ALTIMA RESOURCES LTD.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

NOVEMBER 30, 2006 AND 2005

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Altima Resources Ltd.

We have audited the balance sheets of Altima Resources Ltd. as at November 30, 2006 and 2005, and the statements of loss and 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 November 30, 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.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

March 16, 2007

ALTIMA RESOURCES LTD.
Balance Sheets

As at November 30	2006 - $ -	2005 - $ -
ASSETS		
Current assets		
Cash	914,278	342,076
Amounts receivable	13,100	5,150
Prepaid expenses	7,974	-
	935,352	347,226
Petroleum and natural gas properties (Note 3)	4,250,104	-
	5,185,456	347,226
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	1,358,942	5,243
	1,358,942	5,243
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	4,335,296	437,931
Contributed surplus (Note 6)	870,250	25,397
Deficit	(1,379,032)	(121,345)
	3,826,514	341,983
	5,185,456	347,226

Director **Director**

Signed "Richard Switzer" ***Signed "Joe DeVries"***

ALTIMA RESOURCES LTD.
Statements of Loss and Deficit
Years ended November 30

	2006 - $ -	2005 - $ -
EXPENSES		
Consulting	108,782	-
Investor communications	2,530	-
Management fees	83,500	-
Office services and miscellaneous	88,952	7,504
Professional fees	57,297	28,674
Stock-based compensation		
- Consulting	280,250	-
- Investor communications	73,750	-
- Management fees	516,250	-
Transfer agent and filing fees	22,884	11,931
Travel	34,979	-
Interest income	(11,487)	(9,297)
	1,257,687	38,812
NET LOSS FOR THE YEAR	(1,257,687)	(38,812)
Deficit, beginning of year	(121,345)	(82,533)
Deficit, end of year	(1,379,032)	(121,345)
Basic and diluted loss per share	(0.09)	(0.01)
Weighted average number of shares outstanding	14,027,786	5,967,123

- See Accompanying Notes -

ALTIMA RESOURCES LTD.
Statements of Cash Flows
Years ended November 30

	2006 - $ -	2005 - $ -
Cash provided by (used for):		
OPERATING ACTIVITIES		
Net loss	(1,257,687)	(38,812)
Stock-based compensation	870,250	-
Changes in non-cash working capital accounts	1,337,775	(10,035)
	950,338	(48,847)
INVESTING ACTIVITY		
Acquisition of petroleum and natural gas properties	(4,181,329)	-
FINANCING ACTIVITY		
Issuance of shares, net of financing costs	3,803,193	35,000
Increase (decrease) in cash	572,202	(13,847)
Cash, beginning of year	342,076	355,923
Cash, end of year	914,278	342,076
Supplemental cash flow information:		
Cash transactions:		
- Interest	-	-
- Income tax	-	-

- See Accompanying Notes -

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated under the Company Act of British Columbia on November 14, 2003 as a Capital Pool Company (CPC") established under the policies of the TSX Venture Exchange ("TSX-V").

As a CPC, the Company's principal business was the identification and evaluation of assets, properties or businesses with a view to acquisition or participation in a Qualifying Transaction ("QT").

On April 13, 2004, the Company's shares were listed for trading on the TSX-V.

Pursuant to a Farm-out and Participation Agreement dated March 8, 2006 the Company acquired certain interests in the Chambers Area Gas Prospect, Alberta (Note 3). This acquisition constituted the Company's QT under Policy 2.4 of the TSX-V.

On May 9, 2006 the TSX-V accepted for filing the Company's QT and related transactions. Accordingly, the Company is no longer considered to be a CPC, was reinstated as a Tier 2 Issuer, and the common shares of the Company commenced trading on the TSX-V.

At November 30, 2006, the Company had a working capital deficiency of $423,590 (2005 – working capital of $341,983) and incurred a loss of $1,257,687 (2005 - $38,812) for the year then ended. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing and generating revenues sufficient to cover its operating costs. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Petroleum and natural gas properties – The Company follows CICA Accounting Guideline AcG16 in applying full cost accounting for its petroleum and natural gas operations, whereby all costs associated with the acquisition of, exploration for and the development of, petroleum and natural gas reserves, are capitalized and accumulated in one cost centre. Proceeds from the disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition would alter the depletion and depreciation rate by 20% or more.

