

ABENTEUER RESOURCES CORP.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2006 AND 2005

## AUDITORS' REPORT

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

We have audited the balance sheet of **Abenteuer Resources Corp.** (the "Company") as at December 31, 2006 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 19, 2006.

*Signed "PricewaterhouseCoopers LLP"*

**Chartered Accountants**  
Vancouver, British Columbia  
April 27, 2007

ABENTEUER RESOURCES CORP.  
BALANCE SHEETS AS AT DECEMBER 31

	2006	2005
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 398,984	\$ 18,526
Accounts receivable	<u>73,925</u>	<u>69,122</u>
	472,909	87,648
<b>LONG TERM</b>		
Restricted cash - Note 5	45,545	-
Property and equipment - Note 3	1,519,310	1,214,445
<b>TOTAL ASSETS</b>	<b>\$ 2,037,764</b>	<b>\$ 1,302,093</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 42,691	\$ 225,484
<b>LONG TERM</b>		
Asset retirement obligation - Note 4	71,469	76,440
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL - Note 5	2,039,505	1,172,389
WARRANTS - Note 5	79,012	19,500
CONTRIBUTED SURPLUS - Note 5	54,865	32,710
DEFICIT	<u>(249,778)</u>	<u>(224,430)</u>
	1,923,604	1,000,169
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 2,037,764</b>	<b>\$ 1,302,093</b>

Approved by:

“Lewis Dillman”, Director

“Jamie Lewin”, Director

ABENTEUER RESOURCES CORP.  
STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE YEARS ENDED DECEMBER 31

	2006	2005
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REVENUE		
Petroleum and natural gas sales (net of royalties)	\$ 622,354	\$ 351,087
Loss on sale of assets	-	(1,617)
Interest income	<u>7,424</u>	<u>1,803</u>
	629,778	351,273
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EXPENSES		
Operating	176,023	112,163
Depletion, accretion and amortization	199,320	221,690
General and administrative	271,263	253,086
Stock based compensation - Note 6	<u>8,520</u>	<u>-</u>
	655,126	586,939
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NET LOSS FOR THE YEAR	(25,348)	(235,666)
(DEFICIT) RETAINED EARNINGS - Beginning of the year	(224,430)	11,236
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<b>DEFICIT - End of the year</b>	<b>\$ (249,778)</b>	<b>\$ (224,430)</b>
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Loss per share (basic and diluted)	\$ (0.00)	\$ (0.04)
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ABENTEUER RESOURCES CORP.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31

	2006	2005
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (25,348)	\$ (235,666)
Add (deduct) items not affecting cash		
Loss on sale of assets	-	1,617
Depletion, accretion and amortization	199,320	221,690
Stock based compensation	<u>8,520</u>	<u>-</u>
	182,492	(12,359)
Net change in non-cash working capital balances related to operations	<u>(187,598)</u>	<u>152,937</u>
	(5,106)	140,578
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital (net of share issuance costs)	<u>940,263</u>	<u>279,845</u>
	940,263	279,845
<b>INVESTING ACTIVITIES</b>		
Increase in restricted cash	(45,545)	-
Purchase of capital assets	(996,014)	(967,685)
Proceeds on disposal of assets	<u>486,860</u>	<u>21,000</u>
	(554,699)	(946,685)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	380,458	(526,262)
<b>CASH AND CASH EQUIVALENTS - Beginning of the year</b>	18,526	544,788
<b>CASH AND CASH EQUIVALENTS - End of the year</b>	<b>\$ 398,984</b>	<b>\$ 18,526</b>

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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NOTE 1      **NATURE OF OPERATIONS**

The Company is engaged primarily in the exploration for, and the 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 and consistently applied in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the year 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)      Office Equipment

Office equipment, other than petroleum and natural gas properties, is recorded at cost. Amortization is recorded on a declining balance basis at the following annual rate:

Computer equipment	20%
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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. 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.

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.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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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

The recognition of the fair value of the obligations associated with the retirement of tangible long-lived assets are 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 or loss 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 in estimates in future periods could be significant.

The calculation of stock-based compensation involves using certain estimates and assumptions which are subject to management uncertainty.

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 are expected to reverse.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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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 5. 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.

