

ABENTEUER RESOURCES CORP.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2004 AND 2003

## AUDITORS' REPORT

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

We have audited the balance sheets of Abenteuer Resources Corp. as at December 31, 2004 and 2003 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, 2004 and 2003 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 7, 2005

**"Lamb Hind & Lim, LLP"**  
**CHARTERED ACCOUNTANTS**

ABENTEUER RESOURCES CORP.

BALANCE SHEETS AS AT DECEMBER 31

	2004	2003 (Restated)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and term deposits	\$ 544,788	\$ 6,296
Accounts receivable	11,162	26,046
Prepaid expenses	-	10,610
Refundable deposits	<u>1,244</u>	<u>10,342</u>
	557,194	53,294
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment - Note 3	434,197	1,676,715
<b>TOTAL ASSETS</b>	<b>\$ 991,391</b>	<b>\$ 1,730,009</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank Loan – Note 4	\$ -	\$ 230,000
Promissory note payable – Note 5	-	116,687
Accounts payable and accrued liabilities	15,831	91,511
Due to shareholders – Note 6	<u>-</u>	<u>207,700</u>
	15,831	645,898
<b>LONG TERM</b>		
Asset retirement obligation – Note 7	19,300	22,100
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL - Note 8	912,314	912,314
CONTRIBUTED SURPLUS	32,710	18,460
RETAINED EARNINGS	<u>11,236</u>	<u>131,237</u>
	956,260	1,062,011
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 991,391</b>	<b>\$ 1,730,009</b>

**Approved on Behalf of the Board**

“*J Lewis Dillman*”, Director

“*Raymond Fong*”, Director

ABENTEUER RESOURCES CORP.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31

	2004	2003 (Restated)
<b>REVENUE</b>		
Petroleum and natural gas sales (net of royalties)	\$ 298,403	\$ 304,310
Gain on sale of assets	133,950	-
Interest income	<u>7,686</u>	<u>-</u>
	440,039	304,310
<b>EXPENSES</b>		
Depletion and amortization	204,832	95,715
Ceiling test write-down	109,000	-
Operating expenses	67,211	60,512
Professional fees	48,013	34,802
Interest	35,414	26,028
Office expenses	22,427	6,830
Bad debts	19,648	-
Stock based compensation	14,250	18,460
Office rent	13,800	13,050
Management fees	12,000	25,500
Shareholder reporting	7,669	5,515
Listing/filing fees	2,922	4,353
Business promotion	<u>2,854</u>	<u>3,275</u>
	560,040	294,040
<b>NET EARNINGS (LOSS) FOR THE YEAR</b>	(120,001)	10,270
<b>RETAINED EARNINGS – Beginning of the year - as previously reported</b>	128,037	118,742
Adjustment for Change in Accounting Policy – Note 7	3,200	2,225
<b>RETAINED EARNINGS – Beginning of the year - restated</b>	131,237	120,967
<b>RETAINED EARNINGS - End of the year</b>	<b>\$ 11,236</b>	<b>\$ 131,237</b>
Earnings (loss) per share (basic and diluted)	\$ (0.02)	\$ 0.00

ABENTEUER RESOURCES CORP.

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	2004	2003
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss) for the year	\$ (120,001)	\$ 10,270
Add (deduct) items not affecting cash		
Gain on sale of assets	(133,950)	-
Depletion and amortization	204,832	95,715
Ceiling test write-down	109,000	-
Stock based compensation	<u>14,250</u>	<u>18,460</u>
	74,131	124,445
Net change in non-cash working capital balances related to operations	<u>(41,088)</u>	<u>78,720</u>
	33,043	203,165
<b>FINANCING ACTIVITIES</b>		
Bank loan	(230,000)	230,000
Promissory note	(116,687)	116,687
Advances from shareholders	(207,700)	107,700
Issuance of share capital	<u>-</u>	<u>364,885</u>
	(554,387)	819,272
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(90,164)	(1,070,137)
Sale of assets	<u>1,150,000</u>	<u>-</u>
	1,059,836	(1,070,137)
<b>INCREASE (DECREASE) IN CASH</b>	538,492	(47,700)
CASH – Beginning of the year	6,296	53,996
<b>CASH - End of the year</b>	<b>\$ 544,788</b>	<b>\$ 6,296</b>
Cash basis interest paid in the year	\$ 32,504	\$ 28,938
Cash basis taxes paid in the year	nil	nil

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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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

On January 31, 2003 the Company amalgamated with its wholly owned subsidiary, 903739 Alberta Ltd. 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.

