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Auditors' Report

To the Shareholders of
Anterra Corporation

We have audited the consolidated balance sheets of Anterra Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years 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 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte and Touche LLP

Chartered Accountants

Calgary, Alberta
March 29, 2007

Anterra Corporation
Consolidated Balance Sheets

As at December 31	2006	2005
Assets		
Current		
Cash and cash equivalents	**$ 121,734**	$ 698,602
Accounts receivable	**920,736**	788,844
Deposits and prepaid expenses	**230,127**	170,219
Income taxes recoverable	**32,494**	-
	1,305,091	1,657,665
Property and equipment (Note 5)	**12,593,525**	8,528,573
Intangible assets (Note 6)	**303,505**	302,702
Goodwill	**606,017**	606,017
	$ 14,808,138	$ 11,094,957
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 2,059,756**	$ 2,070,789
Bank loan (Note 7)	**4,250,000**	2,050,000
Income taxes payable	**-**	224,058
Current portion of long term debt (Note 8)	**-**	171,000
	6,309,756	4,515,847
Asset retirement obligation (Note 9)	**1,371,697**	1,083,540
Future income taxes (Note 12(b))	**1,219,137**	1,195,268
	8,900,590	6,794,655
Share capital (Note 10(b))	**5,803,400**	3,741,633
Contributed surplus (Note 11)	**330,320**	213,489
Retained earnings (deficit)	**(226,172)**	345,180
	5,907,548	4,300,302
	$ 14,808,138	$ 11,094,957

Commitments and Contingencies (Note 15)
Subsequent Events (Note 18)

Approved on behalf of the Board:

"Signed" Director
Owen Pinnell

"Signed" Director
James Coleman

The accompanying notes are an integral part of these consolidated financial statements.

Anterra Corporation
Consolidated Statements of Operations and Retained Earnings (deficit)

For the years ended December 31	2006	2005
Revenues		
Revenue	$ 5,386,297	$ 5,334,928
Royalties	(421,508)	(360,319)
	4,964,789	4,974,609
Expenses		
Operating	2,659,325	1,957,654
Transportation	151,893	106,515
General and administrative	1,176,261	907,382
Stock compensation (Note 16)	116,831	201,423
Interest	220,691	130,475
Loss on sale of assets	-	242
Asset retirement accretion	107,782	89,467
Depletion, depreciation and amortization	1,334,402	1,038,478
	5,767,185	4,431,636
Income (loss) before taxes	(802,396)	542,973
Income taxes (Note 12)		
Current	(29,587)	218,925
Future	(201,457)	(123,981)
	(231,044)	94,944
Net income (loss) for the year	(571,352)	448,029
Retained earnings (deficit), beginning of year	345,180	(102,849)
Retained earnings (deficit), end of year	$ (226,172)	$ 345,180
Basic profit (loss) per share (Note 14)	$ (0.021)	$ 0.020
Diluted profit (loss) per share (Note 14)	$ (0.021)	0.020

The accompanying notes are an integral part of these consolidated financial statements.

Anterra Corporation
Consolidated Statements of Cash Flows

For the years ended December 31	2006	2005
Cash flows from operating activities		
Operations		
Net income (loss) for the year	**$ (571,352)**	$ 448,029
Items not involving cash		
Stock compensation	**116,831**	201,423
Depletion, depreciation and amortization	**1,334,402**	1,038,478
Asset retirement accretion	**107,782**	89,467
Loss on sale of assets	**-**	242
Future income taxes	**(201,457)**	(123,981)
Funds flow from operations	**786,206**	1,653,658
Change in non-cash working capital balances		
Accounts receivable	**(131,892)**	(215,518)
Deposits and prepaid expenses	**(59,907)**	(50,883)
Accounts payable	**(11,033)**	1,248,894
Income taxes payable	**(256,552)**	221,242
Cash flow from operating activities	**326,822**	2,857,393
Financing activities		
Issue of common shares and warrants	**2,176,300**	738,250
Share issue costs	**(187,533)**	(3,814)
Bank loan	**2,200,000**	275,000
Payments of long term debt	**(171,000)**	(209,000)
Payments on capital lease	**-**	(20,282)
	4,017,767	780,154
Investing activities		
Cash paid on acquisition, net of cash acquired	**(1,269,854)**	-
Additions to property and equipment	**(3,651,603)**	(3,065,680)
Disposal proceeds, property and equipment	**-**	1,100
	(4,921,457)	(3,064,580)
Increase (decrease) in cash and cash equivalents	**(576,868)**	572,967
Cash and cash equivalents, beginning of year	**698,602**	125,635
Cash and cash equivalents, end of year	**$ 121,734**	$ 698,602

Supplementary Disclosures (Note 13)

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations

The Company was incorporated under the Alberta Business Corporations Act on March 22, 2000 as Holy Smoke Capital Corp. On November 1, 2002 the Company changed its name to Anterra Corporation.

