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**GOLD POINT ENERGY CORP.**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005

*(Expressed in Canadian dollars unless otherwise stated)*

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## AUDITORS' REPORT

To the Shareholders of  
Gold Point Energy Corp. (formerly Gold Point Exploration Ltd.)

We have audited the consolidated balance sheets of Gold Point Energy Corp. (formerly Gold Point Exploration Ltd.) as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the 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 consolidated 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 cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.  
March 30, 2007, except as to note 15(a)  
Which is as of April 24, 2007

**"D&H Group LLP"**  
**Chartered Accountants**

**GOLD POINT ENERGY CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**

*(Expressed in Canadian dollars unless otherwise stated)*

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash	2,773,678	531,505
Amounts receivable	23,082	11,243
Prepays and deposits	<u>37,956</u>	<u>20,438</u>
	2,834,716	563,186
<b>CAPITAL ASSETS</b> , net of accumulated depreciation of \$4,070 (2005 - \$576)	20,605	4,751
<b>OIL AND GAS PROPERTIES</b> (Note 3)	3,020,110	933,133
<b>OTHER ASSETS</b> (Note 4)	<u>91,094</u>	<u>49,978</u>
	<u><u>5,966,525</u></u>	<u><u>1,551,048</u></u>
<b>L I A B I L I T I E S</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	1,529,445	152,569
Drilling advances	306,513	-
Asset retirement obligation (Note 5)	<u>36,707</u>	<u>-</u>
	<u>1,872,665</u>	<u>152,569</u>
<b>COMMITMENTS</b> (Notes 3 and 9)		
<b>S H A R E H O L D E R S ' E Q U I T Y</b>		
<b>SHARE CAPITAL</b> (Note 6)	8,025,452	15,632,292
<b>SHARE SUBSCRIPTIONS</b> (Note 6(b)(ii))	86,000	-
<b>CONTRIBUTED SURPLUS</b> (Note 8)	863,259	278,335
<b>DEFICIT</b>	<u>(4,880,851)</u>	<u>(14,512,148)</u>
	<u>4,093,860</u>	<u>1,398,479</u>
	<u><u>5,966,525</u></u>	<u><u>1,551,048</u></u>

**NATURE OF OPERATIONS AND GOING CONCERN** (Note 1)

**SUBSEQUENT EVENTS** (note 15)

APPROVED BY THE DIRECTORS

"Jack Steinhauser" , Director

"Nick DeMare" , Director

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

**GOLD POINT ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF LOSS**  
**FOR THE YEARS ENDED DECEMBER 31**  
*(Expressed in Canadian dollars unless otherwise stated)*

	2006 \$	2005 \$ <i>(Note 2)</i>
<b>REVENUES</b>		
Petroleum and natural gas sales	9,080	-
Gain on sale of oil and gas properties (Note 3)	<u>722,165</u>	<u>-</u>
	<u>731,245</u>	<u>-</u>
<b>EXPENSES</b>		
General and administrative	1,985,995	978,953
Operating	6,328	-
Exploration	583,579	348,510
Depletion and depreciation	23,399	-
Dry-hole costs (Note 3)	1,257,782	-
Impairment of oil and gas properties (Note 3)	<u>333,891</u>	<u>-</u>
	<u>4,190,974</u>	<u>1,327,463</u>
<b>LOSS FROM OPERATIONS</b>	<u>(3,459,729)</u>	<u>(1,327,463)</u>
<b>OTHER ITEMS</b>		
Write-off of mineral resource interests (Note 3(h))	-	(66,458)
Interest and other income	94,081	6,688
Foreign exchange	<u>(119,496)</u>	<u>(8,474)</u>
	<u>(25,415)</u>	<u>(68,244)</u>
<b>NET LOSS FOR THE YEAR</b>	<u>(3,485,144)</u>	<u>(1,395,707)</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>\$(0.22)</u>	<u>\$(0.14)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>15,982,128</u>	<u>9,760,998</u>

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

**GOLD POINT ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31**  
*(Expressed in Canadian dollars unless otherwise stated)*

	2006 \$	2005 \$ <i>(Note 2)</i>
<b>DEFICIT - BEGINNING OF YEAR</b>	(14,512,148)	(13,116,441)
<b>ELIMINATION OF DEFICIT</b> (Note 6(a))	<u>13,116,441</u>	<u>-</u>
	(1,395,707)	(13,116,441)
<b>NET LOSS FOR THE YEAR</b>	<u>(3,485,144)</u>	<u>(1,395,707)</u>
<b>DEFICIT - END OF YEAR</b>	<u><u>(4,880,851)</u></u>	<u><u>(14,512,148)</u></u>

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

**GOLD POINT ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**  
*(Expressed in Canadian dollars unless otherwise stated)*

	2006 \$	2005 \$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(3,485,144)	(1,395,707)
Adjustment for items not affecting cash		
Gain on sale of oil and gas properties	(722,165)	-
Depreciation and depletion	23,399	576
Impairment of oil and gas properties	333,891	-
Dry-hole costs	1,257,782	-
Write-off of mineral resource interests	-	66,458
Stock-based compensation	<u>336,740</u>	<u>263,755</u>
	(2,255,497)	(1,064,918)
Increase in amounts receivable	(11,839)	(10,563)
Increase in prepaids	(17,518)	(17,738)
Increase in accounts payable and accrued liabilities	92,477	138,176
Increase in asset retirement obligation	<u>36,707</u>	<u>-</u>
	<u>(2,155,670)</u>	<u>(955,043)</u>
<b>INVESTING ACTIVITIES</b>		
Oil and gas properties expenditures	(2,507,525)	(930,512)
Proceeds from sale of oil and gas properties	1,122,047	-
Additions to capital assets	(19,348)	(5,327)
Additions to other assets	<u>(41,116)</u>	<u>(49,978)</u>
	<u>(1,445,942)</u>	<u>(985,817)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	6,282,875	2,349,935
Share issue costs	(525,090)	(44,613)
Share subscriptions	<u>86,000</u>	<u>-</u>
	<u>5,843,785</u>	<u>2,305,322</u>
<b>INCREASE IN CASH DURING THE YEAR</b>	2,242,173	364,462
<b>CASH - BEGINNING OF YEAR</b>	<u>531,505</u>	<u>167,043</u>
<b>CASH - END OF YEAR</b>	<u><u>2,773,678</u></u>	<u><u>531,505</u></u>

**SUPPLEMENTARY CASH FLOW INFORMATION** - See Note 13

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

**GOLD POINT ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**  
*(Expressed in Canadian dollars unless otherwise stated)*

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Gold Point Energy Corp. (“the Company”) is an independent oil and gas exploration company and its petroleum activities are conducted in the United States and Argentina. These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

As at December 31, 2006, the Company had a net loss of \$3,485,144 and accumulated deficit of \$4,880,851. The Company’s cash balances and working capital are not sufficient to fund all of its obligations with respect to its ongoing work program requirements related to its oil and gas properties (Note 3). The Company’s ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, the discovery, development or sale of oil and gas reserves and achievement of profitable operations. The Company is planning to meet its future expenditures and obligations through the development of proven reserves, raising funds through private placements or by farm-outs of oil and gas properties. It is not possible to predict whether these efforts will be successful or whether the Company will attain profitable levels of operation.

Accordingly, the consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

See also Note 15.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements includes the accounts of the Company and its wholly-owned subsidiaries, GPE Energy Inc., GPE Argentina S.A. and Gold Point Peru S.A.C. (“Gold Point Peru”). Gold Point Peru is currently inactive. Inter-company balances and transactions are eliminated on consolidation.