Asset retirement obligations – The fair value of estimated asset retirement obligations ("ARO") is recognized in the financial statements in the period in which they are identified and a reasonable estimate of fair value can be made. The ARO includes the costs of abandonment of petroleum and natural gas wells, dismantling and removing tangible equipment, and returning land to its original condition. The asset retirement cost, equal to the estimated fair value of the asset retirement obligations, is capitalized as part of the cost of the related long-lived asset.

Cash and short-term investments - Cash and short-term investments consists of cash and guaranteed investment certificates with original maturities of one year or less.

Earnings per share - The Company utilizes the treasury stock method in computing earnings per share amounts. Under this method, basic loss per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period.

For the years ended November 30, 2006 and 2005, the existence of warrants and options affects the calculation of loss per share on a fully diluted basis. As the effect of this dilution is to reduce the reported loss per share, fully diluted loss per share information has not been shown.

Financial instruments - The Company's financial instruments consist of cash, amounts receivable and accounts payable which are short term in nature. The fair value of the financial instruments approximates their carrying values.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates in the preparation of financial statements - The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of expenses for the period. Significant areas requiring the use of estimates are petroleum and natural gas properties and stock-based compensation. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. However, actual results may differ from the estimates.

Income taxes - Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates at the date of enactment or substantive enactment.

Stock-based compensation and stock option plan - The Company recognizes compensation cost for the fair value of options granted. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Any consideration received on the exercise of stock options is credited to share capital.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	2006 - $ -	2005 - $ -
Petroleum and natural gas properties, Alberta	4,250,104	-

Chambers Area Gas Prospect, Alberta

Pursuant to a Farm-out and Participation Agreement, dated March 8, 2006 between the Company and Golden Eagle Energy Inc., the Company acquired the following interests in the Chambers Area Gas Prospect located in Sections 17 and 18, Township 41, Range 11W5M, Alberta:

a) The right to earn a 20% working interest in a test well;

b) The right to earn a 20% working interest in Section 17 of the farm-out lands;

c) The right to earn an 18.75% working interest in the equipping and tie-in of the POCO Chambers 7-18-41-11W5M Elkton well; and

d) The right to earn an 18.75% working interest in Section 18 of the farm-out lands.

Chambers Area Land, Alberta

During the year ended November 30, 2006 the Company acquired working interests ranging from 20% to 35% in certain parcels of land within the Chambers Area, Alberta.

The activities in the cost centre are considered to be in the preproduction stage. Consequently, all costs have been capitalized. The major uncertainties affecting recovery of costs are confirmation of reserves and profitable extraction of those reserves. Recovery of costs of $4,250,104 is uncertain and dependent upon obtaining additional financing and achieving commercial production or sale.

4. SHARE CAPITAL

Authorized: unlimited number of common shares without par value

Issued and outstanding:

	#	- $ -
Balance, November 30, 2004	5,900,000	392,193
Shares issued on exercise of options	350,000	35,000
Reclassified from contributed surplus on exercise of stock options	-	10,738
Balance, November 30, 2005	6,250,000	437,931
Shares issued for private placements	13,500,000	2,375,000
Shares issued for warrants exercised	4,766,064	1,465,565
Shares issued for options exercised	590,000	59,000
Shares issued for a finder's fee	335,488	68,775
Reclassified on exercise of stock options	-	25,397
Share issue costs paid in cash	-	(96,372)
Balance, November 30, 2006	25,441,552	4,335,296

The Company entered into the following share capital transactions:

A non-brokered private placement of 10,000,000 units was completed on May 4, 2006 at a price of $0.15 per share, with each unit comprised of one common share and one share purchase warrant having a term of one year and an exercise price of: (a) $0.3075 per share in the first four months; (b) $0.50 per share in months five through eight; and (c) $1.00 per share in the final four months. The grant date fair value of these warrants has been included in share capital on a net basis and accordingly has not been recorded as a separate component of shareholders' equity

A non-brokered private placement of 3,500,000 units was completed on November 10, 2006 at a price of $0.25 per unit with each unit comprised of one common share and one share purchase warrant having a term of one year and an exercise price of $0.50. The grant date fair value of these warrants has been included in share capital on a net basis and accordingly has not been recorded as a separate component of shareholders' equity.

A finder's fee of 335,488 common shares were issued at $0.205 per share to an individual appointed a director of the Company in conjunction with the completion of the QT, but at arm's length to the Company at the time the QT and finder's fee were agreed to.

Escrow Shares

As at November 30, 2006 there were 2,051,616 escrow shares outstanding.