The principal activities of the Company are the exploration, development and production of oil and gas properties and the development of associated fee based projects in the processing operations.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 these consolidated financial statements and accompanying notes. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Basis of consolidation
The consolidated financial statements include those of the Company and its wholly owned subsidiary Anterra Resources Inc. from its date of acquisition October 31, 2002 and Anterra Midstream Inc. from its date of incorporation May 1, 2003. Panterra Energy Corp. was purchased on March 15, 2006 and was immediately amalgamated with Anterra Resources Inc. All material inter-company transactions have been eliminated.

(b) Financial instruments
The Company carries a number of financial instruments as detailed on the balance sheet. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(c) Revenue recognition
Revenues associated with the sale of crude oil and natural gas are recorded when the title passes to the customer. Revenues from crude oil and natural gas production from properties in which the Company has an interest with other producers are recognized on the basis of the Company's net working interest. Alberta Royalty Tax Credits are netted against oil and gas royalties. Revenues from midstream processing are recognized when the service is completed.

(d) Stock-based compensation plan
The Company records compensation expense for stock options granted to employees and directors using the fair value method. Fair values are determined using the Black-Scholes option pricing model. If options are forfeited, the compensation expense is not recorded to the extent that the options have not vested.

2. Significant Accounting Policies - continued

(e) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, bank balances (including temporary bank overdrafts), term deposits and investments with maturities of three months or less.

(f) Property and equipment

Petroleum and Natural Gas Properties and Equipment

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs relating to the acquisition, exploration and development of oil and natural gas reserves, including asset retirement costs, are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, related production equipment costs, asset retirement and abandonment costs and overhead charges directly related to acquisition, exploration and development activities.

Capitalized costs, excluding costs related to unproven properties, will be depleted and depreciated using the unit-of-production method based on estimated proven oil and natural gas reserves before deduction of royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted to equivalent barrels of oil using a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate. An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

i. the fair value of proved and probable reserves; and

ii. the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Processing Equipment and Furniture and Fixtures

Processing equipment and furniture and fixtures are carried at cost and depreciated net of estimated salvage values on a straight line basis over the estimated service lives of the assets, from 5 to 20 years. These assets are assessed periodically to ascertain whether impairment has occurred. The Company has determined that the processing assets are integral to the Company's petroleum and natural gas operations and the assessment of impairment is undertaken in this context.

2. Significant Accounting Policies - continued

(g) Intangible assets
Intangible assets consist of certain permits, licenses, trademarks and agreements. Amortization provided for, where applicable, on a straight-line basis over the useful life of the assets, up to twenty years. The Company assesses impairment of the carrying value of intangible assets at least annually. The expected future economic benefit from the underlying assets is compared to the net book values and impairment, if any, is recorded as additional amortization.

(h) Asset retirement obligation ("ARO")
Retirement costs equal to the retirement obligation are capitalized as part of the cost of property and equipment and amortized to expense through depletion over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense is recorded as asset retirement accretion expense in the statement of operations, not as a component of interest expense. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized in earnings in the period in which the settlement occurs.

(i) Measurement uncertainty
Amounts recorded for depreciation, depletion and amortization, asset retirement costs and obligations and amounts used for ceiling test and impairment calculations are based on estimates of oil and natural gas reserves, future costs required to develop those reserves, production rates, oil and gas prices and other relevant assumptions. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The consolidated 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 consolidated financial statements resulting from such adjustments, if any, will be reflected prospectively.

(j) Future income taxes
The Company follows the tax liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

2. Significant Accounting Policies - continued

(k) Per share information
Basic loss per share is computed by dividing earnings by weighted average number of shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted to shares. The treasury stock method is used to determine the dilutive instruments.