Capitalized costs are depleted and depreciated using the unit of production method based on gross reserves of petroleum and natural gas as determined by independent engineers. Effective January 1, 2004 the Company adopted Accounting Guideline 16, "Oil and Gas Accounting – Full Cost" which modifies how the ceiling test is performed. The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from that cost centre. If the carrying value is not recoverable, the cost centre is written down to its fair value. There were no changes to net income, capital property or any other reported amounts in the financial statements as a result of adopting this guideline.

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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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NOTE 2      **SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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)      **Asset Retirement Obligation**

Effective January 1, 2004 the Company retroactively adopted the Canadian Institute of Chartered Accountants section 3110 "Asset Retirement Obligations". The new recommendations require the recognition of the fair value of the obligations associated with the retirement of tangible long-lived assets be recorded in the period in which the liability is incurred, with a corresponding increase to the carrying value of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through changes to accretion expense. The costs capitalized to the related assets are depleted to earnings in a manner consistent with the underlying asset.

d)      **Measurement Uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The amounts recorded for depletion and amortization of property and equipment and the liability for retirement obligations are based on estimates. The impairment test is based on estimates of proved reserves, production rates, oil prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements, the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

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.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

f) Stock Based Compensation

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 the fair value of the stock options granted after January 1, 2003.

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.

g) Revenue Recognition

Revenue associated with the sales of petroleum and natural gas production owned by the Company is recognized when title passes from the Company to its customers. Alberta Royalty Tax Credits are included in oil and gas sales.

h) Per Share Amounts

Basic earnings or loss per share is computed by dividing earnings or loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or warrants are assumed to be used to purchase common shares of the Company at the average market price during the year.

NOTE 3 **PROPERTY AND EQUIPMENT**

	<u>Cost</u>	<u>Accumulated Depletion and Amortization</u>	2004 Net Book Value
Computer equipment	\$ 3,155	\$ 2,192	\$ 963
Petroleum & natural gas properties	<u>842,278</u>	<u>409,044</u>	<u>433,234</u>
	<u>\$ 845,433</u>	<u>\$ 411,236</u>	<u>\$ 434,197</u>
		<u>Accumulated Depletion and Amortization</u>	2003 Net Book Value
Computer equipment	\$ 3,155	\$ 1,780	\$ 1,375
Petroleum & natural gas properties	<u>1,898,140</u>	<u>222,800</u>	<u>1,675,340</u>
	<u>\$ 1,901,295</u>	<u>\$ 224,580</u>	<u>\$ 1,676,715</u>

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

**NOTE 3 PROPERTY AND EQUIPMENT – CONTINUED**

At December 31, 2004, petroleum and natural gas properties included \$nil (2003 - \$nil) relating to unproved properties which have been excluded from the depletion calculation. No general and administrative costs were capitalized during the year (2003 – nil).

The Company applied the ceiling test to its capitalized assets at December 31, 2004 and determined that such costs exceeded the cost centre ceiling by \$109,000. This cost write down has been recorded as additional depletion in the fourth quarter of 2004. This write down resulted from technical revisions which were considered to be changes in estimates, to the Company's estimated proved reserves and from adjustments to definitions of proved reserves pursuant to regulatory standard changes in Canada during the fourth quarter of 2004.

The following table outlines the benchmark prices used in the impairment test at December 31, 2004:

<u>Year</u>	<u>Oil Price</u>
2005	\$ 49.50
2006	44.50
2007	40.50
2008	39.25
2009	38.00

Prices were escalated at 2.5% per annum until 2018. Prices remain constant thereafter.

**NOTE 4 BANK LOAN**

At December 31, 2003 the Company had available a \$270,000 Revolving Reducing Demand Loan (LOC). The LOC permanently reduced by \$10,000 per month, required no additional principal repayments, and bore 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 was 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. The loan was repaid in full during 2004.

**NOTE 5 PROMISSORY NOTE PAYABLE**

During 2003 the Company borrowed US \$90,000 from a corporation associated with a director of the Company. Interest at 10% per annum (US \$9,000) was prepaid on this loan. The principal amount was repayable on November 27, 2004 or earlier, if at any time any party acquired 25% or more of the Company's issued and outstanding shares. The loan was unsecured. The loan was repaid in full during 2004.

