

ABENTEUER RESOURCES CORP.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2003 AND 2002

AUDITORS' REPORT

To the Shareholders of
Abenteuer Resources Corp.

We have audited the balance sheets of Abenteuer Resources Corp. as at December 31, 2003 and 2002 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 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
April 19, 2004

“Lamb Hind & Lim, LLP”

CHARTERED ACCOUNTANTS

ABENTEUER RESOURCES CORP.

BALANCE SHEETS AS AT DECEMBER 31

	2003	2002
ASSETS		
CURRENT		
Cash and term deposits	\$ 6,296	\$ 53,996
Accounts receivable	26,046	46,831
Prepaid expenses	10,610	-
Refundable deposits	<u>10,342</u>	<u>2,757</u>
	53,294	103,584
PROPERTY AND EQUIPMENT		
Property and equipment - Note 3	1,654,615	679,568
TOTAL ASSETS	\$ 1,707,909	\$ 783,152
LIABILITIES		
CURRENT		
Bank Loan – Note 4	\$ 230,000	\$ -
Promissory note payable – Note 5	116,687	-
Accounts payable and accrued liabilities	91,511	15,381
Due to shareholders – Note 6	<u>207,700</u>	<u>100,000</u>
	645,898	115,381
LONG TERM		
Deferred site restoration costs	3,200	1,600
SHAREHOLDERS' EQUITY		
SHARE CAPITAL - Note 7	912,314	547,429
CONTRIBUTED SURPLUS	18,460	-
RETAINED EARNINGS	<u>128,037</u>	<u>118,742</u>
	1,058,811	666,171
TOTAL LIABILITIES AND EQUITY	\$ 1,707,909	\$ 783,152

APPROVED BY THE BOARD:

Per: "Raymond Fong"
Raymond Fong (Director)

per: "Ostap Haliw"
Ostap Haliw (Director)

ABENTEUER RESOURCES CORP.
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31

	2003	2002
REVENUE		
Petroleum and natural gas sales (net of royalties)	\$ 304,310	\$ 164,876
EXPENSES		
Depletion and amortization	96,690	54,769
Operating expenses	60,512	18,240
Management fees	43,960	24,000
Professional fees	34,802	10,446
Interest	26,028	-
Office rent	13,050	8,887
Office expenses	6,830	4,610
Shareholder reporting	5,515	7,621
Listing/filing fees	4,353	3,228
Business promotion	3,275	3,981
	<u>295,015</u>	<u>135,782</u>
NET EARNINGS FOR THE YEAR	9,295	29,094
RETAINED EARNINGS – Beginning of the year	118,742	89,648
RETAINED EARNINGS - End of the year	\$ 128,037	\$ 118,742
Earnings per share (basic and diluted)	\$ 0.00	\$ 0.01

ABENTEUER RESOURCES CORP.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2003	2002
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings for the year	\$ 9,295	\$ 29,094
Add items not affecting cash		
Depletion and amortization	96,690	54,769
Stock based compensation	<u>18,460</u>	<u>-</u>
	124,445	83,863
Net change in non-cash working capital balances related to operations	<u>78,720</u>	<u>(20,819)</u>
	203,165	63,044
FINANCING ACTIVITIES		
Bank loan	230,000	-
Promissory note	116,687	-
Advances from shareholders	107,700	100,000
Issuance of share capital	<u>364,885</u>	<u>-</u>
	819,272	100,000
INVESTING ACTIVITIES		
Purchase of capital assets	(1,070,137)	(254,106)
INCREASE (DECREASE) IN CASH	(47,700)	(91,062)
CASH – Beginning of the year	53,996	145,058
CASH - End of the year	\$ 6,296	\$ 53,996

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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 for 2002 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 has continued 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 forecast 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 gross proven reserves before royalties, 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.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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 Options

The Company has established a stock option plan for officers, employees, directors and service providers which is described in Note 7. In order to calculate the compensation expense, the fair value of the stock options is estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates. The compensation expense recorded in the financial statements is based upon only the fair value of the stock options granted after January 1, 2003. No stock options were granted during 2002. Stock options granted prior to January 1, 2002 are not accounted for in the compensation expense nor are they required to be disclosed in any pro-forma disclosure.

The fair value calculated related to stock options granted on or after January 1, 2003 is deferred and charged against earnings, as compensation expense, over the vesting period of the stock options with a corresponding increase in contributed surplus. The related compensation expense is included in general and administrative expense.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Consideration paid to the Company upon the exercise of the stock options is recorded as an increase to share capital, and an adjustment is made to transfer to share capital the compensation expense previously recognized in contributed surplus for the specific stock options exercised.

The Company has not incorporated an estimated forfeiture rate for stock options in determining the stock option fair value in order to calculate its compensation expense, as the Company has assumed that all stock options granted will vest. Accordingly, forfeitures are accounted for as they occur and are treated as a change in estimate. The cumulative effect of the change on current and prior periods is recognized in the period of the change in estimate. In the event that vested options expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

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>2003 Net Book Value</u>	<u>2002 Net Book Value</u>
Computer equipment \$	3,155	\$ 1,780	\$ 1,375	\$ 1,965
Petroleum & natural gas properties	<u>1,876,040</u>	<u>222,800</u>	<u>1,653,240</u>	<u>677,603</u>
	<u>\$ 1,879,195</u>	<u>\$ 224,580</u>	<u>\$ 1,654,615</u>	<u>\$ 679,568</u>

At December 31, 2003, petroleum and natural gas properties included \$nil (2002 - \$nil) relating to unproved properties which have been excluded from the depletion calculation.

At December 31, 2003 future site restoration and abandonment costs are estimated in aggregate to be \$30,000 of which \$1,600 (2002 – \$700) has been charged to operations in the year.

