

ABENTEUER RESOURCES CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED
DECEMBER 31, 2001 AND 2000

AUDITORS' REPORT

To the Shareholders of
Abenteuer Resources Corp.

We have audited the consolidated balance sheets of Abenteuer Resources Corp. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the periods then ended. These consolidated financial statements are the responsibility of company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2001 and 2000 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 19, 2002

“Connor Hind & Lim”

CHARTERED ACCOUNTANTS

ABENTEUER RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31

	2001	2000
ASSETS		
CURRENT		
Cash and term deposits	\$ 145,058	\$ 7,284
Accounts receivable	<u>22,924</u>	<u>12,659</u>
	167,982	19,943
CAPITAL ASSETS		
Property and equipment - Note 3	479,531	179,968
TOTAL ASSETS	\$ 647,513	\$ 199,911
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 9,536	\$ 175
LONG TERM		
Deferred site restoration costs	900	-
SHAREHOLDERS' EQUITY		
SHARE CAPITAL - Note 4	547,429	200,000
RETAINED EARNINGS (DEFICIT)	<u>89,648</u>	<u>(264)</u>
	637,077	199,736
TOTAL LIABILITIES AND EQUITY	\$ 647,513	\$ 199,911

Approved by the Board:

Per: “Raymond Fong”
Raymond Fong (Director)

Per: “Ostap Haliw”
Ostap Haliw (Director)

ABENTEUER RESOURCES CORP.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE PERIODS ENDED DECEMBER 31

	Year Ended Dec 31 2001	Two Month Period Ended Dec 31 2000
REVENUE		
Petroleum and natural gas sales (net of royalties)	\$ 283,883	\$ -
Interest income	<u>402</u>	<u>8</u>
	284,285	8
EXPENSES		
Depletion and amortization	76,321	-
Management fees	64,800	-
Operating expenses	32,488	-
Employee travel	9,643	-
Professional fees	7,045	-
Business promotion	3,140	175
Office	<u>936</u>	<u>97</u>
	194,373	272
NET EARNINGS (LOSS) FOR THE PERIOD	89,912	(264)
RETAINED EARNINGS (DEFICIT) – Beginning of the period	(264)	-
RETAINED EARNINGS (DEFICIT) – End of the period	\$ 89,648	\$ (264)
Earnings per share (basic and diluted)	\$ 0.05	\$ 0.00

ABENTEUER RESOURCES CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIODS ENDED DECEMBER 31

	Year Ended Dec 31 2001	Two Month Period Ended Dec 31 2000
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings (loss) for the period	\$ 89,912	\$ (264)
Add items not affecting cash		
Depletion and amortization	<u>76,321</u>	<u>-</u>
	166,233	(264)
Net change in non-cash working capital balances related to operations		
Accounts receivable	(2,291)	(12,659)
Accounts payable	<u>4,881</u>	<u>175</u>
	168,823	(12,748)
FINANCING ACTIVITY		
Issuance of share capital	100,000	200,000
INVESTING ACTIVITIES		
Purchase of capital assets	(374,984)	(179,968)
Cash acquired on business combination	<u>243,935</u>	<u>-</u>
	(131,049)	(179,968)
INCREASE IN CASH	137,774	7,284
CASH – Beginning of the period	7,284	-
CASH - End of the period	\$ 145,058	\$ 7,284

ABENTEUER RESOURCES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIODS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 **BASIS OF PRESENTATION AND BUSINESS COMBINATION**

Effective December 14, 2001, the Company acquired 100% of the outstanding common shares of 903739 Alberta Ltd., a company related by common shareholders and directors. The acquisition constitutes the Company's major transaction and therefore removed its Junior Capital Pool designation. The acquisition has been recorded as a reverse takeover purchase of Abenteuer Resources Corp. by 903739 Alberta Ltd. The consideration of 3,200,000 shares issued to shareholders of 903739 Alberta Ltd. has been recorded at a value of \$299,971 and has been allocated to the net assets acquired as follows:

Cash and term deposits	\$ 243,935
Accounts receivable	7,974
Accounts payable and accrued liabilities	(4,480)
Deferred share issue costs	<u>52,542</u>
	<u>\$ 299,971</u>

The comparative figures presented are those of the acquirer 903739 Alberta Ltd.

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the period necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Consolidation

The financial statements include the accounts of the Company and its wholly owned subsidiary, 903739 Alberta Ltd

b) Petroleum and Natural Gas Properties and Production Equipment

The Company follows the full-cost method of accounting for oil and gas activities whereby all costs associated with the acquisition of, the exploration for, and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells and equipment costs. The carrying value, based on a ceiling test calculation, is limited to a recoverable amount as determined by estimating the present value of future net revenue from proven properties based on current prices, costs and the value of unproven properties at the lower of cost and net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE PERIODS ENDED DECEMBER 31, 2001 AND 2000

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

b) **Petroleum and Natural Gas Properties and Production Equipment - Continued**

Depletion of these costs is calculated on the unit of production method based on estimated proven reserves as determined by management and independent engineers. Petroleum and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content. The costs of unevaluated properties are excluded from the depletion calculation until proven reserves are assigned or the property is considered impaired.

