOTE 7 – CONTRIBUTED SURPLUS

Details of changes in the Company's contributed surplus balance are as follows:

	- \$ -
Balance, December 31, 2006	3,794,932
Stock-based compensation Allocated to share capital on exercise of options	1,087,506 (45,500)
Balance, December 31, 2007	4,836,938
Stock-based compensation	148,235
Balance, March 31, 2008	4,985,173

## NOTE 8 – RELATED PARTY TRANSACTIONS AND BALANCES

### Related party transactions:

During the three months ended March 31, 2008 and 2007, the Company had the following transactions with related parties:

	2008	2007
	- \$ -	- \$ -
Consulting, management and administration fees paid to directors, officers, and companies controlled by directors charged to administrative costs and operating costs	97,992	95,500
Operating costs and occupancy costs paid to a company controlled by a director	144,715	17,000
Loan interest paid to a director or a company controlled by a director	13,673	-
	256,380	112,500

Transactions with related parties are in the normal course of operations and have been recorded at the exchange amount which is the consideration agreed to between the related parties.

### Related party balances:

At March 31, 2008 amounts due to related parties totaled \$997,227 (December 31, 2007 - \$1,200,720) for loans, accrued administration, consulting and management fees, and exploration and development expenditures. Related parties include directors, officers, and companies with directors in common.

At March 31, 2008 there was an amount due of \$492,035 (December 31, 2007 - \$465,468) from a company with directors in common for operating costs and developmental expenditures.

Amounts due to or from related parties are unsecured, non-interest bearing and have no fixed terms of repayment. The fair value of the amounts due to related parties is not determinable as they have no specified repayment terms.

## NOTE 9 – COMMITMENTS

Effective October 1, 2005, a subsidiary of the Company entered into a lease on its field offices located in Puckett, Mississippi, for a period of 3 years with an option to renew for a further 5 years, at US\$6,000 per month.

## NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash investing and financing activities for the three months ended March 31, 2008 and 2007 were as follows:

	2008	2007
	- \$ -	- \$ -
Common shares issued for debt settlements	110,587	1,911
Cash payments included in the statement of cash flows:		
Interest paid	130,579	64,500
Income tax paid	-	-

**NOTE 11 - CONTINGENCIES**

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From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The company has no reason to believe that disposition of any such current matter could reasonable be expected to have a material adverse impact on the Company's financial position, results of operations or the ability to carry on any of its business activities.

**NOTE 12 – SUBSEQUENT EVENTS**

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In May, the Company entered into an Investor Relations contract subject to acceptance by the TSX Venture Exchange. The Company will pay \$7,500 per month, and grant options to purchase 2,000,000 shares at \$0.12 per share, subject to vesting of 25% each quarter over a 12 month period and exercisable for a period of five years in accordance with the policies of the TSX-V.

**ODYSSEY PETROLEUM CORP.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
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May 28, 2008

**OVERVIEW**

This management discussion and analysis covers the operations of Odyssey Petroleum Corp. (the "Company") for the three months ended March 31, 2008. All monetary amounts referred to herein are in Canadian dollars unless otherwise stated. The following discussion and analysis should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2008 and the audited consolidated financial statements for the year ended December 31, 2007.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com), on the Company's website at [www.odysseypetroleum.com](http://www.odysseypetroleum.com), or by requesting information further information from the Company's head office in Vancouver.

**DESCRIPTION OF BUSINESS**

The Company is in the business of exploration, development and production of oil and gas. Pursuant to a series of agreements and transactions undertaken in 2005 and 2006, the Company acquired effective controlling interests in various oil and gas properties in Mississippi providing the right to develop wells containing proven and probable reserves.

**Non-GAAP measurements**

Management may use the term "funds from operations" to analyze operating performance and leverage, determined as cash flow from operating activities adjusted for changes in non-cash working capital balances. While widely used in the oil and gas industry, funds from operations do not have any standardized meaning prescribed by GAAP and therefore it may not be comparable to the calculation of similar measures for other entities. The Company considers funds from operations to be a key measure since it demonstrates the Company's ability to generate the cash necessary to fund future growth and repay debt. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period, nor should it be viewed as an alternative to cash flow from operating activities, net income (loss), or other measures of financial performance calculated in accordance with GAAP.