*Petroleum and Natural Gas Interests*

(i) *Capitalized Costs*

The Company uses the successful efforts method to account for exploration and development expenditures. Leasehold acquisition costs are capitalized. If proved reserves are found on an undeveloped property, leasehold costs are transferred to proved properties. In certain cases, a determination of whether a drilled exploration well has found proved reserves cannot be made immediately. This is generally due to the need for a major capital expenditure to produce and/or

**GOLD POINT ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

evacuate the hydrocarbons found. The determination of whether to make such a capital expenditure is usually dependent on whether further exploratory wells find a sufficient quantity of additional reserves.

The Company capitalizes well costs in property, plant and equipment when the well has found a sufficient quantity of reserves to justify its completion as a producing well, and the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. The Company re-evaluates its capitalized drilling costs at least annually to ascertain whether drilling costs continue to qualify for ongoing capitalization. Other exploratory costs are charged to expense as incurred. Development costs, including unsuccessful development wells, are capitalized. The Company does not capitalize general and administrative costs.

Oil and gas properties are evaluated by field for potential impairment if a significant event or change occurs. This can include a significant decrease in oil and gas prices, revisions to proved reserves, changes in operating expenses or changes in its operating environment. Other properties are evaluated for impairment on a specific asset basis or in groups of similar assets as applicable. An impairment is recognized when the estimated undiscounted before tax future net cash flows of an evaluated asset are less than its carrying value.

*(ii) Depletion and Depreciation*

Depreciation and depletion of producing oil and gas properties is recorded based on units of production. Unit rates are computed for unamortized exploration drilling and development costs using proved developed reserves and for unamortized leasehold costs using all proved reserves. Proved reserves are estimated by independent engineers and are subject to future revisions based on availability of additional information. Asset retirement costs are amortized over proved reserves using the unit-of-production method. Gains and losses on asset disposals or retirements are included in income as a separate component of revenue.

***Capital Assets***

Capital assets are amortized using the declining balance method at a rate of 20% per annum for office equipment and 30% per annum for computer equipment.

***Asset Retirement Obligations***

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit-of-production method based on estimated proved developed reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the asset retirement obligations and the recorded liability is recognized as a gain or loss in the Company's statement of operations in the period in which the settlement occurs.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Impairment of Long-Lived Assets***

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings. Fair value is generally determined using a discounted cash flow analysis.

***Translation of Foreign Currencies***

Monetary assets and liabilities are translated into Canadian dollars at the balance sheet date rate of exchange and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates except for amortization, depreciation and depletion, which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

***Stock-Based Compensation***

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

***Income Taxes***

Future income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective income tax bases, using substantially enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change is substantively enacted. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

***Earnings (Loss) Per Share***

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

***Comparative Figures***

Certain of the fiscal 2005 figures have been reclassified to conform with the presentation used in fiscal 2006.

**GOLD POINT ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**  
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**3. OIL AND GAS PROPERTIES**

	2006 \$	2005 \$
Database	173,340	-
Unproved leasehold costs	694,588	334,804
Drilling in progress	1,947,926	598,329
Proved leasehold costs	<u>558,052</u>	<u>-</u>
	3,373,906	933,133
Accumulated depletion and impairment	<u>(353,796)</u>	<u>-</u>
	<u><u>3,020,110</u></u>	<u><u>933,133</u></u>

- (a) Costs of unproved properties excluded from costs subject to depletion and depreciation at December 31, 2006 were \$2,815,854 (2005 - \$933,133).
- (b) The Company participated in the re-entry and re-working of the Portland Gas Unit C-4A (the "Portland Well") located in San Patricio County, Texas. Testing was completed in April 2006 and no commercial quantities of oil and gas were encountered. Accordingly, during fiscal 2006, the Company recorded dry-hole costs totalling \$662,747 (US \$552,345) relating to the Portland Well.
- (c) The Company acquired a 100% interest in a leasehold covering approximately 60,800 acres and 135 miles of 3-D seismic data in South Cedar Creek, Harding County, South Dakota ("South Cedar Creek Project").

On October 18, 2005, as amended November 17, 2005 and December 2, 2005, the Company entered into an exploration and development agreement with Spyglass Cedar Creek, LP ("Spyglass"), an arm's-length party, to jointly develop the South Cedar Creek Project. Under the terms of the agreement, Spyglass paid the Company a total of US \$1,122,381 for, amongst other items, a 70% working interest in the South Cedar Creek Project, with the Company retaining the remaining 30% working interest. The Company and Spyglass propose to drill five exploratory test wells. After project payout on the first five wells, and in any subsequent wells, the Company will have a 47.5% working interest and Spyglass will have a 52.5% working interest. During fiscal 2005, Spyglass paid the Company \$698,260 (US \$600,000), which was credited against the Company's interest in the South Cedar Creek Project. During fiscal 2006, the Company received the final payment of \$623,483 (US \$537,848), resulting in a gain of \$527,022 (US \$494,705).

The Company has assigned a 0.5% overriding royalty interest on the South Cedar Creek Project to the President of the Company as a condition of his engagement as the President of the Company.

- (d) The Company acquired a 95% interest, with Silver Tip Energy LLC ("Silver Tip") holding a 5% interest, in leases totalling 50,325 acres in the North Short Pine Hills Oil and Gas Exploration Project ("North Short Pine Hills Project"), located in South Dakota.

Effective January 25, 2006, the Company entered into an exploration and development agreement with Spyglass NSPH, LLC ("Spyglass NSPH") and Silver Tip, entities which are arm's-length to the Company, to jointly develop the North Short Pine Hills Project. Under the terms of the agreement, the Company assigned a 25% working interest to Spyglass NSPH for \$494,785 (US \$376,071), after adjustments, with the Company retaining the remaining 70% working interest. The sale of the 25% working interest in the North Short Pine Hills Project resulted in a gain of \$195,143 (US \$127,340).

**GOLD POINT ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. OIL AND GAS PROPERTIES (continued)**

On the first two wells to be drilled, the Company will have a 61.67% working interest (70% after payout), Spyglass NSPH will have a 33.33% working interest (25% after payout) and Silver Tip will have a 5% working interest.

In April 2006, the Company, as operator, completed the drilling of the initial well, Gold Point #21-1. It was unsuccessful and the Company recorded dry-hole costs totalling \$106,926.

- (e) In October 2005, the Company entered into an exploration and development lease agreement with the Crow Tribe of Indians on the Woody Creek Prospect. In March 2006, the Company received final approval from the U.S. Bureau of Indian Affairs. Under the agreement, the Company acquired 1,840 acres of oil and gas leases in Big Horn County, Montana. The leases are subject to a total royalty rate of 21% (including mineral rights and override).

During fiscal 2006, the Company, as operator, completed the drilling of the initial well. It was unsuccessful and the Company has recorded dry-hole costs totalling \$488,109 for actual costs incurred and estimated reclamation costs of the well. See also Note 5. The Company has terminated the lease agreement. Accordingly, the Company has recorded a write-off of \$49,404 of remaining costs to reflect the impairment.

- (f) On August 8, 2006, the Company entered into a letter of intent (“LOI”) with Petrolero del Comahue S.A., which was subsequently superseded in November 2006 by two farm-in agreements, whereby the Company can earn a 50% interest in the 292 square kilometre General Roca Block and the 66.5 square kilometre Blanco de los Olivos Block, located on the southeastern flank of the Neuquen Basin in Rio Negro Province, Argentina, by funding 100% of an estimated US \$6 million program. In addition, the Company can earn a 12.5% interest in existing and future production of the Flor de Roca Field by funding 100% of an estimated US \$484,000 workover program. During fiscal 2006, the Company participated in the workover program.

As a result of a ceiling test which was performed effective December 31, 2006, it was determined that the net book value of the Company’s petroleum and natural gas properties exceeded the net recoverable amount calculated under the successful efforts accounting guideline and a write-down of \$284,487 was recorded during fiscal 2006 as additional impairment. The ceiling test is a cost-recovery test and is not intended to result in an estimate of fair market value.