**NOTE 6 DUE TO SHAREHOLDERS**

The amounts due to shareholders were unsecured and bore interest at 8% per annum. The loans were fully repaid during 2004.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 7 **ASSET RETIREMENT OBLIGATION**

The Company retroactively adopted the new recommendations on the recognition of the obligations to retire long-lived tangible assets. The change was effective January 1, 2004 and the revision was applied retroactively. The impact on December 31, 2003 was as follows:

	<u>As reported</u>	<u>Change</u>	<u>As restated</u>
Assets			
Capital assets net of depletion	\$ 1,654,615	\$ 22,100	\$ 1,676,715
Liabilities			
Asset retirement obligation	3,200	18,900	22,100
Retained earnings	128,037	3,200	131,237

Changes to the asset retirement obligation for the years ended December 31, 2004 are as follows:

	<u>2004</u>	<u>2003</u>
Asset retirement obligation at the beginning of the year	\$ 22,100	\$ 9,320
Liabilities incurred during the year	8,880	2,155
Disposal of assets	(12,700)	-
Accretion	<u>1,020</u>	<u>625</u>
Asset retirement obligation at the end of the year	<u>\$ 19,300</u>	<u>\$ 22,100</u>

NOTE 8 **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>Number of shares</u>	<u>Value</u>
Balance December 31, 2002	5,200,000	\$ 547,429
Exercise of stock options	140,000	35,000
Private placement	700,000	350,000
Share issue costs	-	<u>(20,115)</u>
Balance December 31, 2003 and 2004	<u>6,040,000</u>	<u>\$ 912,314</u>

Contributed surplus

Balance December 31, 2002	\$ 0
Stock based compensation	<u>18,460</u>
Balance December 31, 2003	18,460
Stock based compensation	<u>14,250</u>
Balance December 31, 2004	<u>\$ 32,710</u>

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 8 **SHARE CAPITAL – CONTINUED**

Per share amounts were calculated using the weighted average number of common shares outstanding of 6,040,000 (2003 – 5,621,038). 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.

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, 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		
Options cancelled	(530,000)		
Options granted	<u>570,000</u>	\$ 0.15	2006
Balance December 31, 2004	570,000		

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, 2004 there were no common shares held in escrow.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 9 **STOCK BASED COMPENSATION**

The Company has used the fair value method of accounting for all stock options granted on or after January 1, 2003, in order to determine stock option compensation expense. The Company recorded \$14,250 (2003 - \$18,460) of compensation expense in the statement of earnings. This amount was included in expenses, 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, 2004 was \$0.025 per share (2003 - \$0.12).

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)	\$0.025
Risk-free interest rate (%)	2.86
Expected life (months)	24
Expected volatility (%)	26
Expected dividend yield (%)	0.00

NOTE 10 **INCOME TAXES**

The effective tax rate of income tax varies from the statutory rate as follows:

	<u>2004</u>	<u>2003</u>
Combined tax rates	34%	35%
Expected income tax (recovery) at statutory rate	\$ (40,800)	\$ 3,250
Differences due to resource deductions	56,190	24,800
Other permanent differences	(9,260)	(8,810)
Change in valuation allowance	<u>(6,130)</u>	<u>(19,240)</u>
Actual income tax provision	<u>\$ -</u>	<u>\$ -</u>

Subject to confirmation by income tax authorities, the Company has non-capital loss carry forwards of \$42,569. 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>2004</u>	<u>2003</u>
Canadian exploration expense	\$ 47,485	\$ 45,578
Canadian development expense	390,848	1,245,899
Canadian oil & gas property expense	-	150,027
Undepreciated capital cost	157,699	239,013
Share issue costs	36,716	50,902

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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**NOTE 11 RELATED PARTY TRANSACTIONS**

During the year the Company paid management fees of \$12,000 (2003 - \$25,500) to companies controlled by two officers of the company.

During the year the Company paid \$13,800 (2003 - \$13,050) to a company controlled by an officer/director of the Company for rental of office space and facilities.

**NOTE 12 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 13 CONTINGENCY**

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated asset retirement obligations. Any changes in these estimates will affect future earnings.

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year.

The Company has no third-party insurance coverage for the oil and gas wells in which it has an interest. The impact on net earnings, should an adverse event occur, cannot be determined at this time.