Management also uses certain key performance indicators and industry benchmarks such as "operating netbacks" and "funds from operations"/bbl to analyze financial and operating performance. Operating netbacks are determined by deducting royalties, production expenses and transportation and selling expenses from oil and gas revenue and then dividing this result by production volumes. These indicators and benchmarks as presented do not have any standard meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

**REVENUE**

The Company's revenues for the periods were as follows:

	Three months ended		Year ended
	March 31, 2008	March 31, 2007	December 31, 2007
	- \$ -	- \$ -	- \$ -
Oil and Gas sales			
Crude oil	2,786,158	1,699,846	7,421,406
Natural Gas	28,779	-	55,934
Operator Income	157,864	97,533	272,542
Total	2,972,801	1,797,379	7,749,882

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In the three months ended March 31, 2008, total revenue increased 65.4% to \$2,972,801 (2007 - \$1,797,379). This increase was primarily a result of the higher average realized prices as shown below, plus a 2.7% increase in production over the first quarter of 2007.

April 2008 production of oil was over 11,000 barrels, with resulting gross revenues of approximately US\$1,200,000.

**PRODUCTION**

The Company's average daily production volumes were as follows:

	Three months ended		Year ended
	March 31, 2008	March 31, 2007	December 31, 2007
Crude oil production (barrels per day)	349.1	343.6	308.2
Natural Gas (mcf/d)	42.3	0.00	53.6*
Crude oil production (total barrels in period)	31,772	30,927	112,486
Natural Gas (total mcf in period)	3,850	0.00	8,147

\* Gas production in 2007 started in August; calculation is based on pro-rata number of days.

Total oil production in the first quarter of 2008 increased slightly (2.7%) over the first quarter of 2007, but has increased 13.3% over the average daily production for the year ended December 31, 2007. This increase is due to production from new wells, somewhat offset by decreasing production from older wells. Currently, three newly drilled wells are nearing completion and tie in, with daily production expected to increase substantially once the Max & Martha Gill, J Cox, and Harold Karges wells have been completed.

**REALIZED PRICES**

The Company's average realized prices were as follows:

	Three months ended		Year ended
	March 31, 2008	March 31, 2007	December 31, 2007
	- US\$ -	- US\$ -	- US\$ -
Average realized prices			
Crude oil production (US\$/barrel)	88.59	58.12	62.12
Natural Gas (US\$/mcf)	7.48	0.00	6.22

The Company sells its production to a major crude oil marketer at competitive prices for the grade of oil and gas produced. During the current period, the Company received substantial increases in prices for its production of oil and gas and this trend continues up to the date of this document. April's average realized oil price was over US\$106 per barrel.

**OPERATING NETBACKS**

In the period, the Company's operating netbacks increased 326.1% to \$40.80 over the comparable period in the previous year (2007 - \$12.51) and increased 185.6% compared to the year ended December 31, 2007 (\$21.94). This growth in netbacks has helped the Company to continue its growth strategies.

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The Company's operating netbacks were as follows:

	Three months ended		Year ended
	March 31, 2008 - \$ -	March 31, 2007 - \$ -	December 31, 2007 - \$ -
Oil and Gas sales	2,972,801	1,797,379	7,749,882
Royalties & taxes	(766,423)	(371,828)	(2,176,010)
Operating expenses	(910,148)	(1,038,559)	(3,105,646)
Subtotal	1,296,230	386,992	2,468,226
Barrels of oil *	31,772	30,927	112,486
Operating netback per barrel *	\$40.80	\$12.51	\$21.94

\* Natural gas volume is excluded from these calculations as immaterial.

**FUTURE DEVELOPMENTS**

Current oil prices and new technology for locating bypassed oil/gas accumulations makes the re-entry of wells already drilled and cased profitable. With approximately 30 wells currently producing and another 20 or more previously drilled wells scheduled for reentry and work-over, the Company expects to continue to increase its revenue base while holding valuable leases by production on which it plans to drill new wells. Additionally the Company has, in the past three years, developed its own production capabilities. With a staff of approximately 20 employees in the field, the Company staffs one leased work-over rig, employs another contract rig, and does its own roustabout work, hauling, heavy equipment work and gauging of wells.

The Company plans to continue developing wells in Mississippi; particularly infield proven locations at Puckett Field, Pelahatchie Field, Verba Field, and Barber Creek Field, all situated near the Company's production operations headquarters in Puckett, Mississippi. The Company anticipates funding the first few wells from privately sourced debenture financing and working interest partners, although other financing alternatives may be utilized. If successful in drilling and producing wells as anticipated, more wells may be financed from cash flow.

**SELECTED ANNUAL INFORMATION**

The following table provides a summary of the Company's financial operations for the three years ended December 31, 2007. For more detailed information, refer to the Company's financial statements.