Proceeds from disposal of properties are normally applied as a reduction of the costs of the remaining assets unless the disposal would alter the rate of depletion by more than 20%, in which case a gain or loss on disposal is recorded.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

c) **Future Site Restoration and Abandonment Costs**

The Company estimates its future site restoration and abandonment costs for its petroleum and natural gas wells. The costs are management's best estimates of the future site restoration and abandonment costs based on current legislation and industry practises. Total estimated costs are being provided for on a unit of production basis. The annual provision is included in depreciation and depletion and actual site restoration and abandonment costs are charged to the provision account as incurred.

d) **Measurement Uncertainty**

The amounts recorded for depletion of property and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of any changes in such estimates on the financial statements of future periods could be material.

e) **Income Taxes**

The Company has adopted the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary difference" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE PERIODS ENDED DECEMBER 31, 2001 AND 2000

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

f) Stock Based Compensation Plans

The Company has equity incentive plans, which are described in Note 4. No compensation expense is recognized for these plans when stock options are issued. Any consideration received on exercise of the stock option is credited to share capital.

g) Per Share Amounts

Effective January 1, 2001, the Company adopted the Canadian Institute of Chartered Accountants' new accounting standard with respect to the calculation and disclosure of per share amounts. Under the new standard, the treasury stock method of calculating per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The new standard has been applied prospectively and prior periods have not been restated. The new standard has no effect on basic per share amounts but may affect diluted per share amounts.

NOTE 3 **PROPERTY AND EQUIPMENT**

	<u>Cost</u>	<u>Accumulated Depletion and Amortization</u>	<u>2001 Net Book Value</u>	<u>2000 Net Book Value</u>
Computer equipment	\$ 2,811	\$ 421	\$ 2,390	\$ -
Petroleum & natural gas properties	<u>552,141</u>	<u>75,000</u>	<u>477,141</u>	<u>179,968</u>
	<u>\$ 554,952</u>	<u>\$ 75,421</u>	<u>\$ 479,531</u>	<u>\$ 179,968</u>

At December 31, 2001, petroleum and natural gas properties included \$70,922 (2000 - \$179,968) relating to unproved properties which have been excluded from the depletion calculation.

At December 31, 2001 future site restoration and abandonment costs are estimated in aggregate to be \$6,000 of which \$900 (2000 - nil) has been charged to operations in the year.

No general and administrative costs were capitalized during the year (2000 - nil).

ABENTEUER RESOURCES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED DECEMBER 31, 2001 AND 2000

NOTE 4 **SHARE CAPITAL**

Authorized:

Unlimited number of voting common shares without nominal or par value

Unlimited number of preferred shares without nominal or par value

Issued:

	<u>Common Shares</u>
On incorporation	<u>1,000,000</u>
Balance December 31, 2000	1,000,000
Initial public offering	1,000,000
Acquisition of 903739 Alberta Ltd. – Note 1	<u>3,200,000</u>
Balance December 31, 2001	<u>5,200,000</u>
	<u>Amount</u>
Share capital prior to reverse takeover	
For cash	<u>\$ 200,000</u>
Balance December 31, 2000	200,000
For cash	100,000
Share capital on reverse takeover	299,971
Share issue costs	<u>(52,542)</u>
Balance December 31, 2001	<u>\$ 547,429</u>

The issuance of 3,200,000 shares of Abenteuer Resources Corp. in exchange for all of the outstanding shares of 903739 Alberta Ltd. allowed control of the combined Company to pass to the shareholders of the subsidiary, 903739 Alberta Ltd. In this situation, Abenteuer Resources Corp. is deemed to be the subsidiary and the amounts allocated to share capital are those of 903739 Alberta Ltd.

Per share amounts were calculated using the weighted average number of common shares outstanding of 1,881,644 (2000 – 1,000,000). The stock options were not included in the diluted earnings per share calculation because to do so would be anti-dilutive.

Stock Options

The Company has a Directors' and Management Stock Option Plan (the "Plan") that allows the Company's board of directors to grant options as an additional incentive for directors, officers, employees and consultants to invest in the Company's common shares and thereby increase their equity and proprietary interest in the Company. All of the options which have been issued to date by the Corporation have been issued according to the Plan.

Under the Plan, options may be granted to purchase the Company's common shares up to the maximum number of shares permitted under the rules of the CDNX (currently 10% of the total outstanding common shares, with a maximum number of common shares optioned to any one optionee of no more than 5% of the total outstanding common shares). The exercise price of such options on the date of the grant cannot be less than the market price of the common shares on the CDNX less the permissible discount allowed by that exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE PERIODS ENDED DECEMBER 31, 2001 AND 2000

NOTE 4 SHARE CAPITAL - CONTINUED

As at December 31, 2001 the Company has granted options to its directors as follows:

<u>Date of Grant</u>	<u>Options Granted</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
May 1, 2001	200,000	\$0.25	April 30, 2006
December 19, 2001	320,000	\$0.25	December 18, 2006

As at December 31, 2001 there were 3,231,648 common shares held in escrow.

NOTE 5 INCOME TAXES

The Company has non-capital loss carry forward of \$38,154. In addition, the Company has available the following amounts which may be deducted, at the annual rates indicated, in determining taxable income of future years:

		<u>Rate</u>
Canadian oil & gas property expense	70,471	10%
Canadian oil & gas development expense	253,364	30%
Undepreciated capital cost	111,624	25%
Share issue costs	98,585	25%

The potential benefits relating to the available loss carryforward and share issue costs have not been recorded in the accounts.

NOTE 6 RELATED PARTY TRANSACTION

During the year the Company paid management fees of \$64,800 to companies controlled by two officers of the company.

NOTE 7 FINANCIAL INSTRUMENTS

The company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable and accounts payable. The fair values of financial instruments that are included in the balance sheet approximate their carrying values due to the short-term maturity of those instruments.

a) Fair Value

Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgement. Changes in assumptions could significantly affect these estimates.

b) Credit Risk

The Company has significant exposure to an individual customer, as a significant portion of production revenue is receivable from one operator.