- (g) On October 4, 2006, the Company entered into a farm-out agreement with APCO Argentina Inc. (“APCO”) and Antrim Argentina S.A. (“Antrim”) to earn a 25% working interest in the Martinez del Tineo Oeste Prospect (the “Martinez Project”) in the Yacimiento Norte 1/B Block in Salta Province, Argentina by funding 50% of Phases 1 and 2 of the work program. The Martinez Project covers approximately 54 square kilometres of the 4,008 square kilometres that comprise the total Capricorn License.

Under the terms of the farm-out agreement the Company has committed to pay US \$500,000 for Phase 1 and US \$1.0 million for Phase 2. If costs exceed the estimated costs, then the Company will be obligated to fund 50% of the first US \$100,000 in excess costs under Phase 1 and the first US \$200,000 in excess costs under Phase 2. Thereafter, the Company will be obligated to fund only 25%.

During fiscal 2006, the Company advanced \$576,500 (US \$500,000) to APCO and Antrim for the first stage of its obligations under the farm-out agreement.

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**3. OIL AND GAS PROPERTIES** (continued)

(h) During fiscal 2005, the Company withdrew from an option agreement to acquire up to a 100% interest in the Envidia mineral concession in Peru and, accordingly, wrote-off \$66,458 in exploration and acquisition costs.

**4. OTHER ASSETS**

	2006	2005
	\$	\$
Rent deposit	7,341	-
Deposit (Note 9)	15,000	15,000
Engineering advance	-	29,147
Exploration bonds	<u>68,753</u>	<u>5,831</u>
	<u><u>91,094</u></u>	<u><u>49,978</u></u>

**5. ASSETS RETIREMENT OBLIGATION**

	2006	2005
	\$	\$
Balance, beginning of year	-	-
Obligations incurred during the year	<u>36,707</u>	<u>-</u>
Balance, end of year	<u><u>36,707</u></u>	<u><u>-</u></u>

The Company has obligations to plug and abandon petroleum and natural gas wells at the end of their useful lives. The reclamation obligation incurred during fiscal 2006 relate to the Woody Creek Prospect (see Note 3(e)). The Company expects to complete the reclamation obligation in mid 2007. The reclamation liability may be subject to change based on management's estimate of reclamation costs, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

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**6. SHARE CAPITAL**

Authorized - unlimited common shares without par value

Issued and outstanding:	2006		2005	
	Shares	\$	Shares	\$
Balance, beginning of year	12,010,757	15,632,292	6,055,007	13,313,770
Reduction of capital	-	(13,116,441)	-	-
	<u>12,010,757</u>	<u>2,515,851</u>	<u>6,055,007</u>	<u>13,313,770</u>
Issued during the year				
For cash				
Private placements	8,430,000	5,718,000	5,585,000	2,225,800
Exercise of options	-	-	110,000	26,400
Exercise of warrants	1,133,750	564,875	200,750	97,735
For finders' fees	-	-	60,000	24,000
For corporate finance fee	111,000	55,620	-	-
Reallocation from contributed surplus on exercise of options	-	-	-	13,200
	<u>9,674,750</u>	<u>6,338,495</u>	<u>5,955,750</u>	<u>2,387,135</u>
Less share issue costs	-	(828,894)	-	(68,613)
	<u>9,674,750</u>	<u>5,509,601</u>	<u>5,955,750</u>	<u>2,318,522</u>
Balance, end of year	<u>21,685,507</u>	<u>8,025,452</u>	<u>12,010,757</u>	<u>15,632,292</u>

a) On June 14, 2006, the shareholders of the Company passed a special resolution to reduce the Company's capital by \$13,116,441, being an amount equal to the deficit of the Company at December 31, 2004. This deficit arose as a result of prior unsuccessful business activities previously carried out by the Company under the direction of its former management and board. The reduction of capital resulted in a corresponding elimination of \$13,116,441 of the deficit.

b) During fiscal 2006 the Company:

i) completed a private placement of 3,910,000 units at a price of \$1.00 per unit, for total gross proceeds of \$3,910,000. Each unit consisted of one common share and one-half share purchase warrant, with each full warrant entitling the holder to purchase an additional common share at a price of \$1.25 per share for a period of two years. A director of the Company has purchased 33,000 units of the private placement.

The Company paid a cash commission of \$114,000, a \$5,000 administration fee, and issued broker warrants to purchase 114,000 common shares and issued 40,000 common shares, at a fair value of \$40,000, for a corporate finance fee. Each broker warrant is exercisable to purchase a common share at a price of \$1.15 per share on or before February 28, 2008.

The Company also paid finders' fees of \$184,800 cash and issued warrants to purchase 184,800 common shares to finders for certain of the 2,485,000 unit non-brokered portion of the private placement. Each finder warrant is exercisable to purchase a common share at a price of \$1.15 per share on or before March 7, 2008.

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*(Expressed in Canadian dollars unless otherwise stated)*

**6. SHARE CAPITAL** (continued)

The fair value of the broker warrants and finder warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 96%; a risk-free interest rate of 3.97%; and an expected life of two years. The value assigned to the 114,000 broker warrants and 184,800 finder warrants was \$170,316; and

- ii) agreed to conduct a brokered private placement, by way of a short form offering, of up to 4,805,000 units at a price of \$0.40 per unit, for total gross proceeds of up to \$1,922,000.

During fiscal 2006, the Company closed on the first tranche of the brokered private placement and issued 4,520,000 units for gross proceeds of \$1,808,000. Each unit comprised one common share and one share purchase warrant, with each warrant entitling the holder to purchase an additional common share at a price of \$0.50 per share for a period of two years.

The Company paid a cash commission of \$144,640, a \$3,000 administration fee, and issued 71,000 units ("Corporate Fee Units"), at a value of \$28,400, for a corporate finance fee. Each Corporate Fee Unit comprised one common share and one share purchase warrant ("Corporate Fee Warrant") exercisable on the same terms as the private placement. In addition, agent's warrants ("Agent's Warrants") were issued which entitle the holder to purchase 361,600 shares, at a price of \$0.50 per share, on or before December 28, 2006. The fair values of the Corporate Fee Warrants and the Agent's Warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 83%; a risk-free interest rate of 3.82%; and an expected life of 2 years. The values assigned to the Corporate Fee Warrants was \$12,780 and the Agent's Warrants was \$65,088, respectively.

As at December 31, 2006, the Company had received \$86,000 in share subscriptions for the remaining portion of the private placement. Subsequent to December 31, 2006, the Company closed on the remaining 285,000 units. The Company paid a cash commission of \$9,120 and issued agent's warrants to purchase 22,800 shares at a price of \$0.50 per share on or before January 25, 2009.