4. SHARE CAPITAL (Continued)

Warrants

The Company has share purchase warrants outstanding as follows:

	Number of warrants	Weighted average price - $ -	Weighted average remaining life
Balance, November 30, 2004	-	-	-
Granted	-	-	-
Expired	-	-	-
Exercised	-	-	-
Balance, November 30, 2005	-	-	-
Granted	13,500,000	0.63	-
Expired	-	-	-
Exercised	(4,766,064)	(0.31)	-
Balance, November 30, 2006	8,733,936	0.80	0.53

5. STOCK OPTION PLAN

On January 12, 2004 the Company established a stock-option plan for directors, officers, consultants and administrative personnel. Under the plan, the number of options granted is limited to 10% of the Company's issued shares at the time the options are granted. Options expire five years after the date of the grant. The number of options granted to any individual director or officer is limited to 5% of the issued shares of the Company and the options granted to all consultants and administrative personnel is limited to 2% of the issued shares.

During the year ended November 30, 2006 the Company granted 1,600,000 stock options exercisable on or before June 5, 2011 at a price of $1.00 per share. The grant date fair value was $0.59. As described in Note 2, the Company recognizes the fair value of options granted as stock-based compensation. Determining the fair value of the options granted requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the Black-Scholes calculation, the following weighted-average assumptions were used: Risk free interest rate – 4.18%, expected dividend yield – nil, expected stock price volatility – 68%, expected life of options – 5 years.

Details of the Company's stock options outstanding are as follows:

	Number of options	Weighted average price - $ -	Weighted average remaining life
Balance, November 30, 2004	940,000	0.10	2.90
Exercised	(350,000)	(0.10)	
Balance, November 30, 2005	590,000	0.10	3.11
Exercised	(590,000)	(0.10)	
Granted	1,600,000	1.00	
Balance, November 30, 2006	1,600,000	1.00	4.51

6. CONTRIBUTED SURPLUS

The Company's contributed surplus is comprised of the following:

	- $ -
Balance, November 30, 2004	36,135
Reclassified to share capital on exercise of options	(10,738)
Balance, November 30, 2005	25,397
Stock-based compensation expense	870,250
Reclassified to share capital on exercise of options	(25,397)
Balance, November 30, 2006	870,250

7. RELATED PARTY TRANSACTIONS

During the years ended November 30, 2006 and 2005 the following transactions occurred with related parties:

	2006 - $ -	2005 - $ -
Management fees paid in cash or accrued to directors	83,500	-
Consulting fees accrued to a company controlled by a director	7,500	-
Stock-based compensation for options issued to directors	516,250	-
Legal fees paid to a law firm of which a former director is a member	17,109	16,674
Finder's fee (Note 4)	68,775	-
Administrative services and occupancy charges paid to an officer and a company controlled by a director	60,389	-
Occupancy charges paid to a company controlled by a former director	3,000	6,000

Included in accounts payable is $15,507 (2005 – Nil) payable to two companies controlled by a director for management fees and the provision of administrative services.

During the year, the Company entered into transactions with a director and two companies controlled by a director to provide management and administrative services to fulfill corporate, secretarial, administrative, occupancy and all such other day-to-day duties and responsibilities as may be imposed on the Company. As compensation, the Company agreed to pay fees of $4,500 per month to a director, fees of $4,500 per month to a company controlled by a director and to pay an administrative handling fee of 10% to a company controlled by a director on all transactions relating to the responsibilities undertaken. All agreements are on a month-to-month basis and may be terminated by all parties by giving one month's notice in writing.

These transactions were recorded at their exchange amounts which are the amounts agreed upon by the transacting parties on terms and conditions similar to non-related entities.

8. NON-CASH TRANSACTIONS

During the year, the Company issued 335,488 common shares as a finder's fee at $0.205 per share (Note 4).

9. INCOME TAXES

To date, the Company has not recorded in these financial statements the future income tax benefits of non-capital losses and other future tax assets which may be applied to reduce income taxes in future years as the criteria for recognition has not been met.