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)      Loss per share

Basic loss per share is computed by dividing loss by the weighted average number of common shares outstanding during the year. Diluted loss per share amounts reflect the potential dilution (if any) 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 loss 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.

i)      Flow-Through Shares

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized thereby reducing share capital when the expenses are renounced.

If a company has sufficient unused tax losses and deductions to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability previously recognized on the renounced expenditures.

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 3 **PROPERTY AND EQUIPMENT**

	<u>Cost</u>	<u>Accumulated Depletion and Amortization</u>	<u>2006 Net Book Value</u>
Computer equipment	\$ 10,504	\$ 3,113	\$ 7,391
Petroleum & natural gas properties	<u>2,331,597</u>	<u>819,678</u>	<u>1,511,919</u>
	<u>\$ 2,342,101</u>	<u>\$ 822,791</u>	<u>\$ 1,519,310</u>

  

	<u>Cost</u>	<u>Accumulated Depletion and Amortization</u>	<u>2005 Net Book Value</u>
Computer equipment	\$ 8,249	\$ 1,237	\$ 7,012
Petroleum & natural gas properties	<u>1,833,077</u>	<u>625,644</u>	<u>1,207,433</u>
	<u>\$ 1,841,326</u>	<u>\$ 626,881</u>	<u>\$ 1,214,445</u>

During the year, a well was sold for net proceeds of \$486,860 which approximated its book value. The Company's reserves are estimated and assessed by a qualified, independent petroleum engineer.

At December 31, 2006, petroleum and natural gas properties included \$nil (2005 - \$nil) relating to unproved properties which have been excluded from the depletion calculation. No general and administrative costs were capitalized during the year (2005 - \$nil). The Company applied the ceiling test to its capitalized assets at December 31, 2006 and determined that no write down of capitalized costs was required (2005 - \$nil writedown).

The following table outlines the benchmark prices used in the impairment test at December 31, 2006:

<u>Year</u>	<u>Oil Price</u>
2007	\$ 58.75
2008	56.33
2009	53.93
2010	50.44
2011	51.95

Prices were escalated at 3% per annum thereafter.

NOTE 4 **ASSET RETIREMENT OBLIGATION**

The asset retirement obligations for the years ended December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Asset retirement obligation at the beginning of the year	\$ 76,440	\$ 19,300
Net (decrease)/increase in liabilities during the year	(8,381)	53,287
Accretion	<u>3,410</u>	<u>3,853</u>
Asset retirement obligation at the end of the year	<u>\$ 71,469</u>	<u>\$ 76,440</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 5 **SHARE CAPITAL**

Authorized share capital:

Unlimited number of voting common shares without nominal or par value

Unlimited number of preferred shares without nominal or par value

Issued share capital:

	<u>Number of shares</u>	<u>Value</u>
Balance December 31, 2004	6,040,000	\$ 912,314
Issued for cash (i)	1,190,000	278,000
Issued for services	77,600	19,400
Share issue costs	<u>-</u>	<u>(37,325)</u>
Balance December 31, 2005	7,307,600	1,172,389
Units issued for cash (i)	1,317,333	322,041
Flow through shares issued for cash (i)	1,968,333	590,500
Shares issued for cash (i)	20,000	6,000
Warrants exercised (i)	20,000	8,665
Options exercised (ii)	100,000	20,200
Share issue costs (i)	<u>-</u>	<u>(80,290)</u>
Balance December 31, 2006	<u>10,733,266</u>	<u>\$ 2,039,505</u>
Warrants		
Balance December 31, 2004	-	\$ -
Warrants issued (i)	<u>1,190,000</u>	<u>19,500</u>
Balance December 31, 2005	1,190,000	19,500
Warrants issued (i)	1,317,333	73,159
Warrants issued to brokers (i)	105,387	5,853
Warrants exercised (i)	(20,000)	(665)
Warrants expired (i)	<u>(1,170,000)</u>	<u>(18,835)</u>
Balance December 31, 2006	<u>1,422,720</u>	<u>\$ 79,012</u>
Contributed surplus		
Balance December 31, 2004		<u>\$ 32,710</u>
Balance December 31, 2005		32,710
Options issued stock based compensation (Note 6)		8,520
Warrants expired (i)		18,835
Options exercised (ii)		<u>(5,200)</u>
Balance December 31, 2006		<u>\$ 54,865</u>

i) Share capital and warrants

In August and September of 2005, the Company issued 1,190,000 units at \$0.25 per unit for gross proceeds of \$297,500. Each unit is comprised of one common share and one

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 5 **SHARE CAPITAL - CONTINUED**

share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.40. The warrants expired in August and September of 2006.