- c) During fiscal 2005 the Company completed:
  - i) a non-brokered private placement for 2,455,000 units at a price of \$0.36 per unit for cash proceeds of \$883,800. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of \$0.48 per share on or before February 23, 2007. A director of the Company and immediate family members of directors of the Company have purchased 142,000 units of the private placement. The Company paid \$3,740 in a filing fee associated with this private placement;
  - ii) a non-brokered private placement for 2,230,000 units at a price of \$0.40 per unit for cash proceeds of \$892,000. Each unit is comprised of one common share of the Company and one-half share purchase warrant. One whole warrant entitles the holder to purchase one additional share at a price of \$0.50 per share on or before June 14, 2006. Certain directors of the Company purchased 745,000 units of the private placement. The Company also issued 60,000 common shares, at fair value of \$24,000 as a finder's fee and paid \$19,123 for legal, filing and other costs associated with this private placement; and

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**6. SHARE CAPITAL** (continued)

iii) a non-brokered private placement for 900,000 units at a price of \$0.50 per unit for cash proceeds of \$450,000. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of \$0.55 per share on or before September 20, 2007. The Company paid \$2,750 for a filing fee and \$19,000 for finders' fees associated with this private placement.

d) A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2006 and 2005 and the changes for the years ending on those dates is as follows:

	2006		2005	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	4,269,250	0.50	-	-
Issued	7,206,400	0.73	4,470,000	0.50
Exercised	(1,133,750)	0.50	(200,750)	0.49
Expired	<u>(12,500)</u>	0.50	<u>-</u>	-
Balance, end of year	<u>10,329,400</u>	0.66	<u>4,269,250</u>	0.50

The following table summarizes information about the number of common shares reserved pursuant to the warrants outstanding and exercisable at December 31, 2006:

Number	Exercise Price \$	Expiry Date
2,223,000	0.48	February 23, 2007
900,000	0.55	September 20, 2007
712,500	1.25	February 28, 2008
114,000	1.15	February 28, 2008
1,242,500	1.25	March 7, 2008
184,800	1.15	March 7, 2008
<u>4,952,600</u>	0.50	December 28, 2008
<u>10,329,400</u>		

(e) See also Note 15.

**7. STOCK OPTIONS AND STOCK-BASED COMPENSATION**

The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSXV. During fiscal 2006, the Company granted 771,000 (2005 - 1,084,500) stock options to directors, employees and consultants, and recognized compensation expense of \$305,790 (2005 - \$263,755). The Company also recorded an additional \$30,950 (2005 - \$nil) compensation expense for options which had vested during fiscal 2006.

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**7. STOCK OPTIONS AND STOCK-BASED COMPENSATION (continued)**

The fair value of stock options granted to directors and consultants is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during fiscal 2006 and 2005:

	2006	2005
Risk-free interest rate	3.91% - 4.47%	2.77% - 3.10%
Estimated volatility	95% - 105%	48% - 83%
Expected life	2 years - 5 years	1.5 years - 2.5 years
Expected dividend yield	0%	0%

The weighted average fair value of all stock options granted during fiscal 2006 to the Company's directors, employees and consultants was \$0.40 (2005 - \$0.24) per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

A summary of the Company's stock options at December 31, 2006 and 2005 and the changes for the fiscal years then ended on those dates is presented below:

	2006		2005	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	1,184,500	0.46	231,500	0.24
Granted	771,000	0.89	1,084,500	0.49
Exercised	-	-	(110,000)	0.24
Expired / Cancelled	<u>(260,000)</u>	1.00	<u>(21,500)</u>	0.24
Balance, end of year	<u><u>1,695,500</u></u>	0.58	<u><u>1,184,500</u></u>	0.46

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2006:

Number	Exercise Price \$	Expiry Date
100,000	0.24	August 24, 2007
400,000	0.36	February 1, 2008
40,000	0.36	March 1, 2008
245,500	0.45	March 1, 2008
229,000	0.38	July 4, 2008
70,000	0.70	September 25, 2008
171,000	1.00	March 17, 2009
2,000	0.97	April 21, 2009
30,000	0.80	June 21, 2009
38,000	0.70	August 2, 2009
170,000	1.00	September 27, 2010
<u>200,000</u>	0.80	July 4, 2011
<u><u>1,695,500</u></u>		

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**8. CONTRIBUTED SURPLUS**

Contributed surplus is comprised of the following:

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	278,335	27,780
Stock-based compensation on stock options (Note 7)	336,740	263,755
Stock-based compensation on broker's and finders' warrants (Note 6(b))	248,184	-
Stock options exercised	-	(13,200)
	<u>863,259</u>	<u>278,335</u>
Balance, end of year	<u>863,259</u>	<u>278,335</u>

**9. COMMITMENTS**

The Company has engaged Grosso Group Management Ltd. (the "Grosso Group") to provide general administrative support and corporate development services to the Company. The Grosso Group is a private corporation which was incorporated to provide geological, corporate development, administrative and management services to the Company and other public companies which have certain common directors, officers and shareholders. The Grosso Group intends to provide its services to its clients on a cost recovery basis. The Grosso Group is owned by its client companies, each of which owns one share.

During fiscal 2006, the Company was billed a total of \$252,569 (2005 - \$138,461) by the Grosso Group. As at December 31, 2006, \$50,463 (2005 - \$39,013) remains outstanding and is included in accounts payable and accrued liabilities. The Company has also paid a deposit of \$15,000 to the Grosso Group.

See also Note 3.

**10. RELATED PARTY TRANSACTIONS**

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

(a) During fiscal 2006 the Company:

- i) was charged \$77,280 (2005 - \$50,313) for accounting, management and administrative services provided by a director and Chase Management Ltd. ("Chase") a private corporation owned by a director of the Company;
- ii) paid a total of \$165,016 (2005 - \$102,853) for compensation, management fees, bonus and benefits to the President of the Company in his capacity as President. See also Note 3(b); and
- iii) was charged \$60,644 for legal services provided by a law firm of which a director of the Company is also a partner of the law firm.

(b) During fiscal 2005, the Company received advances totalling \$250,000 from a private corporation owned by a director of the Company. The advances were repaid with interest of \$723.

(c) See also Note 9.

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**11. INCOME TAXES**

Future income tax assets and liabilities of the Company as at December 31, 2006 and 2005 are as follows:

	<b>2006</b>	<b>2005</b>
	\$	\$
Future income tax assets (liabilities)		
Losses carried forward	1,502,800	598,000
Share issue costs	244,200	20,000
Resource interests	<u>1,744,000</u>	<u>2,801,000</u>
	3,491,000	3,419,000
Valuation allowance	<u>(3,491,000)</u>	<u>(3,419,000)</u>
Net future income tax asset	<u><u>-</u></u>	<u><u>-</u></u>

The recovery of income taxes shown in the consolidated statements of loss and deficit differ from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	<b>2006</b>	<b>2005</b>
Combined federal and provincial statutory tax rate	<u>34.12%</u>	<u>34.90%</u>
	<b>2006</b>	<b>2005</b>
	\$	\$
Expected income tax recovery	(1,189,100)	(487,100)
Non-deductible stock-based compensation	114,900	92,100
Write-off of resource interests	-	23,200
Exploration costs capitalized for tax	368,500	42,300
Other		(4,500)
Losses for which no tax benefit has been recognized	<u>705,700</u>	<u>334,000</u>
Actual income tax recovery	<u><u>-</u></u>	<u><u>-</u></u>

As at December 31, 2006, the Company has accumulated non-capital losses of approximately \$2,103,000 and accumulated unclaimed pools of approximately \$8,715,000 for Canadian income tax purposes to offset in certain circumstances against future income. The non-capital losses expire from 2007 to 2026. The pools can be carried forward indefinitely.

The Company also has accumulated non-capital losses for United States income tax purposes of approximately US \$1,968,000, expiring from 2025 to 2026, which are available for application against future taxable income.

Future income tax benefits which may arise as a result of these losses have not been recognized in the consolidated financial statements as their realization is unlikely.