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are estimated as follows:

	2006 - $ -	2005 - $ -
Loss before income taxes	(1,257,687)	(38,812)
Corporate tax rate	34.12%	34.99%
Expected tax recovery	(429,123)	(13,580)
(Increase) decrease resulting from:		
Non-deductible stock-based compensation	296,929	-
Share issue costs and other	(32,060)	510
Valuation allowance	164,254	13,070
Future income tax provision (recovery)	-	-

The Company's tax-effected future income tax assets are estimated as follows:

	2006 - $ -	2005 - $ -
Non-capital losses available	171,180	33,220
Share issue costs and other	26,470	170
	197,650	33,390
Less: valuation allowance	(197,650)	(33,390)
Net future income tax assets	-	-

At November 30, 2006, the Company has net operating losses of approximately $501,700 for income tax purposes which are available to reduce future taxable income. If not utilized, the losses expire through 2026 as follows:

	- $ -
2010	4,100
2014	52,100
2015	38,700
2026	406,800
	501,700

10. SUBSEQUENT EVENTS

In December 2006, the Company received $400,000 as a loan from a company related by a director pursuant to a letter agreement whereby the Company proposes to acquire the outstanding shares of the company in exchange for shares and warrants in the Company. If the acquisition is not completed, the loan is repayable on or before December 31, 2007 and bears interest at commercial rates.

In January 2007, the Company closed a private placement for the issuance of 333,400 flow-through shares at a price of $0.30 per share for proceeds of $100,020.

In January 2007, the Company closed a private placement for the issuance of 203,333 units at a price of $0.30 per unit for proceeds of $61,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share, exercisable for a period of one year from the date of issuance at a price of $0.50 per share.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current presentation. Such re-classification is for presentation purposes only and has no effect on previously reported results.

ALTIMA RESOURCES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED NOVEMBER 30, 2006

GENERAL

The following management discussion and analysis ("MDA") of the financial position of Altima Resources Ltd. ("Company") and results of operations should be read in conjunction with the audited financial statements and accompanying notes for the years ended November 30, 2006 and 2005. The audited financial statements together with this MDA are intended to provide investors with a reasonable basis for assessing the financial performance of the Company.

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com, or by requesting further information from the Company's head office in Vancouver.

FORWARD LOOKING STATEMENTS

This MDA contains certain forward looking statements, except for historical information. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance, and/or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward looking statements.

NATURE OF BUSINESS

The Company was incorporated under the Company Act of British Columbia on November 14, 2003 as a Capital Pool Company established under the policies of the TSX Venture Exchange.

As a Capital Pool Company, the Company's principal business was the identification and evaluation of assets, properties or businesses with a view to acquisition or participation in a Qualifying Transaction.

On April 13, 2004, the Company's shares were listed for trading on the TSX Venture Exchange.

Pursuant to a Farm-out and Participation Agreement dated March 8, 2006 the Company acquired certain oil and gas interests and the right to participate in the drilling of a Mississippian Elkton test well located in the Chambers Area Gas Prospect in the West Ferrier area of west central Alberta. This acquisition constituted the Company's "Qualifying Transaction" under Policy 2.4 of the TSX Venture Exchange.

On May 9, 2006 the TSX Venture Exchange accepted for filing the Company's Qualifying Transaction and related transactions. Accordingly, the Company is no longer considered to be a Capital Pool Company, was reinstated as a Tier 2 Issuer, and the common shares of the Company commenced trading on the TSX Venture Exchange.

OVERALL PERFORMANCE

The Company is an exploration stage public company listed on the TSX Venture Exchange and is exploring its oil and gas properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of amounts shown for oil and gas properties is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the oil and gas properties, the ability of the Company to obtain necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof.

1. Management activities

For the period since December 1, 2005 the company and its Management have been occupied primarily with negotiations leading up to the signing of a Farm-out and Participation Agreement ("Agreement") on March 8, 2006 between the Company and Golden Eagle Energy Inc. This Agreement was accepted on May 9, 2006 as the Company's Qualifying Transaction by the TSX Venture Exchange.

The Agreement entitles the Company to the following:

a) The right to earn a 20% working interest in a test well;

b) The right to earn a 20% working interest in Section 17 of the farm-out lands;

c) The right to earn an 18.75% working interest in the POCO Chambers 7-18-41-11W5M ("7-18") Elkton well by paying 18.75% of equipping and tie-in costs; and

d) The right to earn an 18.75% working interest in Section 18 of the farm-out lands.

A finder's fee of 335,488 common shares at a price of $0.205 per share was granted to an individual appointed a Director of the Company in conjunction with the completion of the Qualifying Transaction, but was at arm's length to the Company at the time the QT and finder's fee were agreed to.

2. Chambers Area Gas Prospect

The Test Well GEEL ET AL CHAMB 3-17-41-11 W5M ("3-17") was spudded on March 14, 2006, and reached a depth of 3,349 metres and production casing was set. By the fiscal year end, the Test Well was completed (multi-zone completion) testing commercial rates of natural gas from two zones at 1,750mscf/d and 235bbls/d of associated condensate. The Company and its partners anticipate first production by May 1, 2007. It is anticipated multiple zones will be co-mingled similar to completion and production techniques used in many of the Ferrier Pools to the immediate east.