(l) Flow-through shares
The Company has financed a portion of its planned exploration and development activities through the issue of flow-through shares. Under terms of the flow-through agreements, the income tax deductions attributable to the capital expenditures are renounced to the subscribers. This renunciation increases the company's future tax liability and the cost is charged against the gross proceeds of the share issuance at the time the capital expenditures are renounced to the subscribers on the date of filing the renunciations.

(m) Joint venture operations
For projects not wholly owned by the Company, the operations are conducted through the use of joint ventures. These consolidated financial statements reflect only the Company's proportionate interest in such operations.

(n) Goodwill
Goodwill, which represents the excess of purchase price over fair value of net assets received, is not amortized, but is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount.

(o) Commodity Contracts
Commodity contracts that do not meet the criteria for the use of hedge accounting are recorded on the balance sheet at fair value and changes in fair value are recognized in income in the period in which the change occurs. As the Company had no such contracts in 2006 or 2005, there is no effect on the financial statements of implementation of this policy.

(p) Recent Accounting Pronouncements

Beginning in fiscal year 2007, the Company will be required to adopt new CICA Handbook section 1530 "Comprehensive Income", section 3855 "Financial Instruments – Recognition and Measurement" and section 3865 "Hedges" as issued by the Canadian Institute of Chartered Accountants. Under these sections a new financial statement, "Consolidated Statement of Other Comprehensive Income", has been introduced that provides for among other things, that foreign currency translation adjustments and other amounts relating to changes in value be temporarily recorded outside the income statement. In addition, these new standards emphasize the use of fair value as the basis of accounting and disclosure. The Company is evaluating the impact of these new standards, but management does not anticipate that this will have a material impact on the Company's financial position or results of operations.

3. Business Acquisition

On March 15, 2006, the Company acquired all of the issued and outstanding common shares of Panterra Energy Corp. Ltd., a private Alberta based energy company. The acquisition was accounted for using the purchase method with the results of operations included from March 15, 2006, the effective date of acquisition. An independent reserve evaluation was prepared on the properties owned by Panterra, which valued proved and probable reserves (discounted at 10%) in excess of the fair value reflected by the purchase price below.

	Book Value	Fair Value	Difference
Working capital	Nil	Nil	-
Property, plant and equipment	975,452	1,737,291	761,839
Asset retirement obligation	-	(169,113)	(169,113)
Future income taxes	-	(298,324)	(298,324)
Net assets acquired	$ 975,452	$ 1,269,854	$ 294,402
Purchase price			
-Cash		1,269,854	
		$ 1,269,854	

4. Related Party Transactions

Except as disclosed elsewhere the Company had the following related party transactions:

(a) The private placement of 1,873,833 flow-through common shares and 2,104,000 units, comprised of a common share and a warrant to purchase one half of a common share, on April 7, 2006 included 254,999 flow through shares and 50,000 units issued to directors and officers of the company.

(b) The private placement of 1,280,000 Common Shares on December 14 and 15, 2005 included 550,000 shares issued to directors and officers of the Company.

The above transactions were completed on the same terms as to other arms length participants in the private placements.

(c) During 2006, a corporation owned by an officer and director charged $69,600 (2005 -$57,900) to the Company for office space and related services (Note 15). A legal firm of which a director is a partner charged the Company $87,195 (2005 - $30,437) for fees and services.

(d) The Company is leasing office space and related services from a director's corporation. This lease expires on March 31, 2007 and currently has monthly payments of $5,800. It has been extended to December 31, 2007 at a monthly payment of $10,500.

All related party transactions in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

5. Property and Equipment

	2006			2005		
	Cost	**Accumulated depletion, depreciation and amortization**	**Net Book Value**	Cost	Accumulated depletion, depreciation and amortization	Net Book Value
Petroleum and natural gas properties and equipment	**$ 12,845,615**	**$ 2,759,155**	**$ 10,086,460**	$ 7,484,139	$ 1,512,158	5,971,981
Processing equipment and furniture and fixtures	**2,954,415**	**447,350**	**2,507,065**	2,856,277	299,685	2,556,592
	$ 15,800,030	**$ 3,206,505**	**$ 12,593,525**	$ 10,340,416	$ 1,811,843	$ 8,528,573

Costs totaling $374,000 related to seismic work on unproved properties was excluded from the depletion calculation in 2005.

An impairment test calculation was performed on the Company's property, plant and equipment at December 31, 2006 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amount of the Company's property, plant and equipment.