	Year Ended December 31, 2007 - \$ -	Year Ended December 31, 2006 - \$ -	Year Ended December 31, 2005 - \$ -
Total assets	41,192,881	38,365,947	33,669,083
Oil and Gas properties, plant and equipment	39,507,632	37,001,106	32,645,785
Working capital (deficiency)	(4,175,031)	(3,372,508)	(2,102,729)
Long term debt	1,712,556	1,764,570	869,117
Shareholders' equity	30,414,359	31,864,028	29,673,939
Revenues	7,749,882	7,252,741	2,644,973
Net Income (Loss)	(5,489,224)	(696,402)	(3,174,886)
Earnings (loss) per share – basic and diluted	(0.03)	(0.00)	(0.04)

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**SUMMARY OF QUARTERLY RESULTS**

	THREE MONTHS ENDED			
	March 31, 2008 - \$ -	December 31, 2007 - \$ -	September 30, 2007 - \$ -	June 30, 2007 - \$ -
Total assets	42,382,760	41,192,881	42,742,337	40,668,857
Oil and gas properties, plant and equipment	40,355,081	39,507,632	40,932,870	39,185,351
Working capital (deficiency)	(4,248,442)	(4,176,031)	(4,581,853)	(4,497,768)
Shareholders' equity	31,173,642	30,414,359	35,601,838	32,691,239
Revenues	2,972,801	2,708,958	1,629,284	1,614,261
Net Income (Loss)	500,461	(5,544,156)	(66,165)	319,010
Earnings (loss) per share – basic and diluted	0.003	(0.03)	(0.00)	0.01
	March 31, 2007 - \$ -	December 31, 2006 - \$ -	September 30, 2006 - \$ -	June 30, 2006 - \$ -
Total assets	39,704,643	44,785,947	37,538,599	36,562,269
Oil and gas properties	38,270,660	43,421,106	36,169,142	35,048,844
Working capital (deficiency)	(4,294,314)	(3,893,297)	(2,680,741)	(2,408,746)
Shareholders' equity	31,932,628	32,001,028	31,812,147	31,938,909
Revenues	1,797,379	1,770,576	1,657,916	1,859,510
Net Income (loss)	(197,913)	(456,051)	(186,762)	221,437
Earnings (loss) per share – basic and diluted	(0.00)	(0.01)	(0.00)	0.001

**RESULTS OF OPERATIONS**

Significant variances between 2008 and 2007 are explained as follows:

Three months ended March 31	2008 - \$ -	2007 - \$ -	Favorable (Unfavorable) - \$ -
Revenue	2,972,801	1,797,379	1,175,422
The increase is primarily a result of higher average realized prices as detailed above, plus a 2.7% increase in production.			
Royalties and taxes	766,423	371,828	(394,595)
The increase is a direct result of the higher revenue realized.			
Foreign exchange	114,665	-	(114,665)
The loss results from fluctuations in the value of the Euro and US dollars against the Canadian dollar, primarily affecting debt.			
Interest and financing charges	130,579	64,500	(66,079)
The increase is related to the increased debenture debt utilized to drill a new well in 2008.			
Operating costs	910,148	1,038,559	128,411
Operating costs decreased in this period as the Company's producing wells required less work to maintain continuing oil flow.			
Stock-based compensation	148,235	266,513	118,278
The difference results from the lower number of stock options vesting in the period, combined with changes in parameters used in the Black-Scholes option pricing model.			
Provision for income taxes	140,000	-	(140,000)
The provision is the result of achieving profitability in the current period.			

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The net income in the current period of \$500,461 compares to a net loss of \$197,913 in the same period of 2007. In general, administrative expenses reflect the normal corporate business cycle and are commensurate with the Company's significant growth in the current period. Any significant increase/decrease in costs relate to the Company's additional efforts to provide greater administrative support to management's ongoing efforts to seek new properties, monitor exploration expenditures, and increase shareholder value.

**LIQUIDITY AND CAPITAL RESOURCES**

During 2008, the Company entered into agreements with TransAmerican Energy Inc. and other working interest partners which allowed the Company to drill three new wells in the Pelahatchie field: the Max and Martha Gill #1, the Harold Karges 18-7 #1, and the J. Cox 18-10 #1.

During the current period significant cash flows were as follows:

Operating activities provided cash in-flows of \$1,350,123 which helped finance the drillings and other investment and finance activities.

Investing activities included \$978,862 in additions to the Company's oil and gas properties, plant and equipment. This was primarily for the completion costs of the three wells mentioned above.