The Company and its partners elected to the tying-in and equipping of the 7-18 well which is anticipated to commence production in conjunction with the 3-17 well. Plans are to reenter the existing "7-18" well and reconfigure the production string to provide a higher flow rate from the liquids rich Elkton formation and the running of a flow line to the 3-17 well. The 7-18 well tested water free gas at 300mcsf/d and 20bbls/d condensate.

Up to the date of this MDA, the Company and its partners have acquired a total of approximately 140 square miles of 3D seismic and have concluded two independent petrophysical studies over several Townships in the Chambers/Ferrier area.

The Company and its partners have also elected to drill on optioned lands, and have secured a Mineral Surface Lease and well license for the first location. The Company's next drilling location at Chambers is the new pool wildcat well located at 16-21-41-11 W5M ("16-21"). This location was high-graded with the use of 3D seismic data in conjunction with the results of the 3-17 well. The drilling of the 16-21 well and the re-entry of the 7-18 well will commence as soon as possible after spring break-up in June. The Company estimates that between 8 and 10 additional well locations exist across the acreage using conventional spacing.

Chambers Area Land, Alberta

In addition to the Company's expenditures on its test wells described above, the Company acquired working interests varying from 20% to 35% in certain Crown parcels of land within the Chambers Area, Alberta at a cost of $789,905. The Company now holds an interest in 9,600 gross acres and an option on another 3,840 gross acres in the Chambers/Ferrier area. Altima's average working interest in Crown lands is 28.25%.

3. Operational results

For the year ended November 30, 2006 the Company recorded a net loss of $1,257,687 compared to a net loss of $38,812 for the prior year. The comparative increase in the net loss of $1,218,875 is due primarily to stock-based compensation expense of $870,250. Other general and administrative expenses are not strictly comparable to the prior year because in fiscal 2005, as a Capital Pool Company, its principal business was the identification and evaluation of assets, properties or businesses with a view to acquisition or participation in a Qualifying Transaction. In the current fiscal year, in addition to expenses incurred relating to the Company's efforts to identify and evaluate the Qualifying Transaction referred to above, the Company incurred administrative expenses relating to corporate activities in fund raising, and additional administrative services and support at head office. Excluding stock-based compensation costs, general and administrative costs for fiscal 2006 totalled $387,437 compared to $38,812 in fiscal 2005. As at November 30, 2006 the Company had no continuing source of operating revenues.

SELECTED ANNUAL INFORMATION

	Years ended November 30		
	2006 - $ -	2005 - $ -	2004 - $ -
Revenue	-	-	-
Net loss	(1,257,687)	(38,812)	(77,681)
Loss per share	(0.09)	(0.01)	(0.01)
Total assets	5,185,456	347,226	357,496

SUMMARY OF QUARTERLY RESULTS

	Nov 30/06	Aug 31/06	May 31/06	Feb 28/06
Revenue	-	-	-	-
Net loss	(163,661)	(932,655)	(138,677)	(22,694)
Loss per share	(0.01)	(0.05)	(0.02)	(0.01)
	Nov 30/05	Aug 31/05	May 31/05	Feb 28/05
Revenue	-	-	-	-
Net loss	(6,587)	(11,751)	(7,416)	(13,058)
Loss per share	(0.00)	(0.00)	(0.00)	(0.00)

LIQUIDITY AND CAPITAL RESOURCES

At November 30, 2006, the Company had $914,278 in cash, and accounts payable and accrued liabilities of $1,358,942. Its working capital deficiency was $423,590 and it had a cumulative deficit of $1,379,032.

To date, the Company's ongoing operations have been predominantly financed by private placements and the exercise of warrants and stock options. Additional equity financing will be required to conduct further development work on the Company's projects and to place any project, if feasible, into production. While the Company has been successful in raising the necessary funds in the past, there can be no assurance it can continue to do so.

During the year ended November 30, 2006 the Company completed the following share capital transactions:

a) Issued 13,500,000 common shares for proceeds of $2,375,000 less share issue costs of $96,372;

b) Issued 590,000 common shares on the exercise of options for proceeds of $59,000;

c) Issued 4,766,064 common shares on the exercise of warrants for proceeds of $1,465,565

d) Issued 335,488 common shares as a finder's fee to an individual appointed a director of the Company in conjunction with the completion of the Qualifying Transaction, but at arm's length to the Company at the time the Qualifying Transaction and finder's fee were agreed to.