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

Year	WTI Crude Oil US$/bbl	Exchange Rate US$/CDN$	Edm Light Crude Cdn$/bbl	AECO Natural Gas Net of Transportation CDN$/Mcf
2007	65.00	.88	72.85	7.40
2008	69.35	.88	77.75	8.00
2009	70.75	.88	79.35	7.90
2010	69.00	.88	77.30	8.00
2011	67.10	.88	75.15	8.25
2012	66.25	.88	74.15	8.40
2013	67.55	.88	75.60	8.50
2014	68.90	.88	77.15	8.75
2015	70.30	.88	78.70	8.90
2016	71.70	.88	80.25	9.10
2017	73.15	.88	81.85	9.25
Thereafter	2%/Year		2%/Year	2%/Year

6. Intangible Assets

	2006			2005		
	Cost	**Accumulated depreciation**	**Net Book Value**	Cost	Accumulated depreciation	Net Book Value
Licenses and permits	**$ 319,177**	**$ 15,672**	**$ 303,505**	$ 312,501	$ 9,799	$ 302,702

On November 30, 2004, licenses and permits additions of $302,500 were added as part of an acquisition.

7. Bank Loan

The Company had available a $4,500,000 (2005 - $3,000,000) revolving demand loan facility with a chartered bank. The loan bears interest at prime plus 3/4%, an effective rate at year end of 6.75% in 2006 (2005 – 5.75%), and is secured by a general assignment of book debts and a $10,000,000 first floating charge debenture over all assets of the Company. The availability under the facility is subject to periodic review. On January 10, 2007 the facility was amended to $5,000,000 and a further $500,000 non-revolving acquisition demand loan provided, bearing interest at prime plus 1%, and with repayments of interest only until the annual review. The facilities are subject to annual review by May 1, 2007. As at December 31, 2006, the Company had drawn $4,250,000 (2005 - $2,050,000). At December 31, 2005, the Company was in compliance with its debt covenants. At December 31, 2006 the Company was not in compliance with the working capital ratio covenant; however the Bank has provided a waiver with respect to the non-compliance.

8. Long Term Debt

	2006	2005
5% Subordinated debentures (a)	**$ -**	**$** 171,000
Less current portion	**-**	(171,000)
	$ -	$ -

(a) 5% Subordinated Debentures

The debentures matured on March 31, 2006 and bore interest at 5% per annum payable at maturity. They were secured by a floating charge over the assets of an operating subsidiary of the Company and were subordinate to any present and future senior indebtedness of the Company or its subsidiary.

9. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

	2006	2005
Asset retirement obligation, beginning of year	**$ 1,083,540**	$ 994,073
Liabilities assumed on corporate acquisition	**169,112**	-
Liabilities incurred	**11,263**	-
Accretion expense	**107,782**	89,467
Asset retirement obligation, end of year	**$ 1,371,697**	$ 1,083,540

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $3,636,000 (2005 - $2,872,000). The obligation was calculated using a credit-adjusted risk free discount rate of 9 percent and an inflation rate of 2 percent. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2007 and 2023.

10. Share Capital

(a) Authorized

Unlimited number of Common Shares
Unlimited number of Preferred shares issuable in series, rights and privileges to be determined upon issue.

(b) Issued

	2006		2005	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**23,865,000**	**$ 3,741,633**	21,930,000	$ 2,994,697
Shares issued on warrant exercise	**-**	**-**	-	-
Shares issued on option exercise	**-**	**-**	655,000	110,750
Private placement of flow-through shares for cash	**1,873,833**	**1,124,300**	-	-
Private placement of common share units for cash	**2,104,000**	**947,852**	1,280,000	640,000
Common share warrants issued as part of units, above, and broker warrants in Private Placement	**-**	**127,537**	-	-
Share issue costs, net of $73,000 future tax benefit	**-**	**(137,922)**	-	(3,814)
Balance, end of year	**27,842,833**	**$ 5,803,400**	23,865,000	$ 3,741,633

On April 7, 2006 the Company completed a private placement of 1,873,833 common shares issued on a flow-through basis at a price of $0.60 per share and 2,104,000 units at a price of $0.50 per unit. Each unit consisted of one common share and one half of a common share purchase warrant. Each whole warrant is exercisable into one common share at an exercise price of $0.75 until October 7, 2007.

10. Share Capital - continued

On the exercise of stock options, the Company issued common shares at a price of $0.15 in amounts of 80,000 on August 3, 2005 and 575,000 on September 15, 2005 for net proceeds of $110,750.