Financing activities included the repayment of \$203,493 to related parties and repayment of long term debt of \$22,945, for a total of \$226,438.

At March 31, 2008 the Company had a working capital deficiency of \$4,248,442 and accumulated losses of \$33,450,769.

The Company has financed its operations to date primarily through the issuance of common shares, on the exercise of stock options and warrants, continued support from related parties, and debentures. The Company continues to seek capital through various means including the issuance of equity, debt, or through working interest agreements.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its continuing ability to raise adequate financing and to have profitable operations in the future.

The Company's future capital requirements will depend on many factors, including costs of exploration and development of the properties, cash flow from operations, costs to complete well production if warranted, competition and global market conditions. The Company's growing working capital needs may require it to obtain additional capital to operate its business.

The Company will depend partly on outside capital to complete the exploration and development of its resource properties. Such outside capital will include the sale of additional common shares and debt financing. There can be no assurance that capital will be available as necessary to meet these continuing exploration and development costs or, if the capital is available, that it will be on terms acceptable to the Company. The issuances of additional equity securities by the Company may result in a significant dilution in the equity interests of its current shareholders. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the business and future success may be adversely affected.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

**RELATED PARTY TRANSACTIONS**

During the current period, the following transactions with related parties were recorded:

Management fees of \$97,992 were paid or accrued in the normal course of business to directors or companies controlled by directors of the Company for administrative duties, and management of production and capital development costs of its oil and gas properties. These fees were apportioned over administrative, production, and capital costs as determined by

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management. Production costs and rent for the Company's Mississippi office totaling \$144,715 and loan interest of \$13,673 was paid or accrued to a company controlled by a director.

At March 31, 2008 there were amounts due to or from related companies. An amount due from a company with directors in common totaled \$492,035 for well development costs. Amounts due to related parties totaled \$997,227 for loans, development costs, operation expenses, and administrative services.

Amounts due to related parties are non-interest bearing and have no fixed terms of repayment. The fair value of the amounts due to related parties is not determinable as they have no repayment terms. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**OTHER MATTERS**

**Material contracts**

The Company did not enter into any material contracts in the current quarter.

**Investor Relations**

In May 2008, the Company entered into an agreement for investor relations services, subject to TSX Venture approval, with Euro Invest News, Inc. of Geneva, Switzerland. The agreement calls for monthly payments of \$7,500, and the granting of 2,000,000 options at \$0.12 per share, vesting quarterly over 12 months, and exercisable for five years.

**Regulatory Matters**

There were no regulatory matters to report in the current quarter.

**Options Granted**

In February 2008, the Company granted 6,000,000 stock options exercisable at \$0.075 due to expire on February 12, 2010. The options are subject to vesting provisions of 25% on the date of the grant, and 12.5% each quarter thereafter. In the period, the Company recorded a stock-based compensation expense of \$148,235 as calculated using the Black-Scholes option pricing model to determine fair value.

**CRITICAL ACCOUNTING ESTIMATES**

**Oil and Gas Properties**

The Company follows the full cost method of accounting for its oil and gas operations whereby all cost related to the acquisition of petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. Proceeds from the disposal of oil and gas interests are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20% or more in the depletion rate.

Depletion of the capitalized costs is computed using the unit-of-production method based on the estimated proven reserves of oil and gas determined by petroleum engineers.

Estimated future removal and site restoration costs are provided over the life of proven reserves on a unit-of-production basis. Costs, which include the cost of production equipment removal and environmental clean-up, are estimated each period by management based on current regulations, costs, technologies and industry standards. The charge is included in the provision for depletion and the actual restoration expenditures are charged to the accumulated provision accounts as incurred.

All of the Company's oil and gas interests are held in the United States and accordingly, the Company has a single cost centre, being the United States. Certain oil and gas activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

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The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, site restoration, and income tax costs plus the lower of cost or estimated net realizable value of unproved properties.

Under the full cost method of accounting, a “ceiling test” is performed to recognize and measure impairment, if any, of the carrying amount of petroleum and natural gas properties. Impairment is recognized if the carrying amount of the petroleum and natural gas properties, less the cost amount of undeveloped properties not subject to depletion, exceeds the estimated undiscounted future cash flows from the Company’s proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows from the Company’s proved and probable reserves. The future cash flows are discounted at the Company’s risk-free interest rate, using forecasted prices and costs, and are exclusive of indirect costs such as interest charges, general and administrative expenses and future income taxes.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to determination of depletion and impairment of the carrying value of oil and gas properties, determination of fair value for financial instruments, the current portion of loans payable, and the fair value of stock based compensation. Financial results as determined by actual events could differ from those estimates.