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**12. SEGMENTED INFORMATION**

The Company was previously involved in mineral and petroleum exploration activities which have been conducted in the United States and Peru. As of December 31, 2006, the Company only holds oil and gas interests in the United States and Argentina and its corporate assets are located in Canada. Identifiable assets, revenues and net loss in each of these geographic areas are as follows:

	2006			2005		
	Identifiable Assets \$	Revenues \$	Net Loss \$	Identifiable Assets \$	Revenues \$	Net Loss \$
Peru	-	-	-	-	-	(66,458)
Argentina	1,027,778	9,080	(424,563)	-	-	-
United States	2,365,569	722,165	(1,543,596)	1,159,798	-	(707,879)
Canada	<u>2,573,178</u>	<u>-</u>	<u>(1,516,985)</u>	<u>391,250</u>	<u>-</u>	<u>(606,370)</u>
	<u><u>5,966,525</u></u>	<u><u>731,245</u></u>	<u><u>(3,485,144)</u></u>	<u><u>1,551,048</u></u>	<u><u>-</u></u>	<u><u>(1,327,463)</u></u>

**13. SUPPLEMENTARY CASH FLOW INFORMATION**

Non-cash financing activities were conducted by the Company during fiscal 2006 and 2005 as follows:

	2006 \$	2005 \$
Financing activities		
Shares issued on exercise of options	-	13,200
Contributed surplus	248,184	(13,200)
Shares issued for finder's fee	68,400	24,000
Share issue costs	<u>(316,584)</u>	<u>(24,000)</u>
	<u><u>-</u></u>	<u><u>-</u></u>

Other supplementary cash flow information:

	2006 \$	2005 \$
Interest paid in cash	<u><u>-</u></u>	<u><u>723</u></u>
Income taxes paid in cash	<u><u>-</u></u>	<u><u>-</u></u>

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of cash, amounts receivable, deposits and accounts payable and accrued liabilities approximate their fair values.

The Company places its cash in financial institutions that are believed to be creditworthy.

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**15. SUBSEQUENT EVENTS**

- (a) The Company has entered into an agreement with Union Securities Ltd. (the “Agent”) to complete a private placement of up to 20,000,00 units (“Units”) at \$0.35 per unit for gross proceeds of up to \$7.0 million. On April 24, 2007, the Company completed an initial tranche of 18,578,858 Units for gross proceeds of \$6,502,600. Each Unit comprises one common share and one transferable common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price of \$0.45 per share on or before April 24, 2009.

In consideration for the services provided by the Agent, the Company paid the Agent \$519,508 in cash commission, a \$10,000 work fee, and granted 1,857,886 compensation options (the “Compensation Options”) that entitle the Agent to acquire 1,857,886 units (the “Compensation Option Units”) at a purchase price of \$0.35 per Compensation Option Unit on or before April 24, 2009. Each Compensation Option Unit comprises one common share and one non-transferable common share purchase warrant a “Compensation Warrant”). Each Compensation Warrant entitles the holder to acquire one common share at an exercise price of \$0.45 per share on or before April 24, 2009.

- (b) Subsequent to December 31, 2006, 2,223,000 warrants with an exercise price of \$0.48 per share, expired without exercise and 12,500 warrants with an exercise price of \$0.50 per share expired without exercise.
- (c) See also Note 6(b)(ii).

# **GOLD POINT ENERGY CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at April 20, 2007 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2006 and 2005 of Gold Point Energy Corp. (the "Company") where necessary. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Company Overview**

The Company is a junior oil and gas exploration and development company with oil and gas interests in the Western United States and Argentina. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange ("TSXV") under the symbol "GPE".

### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

### **Property Updates**

#### ***South Cedar Creek Anticline Project***

Location:	Harding County, South Dakota
Acreage:	63,532 gross / 30,178 net acres
Working Interest:	BPO 30%; APO 47.5%
Operator:	Spyglass Cedar Creek, LP

The Company, through its wholly-owned subsidiary, GPE Energy Inc., entered into an exploration and development agreement (as amended on November 17, 2005 and December 2, 2005) (collectively "the "Spyglass E&D Agreement") with Spyglass Cedar Creek, LP of San Antonio, Texas ("Spyglass") to jointly develop the South Cedar Creek Anticline Project. The Company assigned a 0.5% overriding royalty interest on the South Cedar Creek Anticline Project to the President of the Company.

Under the terms of the Spyglass E&D Agreement, Spyglass was obliged to drill five exploratory test wells on the Project leasehold. Spyglass has fulfilled this commitment. As a result, the Company has a 30% cost and working interest in these five wells and Spyglass has 70%. After project payout of the first five wells, and in all subsequent wells, the Company has a 47.5% working interest and Spyglass has 52.5%.

Spyglass is one of a series of LPs managed by Karen Christensen, Kevin Sellers and March Kimmel. This group combines a high level of technical expertise through Ms. Christensen (formerly a successful exploration manager with Conoco and Venaco), with extensive financial experience provided by Messrs. Sellers and Kimmel.

The South Cedar Creek Anticline Project is an exploratory oil and gas project located along the southern extension of the 70 mile long Cedar Creek Anticline, with potential for gas in the Cretaceous and oil in the Paleozoic sections. The Project is strategically located in a region where historical production includes: Cedar Creek Anticline (769 MMBO and 470 BCFG), Buffalo Field (29.3 MMBO) and West Short Pine Hills Field (23 BCFG).

The Company controls a leasehold position on the South Cedar Creek Anticline Project that consists of 63,532 gross and 30,178 net acres. Technical support for the Project comes from a combination of geophysical data and interpretation and geologic studies that define up to 14 different zones prospective for oil and gas, at depths of 1,500 to 9,000 feet. There are 16 square miles of 3-D seismic data and 141 miles of existing 2D data that define the location and extent of the existing oil and gas traps. The 141 miles of proprietary 2-D seismic data includes 28 miles of seismic acquired in Q1-07 with plans for acquisition of an additional 18 miles in Q2-07.

Five initial exploratory wells were drilled in this project starting in 2006 and ending in early 2007. All five wells have been cased based upon oil and gas shows encountered during drilling in combination with promising log readings. Two of these wells have been tested for gas production from perforations in the shallow Shannon formation at rates indicative of commercial potential, both confirming separate new field gas discoveries.

A five well appraisal program is planned for the first half of 2007. This appraisal program is intended to demonstrate the economic viability of the Shannon play on project leasehold, as well as to further evaluate the potential of the Cretaceous Muddy, Greenhorn, Carlisle and Niobrara formation.

The Project leasehold is 12 miles to the east of a 16-inch gas north-south pipeline with available take-away capacity that can provide access to North American gas markets. The projected cost for a connecting pipeline and gathering system with compression is US \$5 million.

#### ***North Short Pine Hills Prospect***

Location: Harding County, South Dakota  
Acreage: 54,626 gross / 38,238 net acres  
Working Interest: BPO 61.667% / APO 70%  
Operator: GPE Energy Inc.

On January 25, 2006 the Company, through its wholly-owned subsidiary, entered into an exploration and development agreement (the "Spyglass Silver Tip Agreement") dated with Spyglass NSPH, LLC of San Antonio, Texas ("Spyglass") and Silver Tip Energy, LLC of Red Lodge, Montana ("Silver Tip") to jointly develop the North Short Pine Hills Prospect.

A two-well drill program costing approximately US \$0.6 million was drilled in 2006 on the Prospect leasehold. The Company has a 61.667% working interest in these two wells, Spyglass has 33.333% and Silver Tip has 5%. On subsequent wells the Company will have a 70% working interest, Spyglass will have 25% and Silver Tip will have 5%. The Company is the operator of all wells drilled for the North Short Pine Hills Prospect.

The North Short Pine Hills Project is an exploratory oil and gas project located west of the southern extension of the 70 mile long Cedar Creek Anticline, with potential for gas in the Cretaceous and oil in the Paleozoic sections. The Company's acreage position is strategically located in close proximity to existing gas production. Just to the south and west of the Project is the West Short Pine Hills Field that has produced 23 Bcf gas from the Shannon formation at depths of 1,000 to 1,500 feet.

Technical support for the Project comes from a combination of geophysical data and interpretation and geologic studies. Current exploration efforts are focused on developing gas from shallow Cretaceous zones.

Two wells were drilled in 2006, the first of which was plugged and abandoned, and the second which was cased, based upon shows encountered while drilling plus log interpretation.