On December 14, and 15, 2005, the Company issued 1,280,000 common shares as consideration for a private placement of common shares at a price of $0.50 per share for net proceeds of $636,186 after share issue costs.

(c) Stock options
The Company has a stock option plan under which employees, directors and consultants are eligible to receive grants. On December 31, 2006 1,825,000 (2005 – 2,386,500) common shares were reserved for issuance under the plan. Options granted under the plan have varying vesting periods and are determined by the Board at the grant date.

A summary of the status of the Corporation's stock option plan as at December 31, 2006 and 2005 and changes during the years ending on those dates is presented below.

		2006		2005
Stock Options	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
Beginning of year	**2,210,000**	**$0.37**	1,285,000	$0.15
Granted	**640,000**	**$0.43**	1,700,000	$0.47
Exercised	**-**	**-**	(655,000)	$0.15
Cancelled	**(1,025,000)**	**$0.44**	(120,000)	$0.24
End of year	**1,825,000**	**$0.38**	2,210,000	$0.39
Exercisable, end of year	**1,505,000**	**$0.38**	1,186,667	$0.37

For the Year Ended December 31, 2006

Date of Grant	**Number Outstanding**	**Weighted Average Exercise Price**	**Date of Expiry**	**Number Exercisable December 31, 2006**
Dec. 10, 2002	200,000 *(1)*	$0.15	Dec. 10, 2007	200,000
March 29, 2004	235,000 *(2)*	$0.23	March 29, 2009	181,667
July 15, 2004	100,000 *(3)*	$0.21	July 15, 2009	100,000
May 18, 2005	75,000 *(4)*	$0.32	May 18, 2010	75,000
Sept 15, 2005	600,000 *(5)*	$0.50	Sept 15, 2010	516,667
Feb 13, 2006	100,000 *(6)*	$0.50	Feb 13, 2011	100,000
May 1, 2006	240,000 *(7)*	$0.50	May 1, 2011	173,333
May 18, 2006	100,000 *(8)*	$0.40	May 18, 2011	100,000
Dec 21, 2006	175,000 *(9)*	$0.32	Dec 21, 2011	58,333
	1,825,000			1,505,000

10. Share Capital - continued

(1) *200,000 of the options vested immediately with 600,000 vesting equally on the first, second and third anniversary of the date. 555,000 have been exercised and 45,000 have been cancelled to date.*
(2) *75,000 of the options vested immediately with 210,000 vesting equally on the first, second and third anniversary of the date. 50,000 have been cancelled to date.*
(3) *These options vested immediately upon issuance.*
(4) *These options vested immediately upon issuance. 50,000 have been cancelled to date.*
(5) *591,667 of the options vested immediately with 483,333 vesting equally on the first and second anniversary of the date. 475,000 have been cancelled to date.*
(6) *These options vested immediately upon issuance.*
(7) *148,333 of the options vested immediately with 116,667 vesting over varying periods upto the second anniversary of the grant date. 25,000 have been cancelled to date.*
(8) *These options vested immediately upon issuance.*
(9) *58,333 of the options vested immediately with 116,667 vesting equally on the first and second anniversary of the date.*

For the Year Ended December 31, 2005

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Date of Expiry	Number Exercisable December 31, 2004
Dec. 10, 2002	200,000 (10)	$0.15	Dec. 10, 2007	200,000
March 29, 2004	260,000 (11)	$0.23	March 29, 2009	136,667
July 15, 2004	100,000 (12)	$0.21	July 15, 2009	100,000
March 10, 2005	250,000 (13)	$0.29	March 10, 2010	-
May 18, 2005	75,000 (14)	$0.32	May 18, 2010	75,000
Sept 15, 2005	1,075,000 (15)	$0.50	Sept 15, 2010	591,667
Nov. 3, 2005	250,000 (16)	$0.48	Nov 3, 2010	83,333
	2,210,000			1,186,667

(10) *200,000 of the options vested immediately with 600,000 vesting equally on the first, second and third anniversary of the date. 555,000 have been exercised and 45,000 have been cancelled to date.*
(11) *75,000 of the options vested immediately with 210,000 vesting equally on the first, second and third anniversary of the date. 25,000 have been cancelled to date.*
(12) *These options vested immediately upon issuance.*
(13) *These options vest equally on the first, second and third anniversary of the date.*
(14) *These options vested immediately upon issuance. 50,000 have been cancelled to date.*
(15) *591,667 of the options vested immediately with 483,333 vesting equally on the first and second anniversary of the date.*
(16) *83,333 of the options vested immediately with 166,667 vesting equally on the first and second anniversary of the date.*