In February and March 2006, the Company completed a private placement of 3,305,666 units and shares at \$0.30 per unit or share for gross proceeds of \$991,700, of which 1,317,333 were units consisting of one common share and one warrant exercisable at \$0.40 per share until March 9, 2007 and 1,988,333 were flow-through shares. Share issuance costs amounted to \$80,290. The warrants were fair-valued at \$73,159 and the 105,387 broker warrants at \$5,853, both using the Black-Scholes option pricing model. In March 2006, the Company learned that one of the subscribers for flow-through shares did not qualify and so was issued 20,000 common shares. As at December 31, 2006 the Company had not completed \$45,545 of its qualifying exploration expenditures pursuant to the flow-through share agreements and accordingly the related cash is segregated as restricted cash in the balance sheet.

During the year, 20,000 warrants were exercised for gross proceeds of \$8,000. Pursuant to the exercise of these warrants, \$665 was transferred from warrants to share capital. All expired warrants were transferred to contributed surplus at year end. Per share amounts were calculated using the weighted average number of common shares outstanding of 9,836,849 (2005 - 6,476,700).

ii) 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 Company 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 the 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, 2005	570,000	\$ 0.15	December 2006
Options exercised	(100,000)	\$ 0.15	December 2006
Options expired	(470,000)	\$ 0.15	December 2006
Options granted	<u>100,000</u>	<u>\$ 0.30</u>	August 2008
Balance December 31, 2006	100,000	\$ 0.30	

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 5 SHARE CAPITAL - CONTINUED**

During 2006, 100,000 stock options were exercised for net proceeds of \$15,000. Pursuant to the exercise of these options, \$5,200 was transferred from contributed surplus to share capital.

**NOTE 6 STOCK BASED COMPENSATION**

The Company has used the Black-Scholes option pricing model to determine a fair value for stock options in order to determine the stock option compensation expense. The Company recorded \$8,520 of compensation expense in the statement of operations and deficit in relation to the 100,000 options issued on August 1, 2006, with a corresponding increase to contributed surplus on the balance sheet.

The fair value of each option granted was estimated using the following assumptions:

- Risk-free interest rate (4.22%)
- Expected life (24 months)
- Expected volatility (73.15%)
- Expected dividend yield (0.00%)

**NOTE 7 INCOME TAXES**

The Company has non-capital loss carry forwards for income tax purposes of approximately \$46,394, which will expire between 2009 and 2015.

Future income tax assets are not recorded for the above tax loss carry-forwards due to complete uncertainty of their recovery. The tax losses may be subject to audit and adjustment by tax authorities as well as other regulations. Significant components of the Company's future income tax assets and liabilities, after applying enacted corporate income tax rates are as follows:

	<u>2006</u>	<u>2005</u>
Non-capital losses	\$ 16,642	\$ 17,569
Unamortized share issue costs	31,850	14,353
Tax value of property and equipment in excess of net book value of property and equipment	132,503	120,843
Asset retirement obligation	<u>(25,636)</u>	<u>(28,948)</u>
	155,359	123,817
Less: Valuation allowances	<u>(155,359)</u>	<u>(123,817)</u>
	<u>          -</u>	<u>          -</u>

ABENTEUER RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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**NOTE 8 RELATED PARTY TRANSACTIONS**

During the year, the Company paid management fees of \$47,500 (2005 - \$45,000) to a company controlled by an officer and director of the Company. In addition, the Company paid legal fees of \$52,184 (2005 - \$34,502) to an advisor who is an officer and director of the Company and paid \$6,668 (2005 - \$nil) to an officer and director of the Company for accounting services.

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.

**NOTE 9 FINANCIAL INSTRUMENTS**

The Company's financial instruments that are included in the balance sheet are comprised of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. 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. This risk is mitigated by selling a homogenous product which could potentially be sold to other customers should the need arise.

**NOTE 10 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 or loss cannot be determined at this time, it could be material for any one quarter or year.

The Company has third-party insurance coverage for the oil and gas wells in which it has an interest.