The State #32-1 well has been cased. Evaluation of the Carlisle zone is planned for Q2-07. If successful, additional wells will be drilled to the Carlisle.

#### ***Woody Creek Prospect***

Location: Big Horn County, Crow Tribal Lands, Montana  
Acreage: 1,840 gross and 736 net acres  
Working Interest: 70%  
Operator: GPE Energy Inc.

The Woody Creek Prospect is located in Township 3 South, Range 31 East on the Crow Indian Reservation in Big Horn County, Montana. The Prospect is situated along a surface expressed anticlinal dome called the Woody Creek Dome and is based on three seismic lines and geological mapping of previously drilled wells. A total of six wells were previously drilled in the vicinity of the Prospect, three of which had oil shows in the Tensleep and Amsden formations. Within a 15 mile radius of the Prospect area, there are three fields (Soap Creek, Soap Creek East, and Marcus Snyder) with total cumulative production of over four million barrels of oil from the same horizons. The primary objectives are the Tensleep and Amsden formations located between 2,400 and 2,650 feet in depth. The Company obtained an Indian Mineral Development Act Oil and Gas Exploration Lease with the Crow Indian Tribe dated March, 2006.

An initial exploratory well was drilled to evaluate the Tensleep formation and a decision was made to plug and abandon the well due to insufficient development of the reservoir facies. Based upon the initial well result no additional wells are planned and the Company has relinquished its Indian Mineral Development Act Oil and Gas Exploration Lease with the Crow Indian Tribe.

### ***Kaycee Dome Prospect***

Location: Johnson County, Wyoming  
Acreage: 1,597 gross and 558.95 net acres  
Working Interest: 35%  
Operator: GPE Energy Inc.

The Company entered into an exploration and development agreement with Hancock Enterprises dated effective October 1, 2005 whereby it acquired a 35% working interest in the Kaycee Dome Prospect area.

The Kaycee Dome Prospect is located in Sections 4 and 9, T43N-R82W, Johnson County, Wyoming. The Prospect is located on a surface-expressed anticline called Kaycee Dome that is situated just west of the town of Kaycee, Wyoming. The Prospect is defined by two lines of seismic and seven previous bore holes, six of which had oil shows. An additional seismic line was shot in June 2006 across the Prospect to define a suitable well location at a position that is structurally higher than the previous six wells that were drilled in the area. This line was processed and a well location selected.

The Cellars Ranch and North Fork field complex, which have produced 26 million barrels from 26 wells in the Tensleep formation are located four miles to the east of the Prospect.

In late 2006, early 2007, a well was drilled in the Kaycee Dome Prospect to the primary objective is the Tensleep formation at 1720 feet of depth. Based upon oil shows encountered during drilling plus interpretation of logs by an independent professional petrophysicist, a decision was made to set casing and attempt a completion. Production testing indicated the well was not capable of commercial oil production. The Company has sold its interest in the Prospect to other working interest partners.

### ***Capricorn License Farm-In***

Location: Yacimiento 1/B Block, Salta Province, Argentina  
Acreage: 500,000 gross acres  
Working Interest: Option to earn a 25% working interest in all or portions of the Block  
Operator: APCO Argentina Inc. (Sucursal Argentina)

The Company has entered into a farm-out agreement dated October 4, 2006 with APCO and Antrim Argentina S.A. to earn a 25% interest in the Yacimiento Norte 1/B Block, also known as the Capricorn License, in Salta Province, Argentina.

The Capricorn License is strategically located along an oil producing trend in the Yacoraite sandstone. It is situated adjacent to the Puesto Guardian Block which has had cumulative oil production of 14.7 MMBO from the upper Cretaceous Yacoraite in five fields. The Company's strategy is to utilize 3-D seismic to guide a drilling program in search of any extensions of the hydrocarbon bearing Yacoraite sandstone onto the Capricorn License.

Under the terms of the farm-out agreement the Company has committed to pay 50% of a US \$1 million, 60 square kilometer 3-D seismic program (Phase 1) plus 50% of a US \$2 million, 2,300 meter exploration well (Phase 2) to earn a 25% working interest in the Martinez del Tineo Oeste Prospect. Exploration costs on the prospect after completion of

Phase 1 and Phase 2 will be funded as to 25% by the Company and as to 75% by APCO/Antrim. The Martinez del Tineo Oeste Prospect covers approximately 54 square kilometers of the 4,008 square kilometers that comprise the total Capricorn License.

The Company has advanced US \$500,000 to fulfill this initial funding commitment. Field acquisition of the 3-D seismic data for the Martinez del Tineo Oeste Prospect was completed in Q3-06. The data is being processed and interpreted with a scheduled completion date of Q2-07. The 3-D seismic will allow the participants in the Prospect to get a clearer picture of a structural trap previously identified on 2-D seismic in preparation for drilling scheduled in Q3-07. The Company has previously funded its US \$750,000 share of the drilling portion of the initial test well for the Martinez del Tineo Oeste Prospect.

Following the drilling of the Martinez del Tineo Oeste Prospect, and in the event the parties decide to conduct further exploration, the Company will have the option to earn a 25% interest in the entire Capricorn License (not including the rights to the deeper Devonian) by funding 50% of the acquisition of up to 300 square kilometers of 3-D seismic and 50% of the costs of two additional exploration wells.

### ***Roca-Olivos Farm-Ins***

Location:	General Roca and Blanco de los Olivos Blocks, Neuquen Basin, Rio Negro Province, Argentina
Acreage:	88,000 gross acres
Working Interest:	Option to earn a 50% working interest in all or portions of the Block
Operator:	Petrolera del Comahue S.A. of Buenos Aires, Argentina

The Company has entered two farm-in agreements to earn a 50% interest in the General Roca and Blancos de los Olivos Blocks located on the southeastern flank of the Neuquen Basin in Rio Negro Province, Argentina referred to herein as the "Roca-Olivos Farm-ins".

Under the terms of the first Roca-Olivos farm-in agreement, the Company can earn a 12.5% interest in PDC's 90% interest in existing and future production of the Flor de Roca Field within the General Roca Block by funding a work over program on two wells.

Under the terms of the second Roca-Olivos farm-in agreement, the Company can earn a 50% interest in PDC's 90% interest in both by completing a staged work program of seismic processing and interpretation and drilling estimated to cost US \$6.0 million.

The interest that the Company will earn in the General Roca and Blanco de los Olivos blocks is subject to a proportionately reduced 10% net profits interest to EDHIPSA, the oil company of Rio Negro Province.

The Roca-Olivos Farm-in project is located on the eastern flank of the Neuquen Basin, which is the number one oil producing basin in the country of Argentina. Recently, attention has been drawn to this portion of the Basin by the success of Canadian independent Petrolifera (TSX - PDP) which has increased oil production on the Puesto Morales Block from 300 BOPD at the end of 2006 to 13,400 BOPD from the Sierras Blancas and Punta Rosada formations at the end of 2007. The Blanco de los Olivos Block is located 40 km southeast of the Puesto Morales blocks and is believed to be prospective in the Sierras Blancas and Punta Rosada as well as three additional pay zones. The General Roca block is located 90 km to the south of the Puesto Morales block and has previously established production from the Punta Rosada and Quintuco formations.

The General Roca Block comprises 292 square kilometer (72,124 acres) and has 191 square kilometers of existing 3-D and 238 kilometers of existing 2-D seismic. The Blanco de los Olivos Block comprises 66.5 square kilometers (16,425 acres) and has 83 square kilometers of existing 3-D seismic.

The work over program required by the first Roca-Olivos farm-in agreement was funded by the Company and completed on the AN-X-1 and GR-X-6 wells in Q4-06, resulting in a production rate of over 120 BOPD.