10. Share Capital - continued

d) Warrants

On April 7, 2006, the Company issued 1,052,000 warrants as part of the private placement of 2,104,000 units. The warrants are exercisable at $0.75 per warrant and expire on October 7, 2007. On the same date, 238,670 broker's warrants were issued providing the right to purchase one common share, at an exercise price of $0.60 per warrant. These warrants expire on April 7, 2007.

The following is a continuity of the warrants outstanding:

	2006		2005	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
Beginning of year	**-**	**$ -**	-	-
Issued	**1,290,670**	**$0.72**	-	-
Exercised	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
End of year	**1,290,670**	**$0.72**	-	-
Exercisable, end of year	**1,290,670**	**$0.72**	-	-

11. Contributed Surplus

The following table presents the reconciliation of the beginning and ending balance of the contributed surplus:

	2006	2005
Contributed surplus, beginning of year	**$ 213,489**	$ 24,566
Exercised stock options	**-**	(12,500)
Stock compensation expense	**116,831**	201,423
Contributed surplus, end of year	**$ 330,320**	$ 213,489

12. Income Taxes

(a) The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to income (loss) before income taxes. The major components of these differences are explained as follows:

	2006	2005
Income (loss) before taxes	**$ (802,396)**	$ 542,973
Corporate income tax rate	**32.12%**	34.2%
Expected tax expense	**$ (257,730)**	$ 185,697
Increase (decrease) in future income taxes resulting from:		
Non-deductible crown charges	**35,470**	59,654
Tax resource allowance	**(42,088)**	(103,777)
Future tax rate reductions	**(135,865)**	(87,655)
Stock compensation expense	**37,526**	68,887
Non-deductible expenses	**1,947**	1,350
Change in valuation allowance	**129,696**	(24,162)
Other	**-**	(5,050)
Income tax expense	**$ (231,044)**	$ 94,944

(b) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

Nature of temporary differences	2006	2005
Property, plant and equipment	**$ (1,732,726)**	$ (1,825,261)
Asset retirement obligations	**440,589**	374,905
Non-capital losses	**220,650**	340,431
Share issue costs and finance fees	**73,000**	5,611
	(998,487)	(1,104,314)
Valuation allowance	**(220,650)**	(90,954)
Future income tax liability	**$ (1,219,137)**	$ (1,195,268)

(c) The Company has non-capital losses available for income tax purposes of approximately $686,954 (2005 - $686,954) which are available to reduce taxable income in future years. The losses expire between 2008 and 2012. At December 31, 2006, the tax benefit from these losses has not been recognized.

13. Supplementary Information – Statement of Cash Flows

During the year ended December 31, 2006, the Company paid $220,691 in interest (2005 - $130,475) and $222,016 in income taxes (2005 - $2,816). Cash and cash equivalents at December 31, 2006 and at December 31, 2005 include only nominal cash equivalents.

14. Weighted Average Number of Shares

The following table summarizes the calculation of basic net income and diluted net income per share.

	2006	2005
Net income (loss) available to common shareholders	**(571,352)**	448,029
Weighted-average number of common shares outstanding - basic	**26,796,608**	22,191,274
Dilutive effect of stock options and warrants [1]	**300,998**	277,357
Weighted-average number of commons shares outstanding– diluted	**27,097,606**	22,468,631
Net income (loss) per share ($/share)		
Basic	**$(0.021)**	$0.020
Diluted	**$(0.021)**	$0.020

[1] Excluded from the above dilutive stock options and warrants are 1,215,000 options and 1,290,670 warrants at December 31, 2006.

15. Commitments and Contingencies

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. As disclosed in note 9, the Company has recognized a liability at December 31, 2006 of $1,371,697 (2005 - $1,083,540) related to the retirement of its long-lived petroleum assets based on current legislation and estimated costs. 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.

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. 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 entered into a lease arrangement for office space and related services to December 31, 2007. The future minimum lease payments total $111,900 (2007- $111,900).