No general and administrative costs were capitalized during the year (2002 – nil).

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 3 PROPERTY AND EQUIPMENT – CONTINUED

The Company performed a ceiling test calculation at December 31, 2003. The sales prices, in Canadian dollars, at the wellhead used for the ceiling test were \$37.16 per barrel for light oil and \$6.98 per thousand cubic feet for natural gas. As a result of the ceiling test computation, the Company is not required to write down its petroleum and natural gas properties at December 31, 2003.

Effective January 1, 2004, the Company is required to perform a ceiling test using the new accounting guideline (AcG-16 oil and gas accounting – full cost) calculation as at January 1, 2004. The Company has performed the required ceiling test calculation and no write-down is required.

NOTE 4 BANK LOAN

At December 31, 2003 The Company had available a \$270,000 Revolving Reducing Demand Loan (LOC). The LOC is permanently reduced by \$10,000 per month, requires no additional principal repayments, and bears interest at the bank's prime lending rate plus one per cent. At December 31, 2003 the Company had drawn \$230,000 of this facility. The loan is secured by a \$1 million fixed and floating charge debenture and a general security agreement covering all present and after-acquired property of the Company.

NOTE 5 PROMISSORY NOTE PAYABLE

During the year the Company borrowed US \$90,000 from a corporation associated with a director of the Company. Interest at 10% per annum (US \$9,000) has been prepaid on this loan. The principal amount is repayable on November 27, 2004 or earlier, if at any time any party acquires 25% or more of the Company's issued and outstanding shares. The loan is unsecured.

NOTE 6 DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured and bear interest at 8% per annum. Principal in the amount of \$100,000 is repayable on July 14, 2004 and the remaining \$100,000 is repayable on May 26, 2004.

NOTE 7 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>
Balance December 31, 2001	1,000,000
Initial public offering	1,000,000
Acquisition of 903739 Alberta Ltd.	<u>3,200,000</u>
Balance December 31, 2002	5,200,000

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 7 **SHARE CAPITAL – CONTINUED**

Exercise of stock options	140,000
Private placement	<u>700,000</u>
Balance December 31, 2003	<u>6,040,000</u>
	<u>Amount</u>
Share capital prior to reverse takeover	
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, 2002	547,429
Exercise of stock options	35,000
Private placement	350,000
Share issue costs	<u>(20,115)</u>
Balance December 31, 2003	<u>\$ 912,314</u>
Contributed surplus	
Balance December 31, 2002	\$ 0
Stock based compensation	<u>18,460</u>
Balance December 31, 2003	<u>\$ 18,460</u>

Per share amounts were calculated using the weighted average number of common shares outstanding of 5,621,038 (2002 – 5,200,000). 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 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.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 7 SHARE CAPITAL – CONTINUED

Stock option activity with respect to the Company's stock option plan is as follows:

	Number of <u>Shares</u>	Exercise <u>Price</u>	Expiry <u>Date</u>
Balance December 31, 2001 & 2002	520,000	\$ 0.25	2006
Options exercised	(140,000)	\$ 0.25	2006
Options granted	110,000	\$ 0.25	2006
Options granted	<u>40,000</u>	\$ 0.45	2008
Balance December 31, 2003	530,000		

Warrants

On July 9, 2003 the Company issued 700,000 units at \$0.50 per unit for gross proceeds of \$350,000. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.75. The warrants expire on July 9, 2005.

As at December 31, 2003 there were 1,077,216 common shares held in escrow.

NOTE 8 STOCK BASED COMPENSATION

The Company has used the fair value method to determine a fair value for stock options granted on or after January 1, 2003, in order to determine stock option compensation expense. The Company recorded \$18,460 of compensation expense in the statement of earnings. This amount was included in the general and administrative expense, with a corresponding increase to contributed surplus in the balance sheet. Using the fair value method the weighted-average fair value of stock options granted during the year ended December 31, 2003 was \$0.12 per share.

In 2002 and prior years, the Company accounted for its stock-based compensation plans using intrinsic values rather than the fair value method. The exercise price, of all stock options granted by the Company, were at or above the current market price of the common shares at the time of grant and therefore, no compensation expense was recognized in the prior financial statements. No stock options were granted in 2002.

The fair value of each option granted is estimated on the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

Fair value of options granted (per share)	\$0.11 to 0.16
Risk-free interest rate (%)	3.60 to 3.63
Expected life (months)	46 to 60
Expected volatility (%)	33 to 54
Expected dividend yield (%)	0.00

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 9 **INCOME TAXES**

The Company has non-capital loss carry forward of \$62,197. 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	\$ 45,578	100%
Canadian oil & gas property expense	150,027	10%
Canadian oil & gas development expense	1,245,899	30%
Undepreciated capital cost	239,013	25%
Share issue costs	50,902	20%

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

NOTE 10 **RELATED PARTY TRANSACTIONS**

During the year the Company paid management fees of \$25,500 (2002 - \$24,000) to companies controlled by two officers of the company.

During the year the Company paid \$13,050 (2002 - \$4,000) to a company controlled by an officer/director of the Company for rental of office space and facilities.

NOTE 11 **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 12 **CHANGE IN ACCOUNTING POLICY**

Effective January 1, 2003, the Company elected to prospectively adopt the fair value method of accounting for stock options granted on or after January 1, 2003 under its stock-based compensation plan as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Accordingly, compensation expense has been recognized in general and administrative expense in the statement of earnings with a corresponding increase recorded to contributed surplus in the balance sheet using the fair value method as described in Note 2 and Note 8.

In prior periods, the Company accounted for stock option compensation using intrinsic values as defined by the CICA. The Company granted all of its stock options at or above market value, thereby having no intrinsic value at the time of grant. Accordingly, the Company was not required to recognize any compensation expense in the prior period financial statements.