

ABENTEUER RESOURCES CORP.  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2002 AND 2001

## AUDITORS' REPORT

To the Shareholders of  
**Abenteuer Resources Corp.**

We have audited the consolidated balance sheets of Abenteuer Resources Corp. as at December 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
March 24, 2003

Signed "Connor Hind & Lim"  
**CHARTERED ACCOUNTANTS**

ABENTEUER RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31

	2002	2001
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and term deposits	\$ 53,996	\$ 145,058
Accounts receivable	46,831	22,924
Refundable deposits	<u>2,757</u>	<u>-</u>
	103,584	167,982
<b>CAPITAL ASSETS</b>		
Property and equipment - Note 3	679,568	479,531
<b>TOTAL ASSETS</b>	<b>\$ 783,152</b>	<b>\$ 647,513</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 15,381	\$ 9,536
Due to shareholder – Note 4	<u>100,000</u>	<u>-</u>
	115,381	9,536
<b>LONG TERM</b>		
Deferred site restoration costs	1,600	900
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL - Note 5	547,429	547,429
RETAINED EARNINGS	<u>118,742</u>	<u>89,648</u>
	666,171	637,077
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 783,152</b>	<b>\$ 647,513</b>

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 YEARS ENDED DECEMBER 31

	2002	2001
<b>REVENUE</b>		
Petroleum and natural gas sales (net of royalties)	\$ 164,876	\$ 283,883
Interest income	<u>-</u>	<u>402</u>
	164,876	284,285
<b>EXPENSES</b>		
Depletion and amortization	54,769	76,321
Management fees	24,000	64,800
Operating expenses	18,240	32,488
Professional fees	10,446	7,045
Office rent	8,887	-
Shareholder reporting	7,621	-
Business promotion	3,981	3,140
Listing/filing fees	3,228	-
Employee travel	2,477	9,643
Office expenses	<u>2,133</u>	<u>936</u>
	135,782	194,373
<b>NET EARNINGS FOR THE YEAR</b>	29,094	89,912
<b>RETAINED EARNINGS – Beginning of the year</b>	89,648	(264)
<b>RETAINED EARNINGS - End of the year</b>	<b>\$ 118,742</b>	<b>\$ 89,648</b>
<b>Earnings per share (basic and diluted)</b>	<b>\$ 0.01</b>	<b>\$ 0.05</b>

ABENTEUER RESOURCES CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	2002	2001
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net earnings for the year	\$ 29,094	\$ 89,912
Add items not affecting cash		
Depletion and amortization	<u>54,769</u>	<u>76,321</u>
	83,863	166,233
Net change in non-cash working capital balances related to operations		
Accounts receivable	(26,664)	(2,291)
Accounts payable	<u>5,845</u>	<u>4,881</u>
	63,044	168,823
<b>FINANCING ACTIVITIES</b>		
Advances from shareholder	100,000	-
Issuance of share capital	<u>-</u>	<u>100,000</u>
	100,000	100,000
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(254,106)	(374,984)
Cash acquired on business combination	<u>-</u>	<u>243,935</u>
	(254,106)	(131,049)
<b>INCREASE (DECREASE) IN CASH</b>	<b>(91,062)</b>	<b>137,774</b>
CASH – Beginning of the year	145,058	7,284
<b>CASH - End of the year</b>	<b>\$ 53,996</b>	<b>\$ 145,058</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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**NOTE 1      NATURE OF OPERATIONS**

The Company is engaged primarily in exploration for, and production of, petroleum and natural gas reserves in a single cost centre being the Western Canadian Sedimentary basin.

**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. On January 31, 2003 the Company amalgamated with the wholly owned subsidiary. The amalgamated company will continue under the name Abenteuer Resources Corp.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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.

f) Stock Based Compensation Plans

Effective January 1, 2002, the Company adopted the new standard for stock based compensation. The Company has stock option plans for employees and directors, which are described in Note 5. No amount of compensation expense has been recognized in the financial statements. Any consideration paid by employees on exercise of options is accounted for as a capital transaction when the options are exercised.

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.

ABENTEUER RESOURCES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 3 **PROPERTY AND EQUIPMENT**

	<u>Cost</u>	<u>Accumulated Depletion and Amortization</u>	<u>2002 Net Book Value</u>	<u>2001 Net Book Value</u>
Computer equipment \$	3,155	\$ 1,190	\$ 1,965	\$ 2,390
Petroleum & natural gas properties	<u>805,903</u>	<u>128,300</u>	<u>677,603</u>	<u>477,141</u>
	<u>\$ 809,058</u>	<u>\$ 129,490</u>	<u>\$ 679,568</u>	<u>\$ 479,531</u>

At December 31, 2002, petroleum and natural gas properties included \$nil (2001 - \$70,922) relating to unproved properties which have been excluded from the depletion calculation.

At December 31, 2002 future site restoration and abandonment costs are estimated in aggregate to be \$12,000 of which \$700 (2001 - \$900) has been charged to operations in the year.

No general and administrative costs were capitalized during the year (2001 - nil).

NOTE 4 **DUE TO SHAREHOLDER**

The amount due to a shareholder bears interest at 8% per annum. The loan is unsecured and is repayable on November 2003.

NOTE 5 **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, 2001	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 and 2002	<u>5,200,000</u>
	<u>Amount</u>
Share capital prior to reverse takeover	
For cash	<u>\$ 200,000</u>
Balance December 31, 2001	200,000
For cash	100,000
Share capital on reverse takeover	299,971
Share issue costs	<u>(52,542)</u>
Balance December 31, 2001 and 2002	<u>\$ 547,429</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

**NOTE 5 SHARE CAPITAL - CONTINUED**

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 5,200,000 (2001 – 1,881,644). 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 TSX Venture Exchange (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 TSX Venture Exchange less the permissible discount allowed by that exchange.

As at December 31, 2002 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

The Company accounts for its stock option plan using the "intrinsic value method", whereby no compensation expense is recorded when stock options are issued or exercised. Pursuant to CICA recommendations which are effective January 1, 2002, the Corporation is required to determine the impact on the financial statements if the "fair value method" was used to account for the issuance of stock options. No stock options have been issued in the year ended December 31, 2002.

Subsequent to the year-end, options for 100,000 shares were exercised for gross consideration of \$25,000 and the Company granted options to a director of the Company to purchase 40,000 shares and options to consultants to purchase 70,000 shares. The options have an exercise price of \$0.25 per share and expire on December 18, 2006.

As at December 31, 2002 there were 2,154,432 common shares held in escrow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

**NOTE 6 INCOME TAXES**

The Company has non-capital loss carry forward of \$107,977. 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 exploration expense	44,526	100%
Canadian oil & gas property expense	97,722	10%
Canadian oil & gas development expense	317,618	30%
Undepreciated capital cost	115,676	25%
Share issue costs	73,939	33%

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

**NOTE 7 RELATED PARTY TRANSACTION**

During the year the Company paid management fees of \$24,000 (2001 - \$64,800) to companies controlled by two officers of the company.

During the year the Company paid \$4,000 (2001 – nil) to a company controlled by an officer/director of the Company for rental of office space and facilities.

**NOTE 8 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.

**NOTE 9 SUBSEQUENT EVENT**

On January 31, 2003, the Company secured a demand revolving reducing line of credit with a Canadian chartered bank. The maximum principal amount is \$350,000, to be reduced in 35 equal monthly amounts of \$10,000 commencing May 1, 2003. Interest at prime plus 1% is payable on any funds borrowed. The loan is secured by a floating charge over all present and future oil and gas properties of the Company.