The seismic stage of the work program called for in the second Roca-Olivos farm-in agreement is underway. In Q1-07 the Company arranged for the reprocessing and reinterpretation of 274 km<sup>2</sup> of existing 3-D seismic. The results of this work are expected to be available in early Q2-07.

The drilling stage of the work program will consist of three vertical wells and one horizontal well. The first vertical well is a redrill of the DG-x-1 well drilled on the General Roca Block in the 1990s. This well discovered a new oil pool called the Don Jose Field, but encountered mechanical problems that led to the loss of economic production after only 60,000 barrels of production. Management has estimated that 500,000 barrels remains to be produced from the field and plans to drill an offset called the DG-x-2 well to reestablish production at Don Jose Field.

The second vertical well will be drilled to a large and shallow four-way dip closure on the General Roca Block called the Pum-Pum Prospect. The primary objective is oil in the Punta Rosada formation and the secondary objective is oil in the Tordillo, which is the stratigraphic equivalent of the Sierras Blancas formation. Total drilling depth is projected to be approximately 2,300 meters.

The third vertical well will be drilled on the Blanco de los Olivos Block near previously drilled wells that had production tests of oil and gas from one or more zones. Final selection of this well location will be made upon the basis of the geophysical and geologic studies expected to be complete in Q2-07.

The proposed horizontal well will target the Quintuco formation in the Flor de Roca Field which is located in the southeastern reach of the General Roca block and is the site of the two-well workover program that was performed in Q4-06. The Quintuco has previously established production in the Flor de Roca field; production was characterized by initial production rates of up to 300 BOPD followed by rapid declines due to low connectivity in the reservoir. In the first phase of its drilling program to the Quintuco, the Company will drill a vertical well to capture reserves from the vertical wellbore. In the second phase a window will be cut in the vertical casing and a horizontal leg drilled into the Quintuco of up to 1,500 to 2,000 feet to capture incremental production. By drilling the proposed horizontal well into the Quintuco reservoir at the Flor de la Roca field, the Company will also increase its ownership of production in the Flor de la Roca Field from 12.5% to 50%.

#### Selected Financial Data

The following selected financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	Years Ended December 31,		
	2006 \$	2005 \$	2004 \$
<b>Operations:</b>			
Revenues	731,245	Nil	Nil
Expenses	(4,190,974)	(1,327,463)	(163,382)
Other items	(25,415)	(68,244)	6,988
Income (loss)	(3,485,144)	(1,395,707)	(156,394)
Basic and diluted income (loss) per share	(0.22)	(0.14)	(0.03)
Dividends per share	Nil	Nil	Nil
<b>Balance Sheet:</b>			
Working capital (deficiency)	962,051	410,617	156,030
Total assets	5,966,525	1,551,048	239,502
Total long-term liabilities	Nil	Nil	Nil

The following selected financial information is derived from the unaudited interim consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	2006				2005			
	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$
<b>Operations:</b>								
Revenues	9,080	Nil	18,931	703,234	Nil	Nil	Nil	Nil
Expenses	(1,528,899)	(600,821)	(639,843)	(1,421,411)	(568,002)	(403,346)	(166,126)	(189,989)
Other items	67,069	26,644	(88,931)	(30,197)	6,051	(1,166)	(73,129)	-
Net income (loss)	(1,452,750)	(574,177)	(709,843)	(748,374)	(561,951)	(404,512)	(239,255)	(189,989)
Basic and diluted income (loss) per share	(0.09)	(0.03)	(0.04)	(0.06)	(0.06)	(0.04)	(0.03)	(0.03)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

	2006				2005			
	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$
<b>Balance Sheet:</b>								
Working capital	962,051	2,116,727	2,665,557	4,223,533	410,617	257,264	137,642	704,053
Total assets	5,966,525	4,114,375	4,573,036	4,774,738	1,551,048	2,090,381	1,796,917	1,103,171
Total long-term liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

## Results of Operations

### *Three Months Ended December 31, 2006 Compared to Three Months Ended December 31, 2005*

During the three months ended December 31, 2006 (the “December 2006 Quarter”) the Company incurred a loss of \$1,452,750, (\$0.09 per share) compared to a loss of \$561,951 (\$0.06 per share) for the three months ended December 31, 2005 (the “December 2005 Quarter”), an increase in loss of \$890,799. The primary factors for the increase in loss was an increase of \$608,187 in general and administrative expenses, \$489,854 in dryhole costs, and \$333,891 in impairment of oil and gas properties from the ceiling test performed.

### *Year Ended December 31, 2006 Compared to Year Ended December 31, 2005*

During the year ended December 31, 2006 (“fiscal 2006”), the Company incurred a loss of \$3,485,144 (\$0.22 per share) compared to a loss of \$1,395,707 (\$0.14 per share) for the year ended December 31, 2005 (“fiscal 2005”).

The increase is attributable to an overall increase in corporate, administrative and exploration activities in fiscal 2006, dry hole costs from unsuccessful drilling and impairment charges from ceiling test limitations, and partially offset by the gain on the sale of oil and gas properties and initial production.

During fiscal 2006, the Company participated in workover programs on two wells in the Flor de Roca Field. The program was completed at the end of November 2006, and commencing December 2006, the Company received initial production from the ANX-1 and GRX-6 wells, totalling \$9,080 oil and gas revenues and \$6,328 operating expenses.

During fiscal 2006, the Company completed the conveyances of various interests in the South Cedar Creek and North Short Pine Hills Projects, resulting in a gain of \$722,165. During fiscal 2006, the Company also incurred \$583,579 for exploration costs. These costs were incurred as part of general costs in the assembly of the Company’s oil and gas portfolios. The Company also recorded \$1,257,782 dry-hole costs attributed to the unsuccessful re-entry and re-working of the Portland Well, drilling of the Gold Point #21-1 Well and initial well on the Woody Creek Prospect. The Company conducted a ceiling test on the Flor de Roca Field workover wells. As a result the Company has recorded an impairment charge of \$333,891 during fiscal 2006.

During fiscal 2006, the Company reported interest and other income of \$94,081 compared to \$6,688 in fiscal 2005. The interest income was generated from funds held in fiscal 2006 period with an established financial institution. The Company did not have any significant amounts of cash in fiscal 2005.

General and administrative expenses for fiscal 2006 and 2005 are as follows:

	2006 \$	2005 \$
Accounting, audit and administrative	318,469	217,647
Consulting	397,699	91,498
Corporate development	42,404	4,549
Delay rentals	86,495	-
Investor relations	28,974	35,783
Legal	224,129	99,351
Management fees	56,394	125,997
Office	69,915	50,802
Regulatory fees	17,266	13,783
Rent	52,019	11,729
Salaries and benefits	189,019	-

	2006 \$	2005 \$
Stock-based compensation	336,740	263,755
Transfer agent fees	8,200	8,827
Travel	<u>158,272</u>	<u>55,232</u>
	<u>1,985,995</u>	<u>978,953</u>

General and administrative expenses increased by \$1,007,042, from \$978,953 in fiscal 2005 to \$1,985,995 in fiscal 2006 period. The increase primarily reflects the significant increase in activities in fiscal 2006 with the reactivation of the Company's business in the oil and gas industry. In fiscal 2005, the Company had limited activities and was focused primarily on its reactivation. Specific expenses of note during fiscal 2006 and 2005 are as follows:

- \$ the Company paid a total of \$165,016 (2005 - \$102,853) for salaries, management fees, bonuses and benefits to Mr. Jack Steinhauser, the Company's President and \$57,221 (2005 - \$nil) for salaries and consulting fees to an administrative assistant;
- \$ the Company paid \$52,019 (2005 - \$11,729) for office rent on an executive office in Denver, Colorado and a mining office in Buenos Aires, Argentina;
- \$ the Company incurred \$77,280 (2005 - \$50,313) for accounting, administrative and management services provided by Chase Management Ltd. ("Chase") a private corporation owned by Mr. Nick DeMare, a director of the Company;
- \$ the Company incurred \$75,192 (2005 - \$nil) for administrative services provided by Trinity Petroleum Mgmt. LLC ("Trinity"). Trinity prepares monthly accounting information on the Company's current oil and gas properties;
- \$ the Company incurred \$252,569 (2005 - \$138,461) for administrative and corporate development services provided by Grosso Group Management Ltd. ("Grosso Group"), a private corporation in which the Company has a one quarter share of Grosso Group. See "Commitments";
- \$ consulting fees increased by \$306,201, from \$91,498 during fiscal 2005 to \$397,699 during fiscal 2006, due mainly to professional services provided to assist the Company in raising financing and reviewing and evaluating oil and gas properties in the United States and Argentina;
- \$ legal expense increased by \$124,778, from \$99,351 during fiscal 2005 period to \$224,129 during fiscal 2006 period due mainly to services provided in the acquisition, review and evaluation of the Company's petroleum interests;
- \$ office expenses increased by \$19,113, from \$50,802 in fiscal 2005 to \$69,915 in fiscal 2006 period due to supplies and office furnishings acquired for the Denver office and a general increase in activities during fiscal 2006;
- \$ travel expenses increased by \$103,040, from \$55,232 in fiscal 2005 to \$158,272 in fiscal 2006 relating to travel and accommodations associated with on-going review of potential oil and gas property acquisitions and current properties and participation in investment conferences in the United States and Europe;
- \$ effective September 21, 2005, the Company entered into an investor relations agreement with Pascal Geraths Gesellschaft Fur Presse ("Pascal Geraths") to provide market awareness and investor relations activities in Europe on a monthly basis. Pascal Geraths is paid a monthly fee of EUR \$7,500. During fiscal 2006, the Company paid \$28,974 for investor relations to Pascal Geraths. The agreement with Pascal Geraths was terminated March 21, 2006; and
- \$ corporate development increased by \$37,855 from \$4,549 in fiscal 2005 to \$42,404 in fiscal 2006. During fiscal 2006, the Company participated in investment conferences in the United States and Europe.

During fiscal 2006, the Company recorded \$336,740 stock-based compensation expense attributed to the granting of 771,000 stock options. During fiscal 2005, the Company recorded an expense of \$263,755, on the granting of 1,084,500 stock options.

During fiscal 2006, the Company completed a private placement for 3,910,000 units for gross proceeds of \$3,910,000 and 4,520,000 units for gross proceeds of \$1,808,000. During fiscal 2006, the Company also received \$564,875 from the exercise of 1,133,750 warrants.

## **Financial Condition / Capital Resources**

As at December 31, 2006, the Company had working capital of \$962,051. The Company is participating in a number of exploration projects and is reviewing other opportunities in the oil and gas industry. These projects will entail significant funding and exploration commitments. In addition, planned oil and gas exploration activities may change due to ongoing results and recommendations. The Company will be required to provide additional equity financing to raise the requisite financial resources. While it has been successful in the past, there can be no assurance that the Company will be successful in raising future financings should the need arise.

Subsequent to December 31, 2006, the Company entered into an agency agreement with Union Securities Ltd. to complete a private placement of up to 20,000,000 units, at a price of \$0.35 per unit, for gross proceeds of up to \$7,000,000. As of the date of the MD&A, the Company has completed an initial tranche of 18,578,858 units for \$6,502,600 gross proceeds. The Company plans to use the funds from the offering to fund its commitments in Argentina and South Dakota, with remaining funds for general working capital purposes.

## **Commitments**

The Company has engaged Grosso Group Management Ltd. (the "Grosso Group") to provide general administrative support and corporate development services to the Company. The Grosso Group is a private corporation which was incorporated to provide geological, corporate development, administrative and management services to the Company and other public companies which have certain common directors, officers and shareholders. The Grosso Group intends to provide its services to its clients on a cost recovery basis. The Grosso Group is owned by its client companies, each of which owns one share.

During fiscal 2006, the Company was billed a total of \$252,569 (2005 - \$138,461) by the Grosso Group. As at December 31, 2006, \$50,463 (2005 - \$39,013) remains outstanding and is included in accounts payable and accrued liabilities. The Company has also paid a deposit of \$15,000 to the Grosso Group.

The Company also has a number of projects in which it is earning interests or is participating. See "Property Updates".

## **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **Proposed Transactions**

There are no proposed transactions which will have an impact on the Company's financial condition.

## **Critical Accounting Estimates**

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the annual consolidated financial statements for the year ended December 31, 2006.

## **Changes in Accounting Principles**

The Company had no changes in accounting principles for fiscal 2006.

## **Transactions With Related Parties**

During fiscal 2006, the Company:

- (i) was charged \$77,280 (2005 - \$50,313) for accounting, management and administrative services provided by a director and Chase Management Ltd. ("Chase") a private corporation owned by a director of the Company;
- (ii) paid a total of \$165,016 (2005 - \$102,853) for compensation, management fees, bonus and benefits to the President of the Company in his capacity as President; and

- (iii) was charged \$60,644 for legal services provided by a law firm of which a director of the Company is also a partner of the law firm.

The transaction with the Grosso Group is described in “Commitments”.

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

### **Risks and Uncertainties**

The Company’s business plan has been to grow through exploration for oil and natural gas. The Company’s principal risks, as an exploration company, are that it must find and develop economic petroleum production efficiently and be able to fund the associated capital expenditures. The Company currently relies on equity financing. If any components of the business plan should be missing the Company may not be able to continue executing the entire business plan.

Exploration projects are reviewed at a very early stage from all aspects including: corporate fit, environmental issues, timing, costs and reward potential. Identified risks are addressed and excessive risks are mitigated before any project is approved.

Operational risk is mitigated by addressing the continued development of a new or established reservoir, on a go-forward basis, in the same careful and calculated manner that the Company’s professionals have addressed exploration risk. Reserves are produced based on the amount of capital employed, production practices and reservoir quality. The Company evaluates reservoir development based on timing and the amount of additional capital required and the expected change in production volumes. Funding and development costs are controlled when capital is employed effectively on an economic basis.

### **Investor Relations Activities**

Effective September 21, 2005, the Company entered into a six month agreement with Pascal Geraths Gesellschaft Fur Presse (“Pascal Geraths”) to provide market awareness and investor relations activities in Europe. Pascal Geraths is paid a monthly fee of EUR \$7,500. During fiscal 2006, the Company incurred \$28,974 for services provided by Pascal Geraths. The agreement was terminated on March 21, 2006.

### **Outstanding Share Data**

The Company’s authorized share capital is unlimited common shares without par value. As at April 20, 2007, there were 22,720,507 outstanding common shares, 1,835,500 stock options outstanding with exercise prices ranging from \$0.24 to \$1.00 per share and 9,164,200 warrants outstanding with exercise prices ranging from \$0.50 to \$1.25 per share.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer has concluded that the Company’s disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuer’s Annual and Interim Filings (“52-109”), are effective to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules. In conducting the evaluation it has become apparent that management relies upon certain informal procedures and communication, and upon “hands-on” knowledge of senior management. Management intends to formalize certain of its procedures. Due to the small staff, however, the Company will continue to rely on an active Board and management with open lines of communication to maintain the effectiveness of the Company’s disclosure controls and procedures. Lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company will take whatever steps necessary to minimize the consequences thereof.

## **Internal Controls and Procedures over Financial Reporting**

Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. During the process of management's review and evaluation of the design of the Company's internal control over financial reporting, it was determined that certain weaknesses existed in internal controls over financial reporting. As is indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring which exists. The Company is taking steps to augment and improve the design of procedure and controls impacting these areas of weakness over internal control over financial reporting. It should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met.