Stock Options

The Company has a stock option plan which authorizes the board of directors to grant options for the purchase of up to 10% of the issued common shares at the time of the grant. During the period the Company granted 1,600,000 stock options entitling the holders to purchase common shares in the Company exercisable on or before June 5, 2011 at a price of $1.00 per share.

During the year ended November 30, 2006 the Company granted 1,600,000 stock options exercisable on or before June 5, 2011 at a price of $1.00 per share. The grant date fair value was $0.59. The Company recognizes the fair value of options granted as stock-based compensation. Determining the fair value of the options granted requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the Black-Scholes calculation, the following weighted-average assumptions were used: Risk free interest rate – 4.18%, expected dividend yield – nil, expected stock price volatility – 68%, expected life of options – 5 years.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties in the period consisted of the following:

a) Management fees of $83,500 were paid or accrued to directors;

b) Consulting fees of $7,500 were accrued to a company controlled by a director;

c) Stock-based compensation of $516,250 for options granted to directors;

d) Legal fees of $17,109 were paid to a law firm of which a former director is a member;

e) Administrative charges and occupancy totaling $60,389 was paid to a company controlled by a director;

f) A finder's fee entailing the issuance of 335,488 common shares valued at $68,775 was granted to an individual appointed a director of the Company in conjunction with the completion of the Qualifying Transaction, but at arm's length to the Company at the time the Qualifying Transaction and finder's fee were agreed to;

g) Rent of $3,000 was paid to a company controlled by a former director.

SUBSEQUENT EVENTS

In December 2006, the Company received $400,000 as a loan from a non-related company pursuant to a letter agreement whereby the Company proposes to acquire the outstanding shares of the non-related company in exchange for shares and warrants in the Company. If the acquisition is not completed, the loan is repayable on or before December 31, 2007 and bears interest at commercial rates.

In January 2007, the Company closed a private placement for the issuance of 333,400 flow-through shares at a price of $0.30 per share for proceeds of $100,020.

The Company negotiated a private placement for the issuance of 203,333 units at a price of $0.30 per unit for proceeds of $61,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share, exercisable for a period of one year from the date of issuance at a price of $0.50 per share.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of November 30, 2006, that our disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, is made known to them by others within those entities. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision 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. We have designed controls for this process and have conducted an evaluation which has identified several potential weaknesses in our controls. Due to the limited number of staff at the Company, there is an inherent weakness in the system of internal controls due to our inability to achieve appropriate segregation of duties. The limited number of staff has also led us to identify a weakness with respect to accounting for complex and non-routine accounting transactions as the Company does not have a sufficient number of finance personnel with technical accounting knowledge to address all complex and non-routine accounting matters that may arise. Neither of these weaknesses has resulted in a misstatement in our interim or annual financial statements. However; as there is a more than remote likelihood that a material misstatement would not be prevented or detected, these items have been classified as material weaknesses. Currently, Management and Board review are being utilized to mitigate the risk of material misstatement in financial reporting, and also to ensure that existing internal controls remain effective. We intend to remediate these weaknesses in the future by expanding the number of individuals in our financial reporting area as we grow the Company.

RISKS

The Company is engaged in the exploration for and development of oil and gas properties. These activities involve significant risks which careful evaluation, experience and knowledge may not, in some cases, eliminate. The commercial viability of any oil and gas properties depends on many factors not all of which are within the control of management. Operationally the Company faces risks that are associated with and affect the financial viability of a given oil and gas property. These include risks associated with finding, developing and producing these oil and gas reserves. In addition, Government regulations, taxes, royalties, land tenure, land use, environmental protection and reclamation and closure obligations, have an impact on the economic viability of an oil and gas property.

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

The Company’s ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing and generating revenues sufficient to cover its operating costs. The accompanying audited financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying audited financial statements.

Any forward-looking information in the MDA is based on the conclusions of management. The Company cautions that due to risks and uncertainties, actual events may differ materially from current expectations. With respect to the company's operations, actual events may differ from current expectations due to economic conditions, new opportunities, changing budget priorities of the company and other factors.

DIRECTORS

During the period, the following individuals resigned as directors of the Company: Malcolm Powell, Carl Jonsson, Gregory Crowe, and Lindsay Bottomer

As at the date of this report the directors of the Company are:
Richard Switzer, Joe DeVries, Whitney Pansano, Jurgen Wolf, Bob Mummery, and Jim O'Byrne.

Date prepared: March 23, 2007.