#### **Revenue Recognition**

Oil and natural gas revenues are recorded using the sales method, whereby the Company recognizes oil and natural gas revenues based on the amount of oil and gas sold to purchasers, when title passes, the amount is determinable and collection is reasonably assured. The costs associated with the delivery, including operating, transportation and production based royalties are recognized in the same period in which revenue is earned.

#### **Risk Management**

The Company is engaged primarily in oil and gas exploration, development and production and manages related industry risk issues directly. The Company is at risk for environmental issues and fluctuations in commodity pricing. The Company is not exposed to significant credit concentration risk. During the year ended December 31, 2007 three customers accounted for all of the Company’s sales. The Company is not exposed to significant interest rate risk, hedging or other activities to manage this risk. The Company’s functional currency is the Canadian dollar. All current resource operations occur within the USA and a debenture is payable in Euros, and accordingly the Company is exposed to foreign exchange risk. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

#### **Asset Retirement Obligations**

The Company reviews and recognizes obligations associated with the retirement of tangible long-lived assets, including rights to explore or exploit natural resources. When such obligations are identified and measurable, the estimated fair values of the obligations are recognized on a systematic basis over the remaining period until the obligations are expected to be settled.

Mineral property related retirement obligations are capitalized as part of deferred exploration and development costs and are accounted for in the same manner as all other capitalized costs.

#### **Impairment of Long-Lived Assets**

The carrying value of plant and equipment are reviewed for impairment whenever events or circumstances indicate that the recoverable amount may be less than the carrying value. The determination of when to recognize an impairment loss for a long-lived asset to be held and used is made when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. When impairment is indicated, the amount of the impairment loss is determined as the

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excess of the carrying value of the amount over its fair value based on estimated discounted cash flows from use or disposition.

**RISK FACTORS**

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector. The following reviews the general and specific risks and includes the Company's approach to managing these risks.

**Exploration, Development and Production Risks**

Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. The long term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, completion, and operating costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Oil and gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

**Prices, Markets and Marketing**

Demand for crude oil and natural gas produced by the Company exists within North America, however, crude oil prices are affected by worldwide supply and demand fundamentals, while natural gas prices are affected by North American supply and demand fundamentals, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Company's oil and gas reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil actually produced. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has limited direct experience in the marketing of oil and natural gas and utilizes the expertise of a marketing consultant.

**Inflation Risks**

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Inflation risks subject the Company to potential erosion of product netbacks. For example, domestic prices for oil and natural gas production equipment and services can inflate the costs of operations.

**Title to Assets**

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Company which could result in a reduction of the revenue received.

**Substantial Capital Requirements**

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

**Additional Funding Requirements**

The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. Should the Company's cash flow from operations be insufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or that it will be available on acceptable terms. The Company may enter into transactions to acquire assets or shares of other businesses. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that it may incur.

**Competition**

The Company actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources. The Company's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators. The oil and gas industry is highly competitive. The Company's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them. Certain of the Company's customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect the Company's ability to sell or supply oil or gas to these customers in the future. The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity these services and supplies can become difficult to obtain. The Company attempts to mitigate this risk by developing strong long term relationships with suppliers and contractors and maintaining close working relationships with industry partners.

**Environmental Risks**

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

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sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

**Insurance**

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

**Reliance on Key Personnel**

The success of the Company depends in large measure on certain key personnel. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect. In addition, the competition for qualified personnel in the oil and gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

**DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at March 31, 2008, the CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in *Multilateral Instrument 52-109* of the Canadian Securities Administrators and have concluded that such disclosure controls and procedures are effective.

**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We have designed controls for this process and have conducted an evaluation which has identified several potential weaknesses in our controls. Due to the limited number of staff at the Company, there is an inherent weakness in the system of internal controls due to our inability to achieve appropriate segregation of duties. The limited number of staff has also led us to identify a weakness with respect to accounting for complex and non-routine accounting transactions as the Company does not have a sufficient number of finance personnel with technical accounting knowledge to address all complex and non-routine accounting matters that may arise. Neither of these weaknesses has resulted in a misstatement in our interim or annual financial statements. However, as there is a more than remote likelihood that a material misstatement would not be prevented or detected, these items have been classified as material weaknesses. Currently, Management and Board review are being utilized to mitigate the risk of material misstatement in financial reporting, and also to ensure that existing internal controls remain effective. We intend to remediate these weaknesses in the future by expanding the number of individuals in our financial reporting area as we grow the Company.