Pursuant to a flow-through financing completed April 7, 2006, the Company is committed to spending $1,124,299.80 on qualified exploration and development expenditures by December 31, 2007. As at December 31, 2006, the Company had expended $999,300 on qualified expenditures related to the financing.

The Company has entered into employment agreements with certain senior management. In addition to defining the terms of employment, the agreement entitles the employees to payment ranging from 3 months to 1 year of compensation for termination without cause or in the event of a change of control.

16. Stock Compensation

The Company records stock-based compensation expense for all common share options granted to employees and directors after January 1, 2003.

The fair value of share options granted in 2006 had a weighted average fair value of $0.22 (2005 - $0.22) which was estimated using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Dividend yield	**Nil**	Nil
Expected volatility	**70%**	70%
Risk free rate of return	**4.1%**	3.3%
Weighted average life	**3 years**	3 years

17. Financial Instruments

As disclosed in Note 2(b), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value, interest rate and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk
The Company will be subject to commodity price risk for the delivery of natural gas and crude oil.

(b) Credit risk
A significant portion of the Company's cash is currently held with the same financial institution and, as such, the Company is exposed to concentration of credit risk. Substantially all the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

(c) Interest rate risk management
The Company's borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

As at December 31, 2006, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $42,500 (2005 - $20,500). The related disclosures regarding the debt instruments are included in Note 7 of these consolidated financial statements.

18. Subsequent Event

On March 22, 2007, the Company signed an amalgamation agreement pursuant to the terms of which the Company will combine it's business with Resolve Energy Inc. ("Resolve"). The amalgamation, which will be accounted for as an acquisition of Resolve by the Company, is subject to the approval of the TSX Venture Exchange and the approval of the shareholders of both companies at their respective meetings on April 26, 2007.

19. Segmented Information

The Company has two reportable segments. The Oil and Gas Production segment explores for, develops and produces oil and gas. The Midstream Processing segment provides processing and disposal services in the oil and gas industry.

For the year ended December 31, 2006	Oil and Gas Production	Midstream Processing	Other Corporate	Eliminations	Consolidated
Revenue	$ 4,695,454	$ 894,161	$ -	$ (203,318)	$ 5,386,297
Other revenue	-	-	-	-	-
Total Revenue	4,695,454	894,161	-	(203,318)	5,386,297
Royalties	(421,508)	-	-		(421,508)
Net Revenue	4,273,946	894,161	-	(203,318)	4,964,789
Operating & transportation	2,125,445	889,091	-	(203,318)	2,811,218
Depletion, depreciation	1,193,499	140,903	-	-	1,334,402
Asset retirement accretion	93,925	13,857	-	-	107,782
Income (loss) before corporate items	861,077	(149,690)	-	-	711,387
General and administrative	1,086,393	40,750	49,118	-	1,176,261
Stock compensation	-	-	116,831	-	116,831
Interest	120,968	99,723	-	-	220,691
Income taxes	(138,452)	(31,565)	(61,027)	-	(231,044)
Net loss for the year	$ (207,832)	$ (258,598)	$(104,922)	$ -	$ (571,352)
Capital expenditures, net	$ 5,361,476	$ 98,138	$ -	$ -	$ 5,459,614

19. Segmented Information - Continued

For the year ended December 31, 2005	Oil and Gas Production	Midstream Processing	Other Corporate	Eliminations	Consolidated
Revenue	$ 4,603,714	$ 963,315	$ -	$ (232,589)	$ 5,334,440
Other revenue	-	-	488	-	488
Total Revenue	4,603,714	963,315	488	(232,589)	5,334,928
Royalties	(360,319)	-	-		(360,319)
Net Revenue	4,243,395	963,315	488	(232,589)	4,974,609
Operating & transportation	1,512,996	783,762	-	(232,589)	2,064,169
Depletion, depreciation	879,902	158,576	-	-	1,038,478
Asset retirement accretion	76,754	12,713	-	-	89,467
Income before corporate items	1,773,743	8,264	488	-	1,782,495
General and administrative	777,241	103,209	26,932	-	907,382
Stock compensation	-	-	201,423	-	201,423
Interest	56,351	74,124	-	-	130,475
Loss on sale of assets	-	-	242	-	242
Income taxes	202,711	(83,605)	(24,162)	-	94,944
Net profit for the year	$ 737,440	$ (85,464)	$(203,947)	$ -	$ 448,029
Capital expenditures, net	$ 2,899,557	$ 165,023	$ -	$ -	$ 3,064,580