

*A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of British Columbia, Alberta and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.*

*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly in the United States of America, its territories or possessions. See "Plan of Distribution" on page 65.*

## PRELIMINARY PROSPECTUS

NEW ISSUE

Date: November 29, 2004

# ARAPAHOE ENERGY CORPORATION

(the "Issuer")

**UP TO ♦ UNITS @ \$♦ EACH**

**(Maximum: \$1,000,000)**

and

**UP TO ♦ FLOW-THROUGH COMMON SHARES AT \$♦ EACH**

**(Aggregate Maximum: \$3,500,000)**

This preliminary prospectus qualifies the distribution (the "Offering") of: (i) up to ♦ units of securities of the Issuer ("Units") and (ii) up to ♦ flow-through common shares of the Issuer (each a "FT Share") pursuant to an agency agreement dated as of ♦, 2004 between the Issuer and Woodstone Capital Inc. (the "Agent"). The price at which the Units are being offered is \$♦ and the price at which the FT Shares are being offered is \$♦ (together, the "Offering Prices"). The sale of a combination of Units and FT Shares hereunder will result in aggregate gross proceeds of up to \$3,500,000 provided that the maximum number of Units sold hereunder shall not exceed ♦ (\$1,000,000). Each Unit is comprised of one common share of the Issuer (a "Common Share") and one-half of a common share purchase warrant. Each whole common share purchase warrant (a "Warrant") is transferable and entitles the holder to acquire one non-flow-through common share (a "Warrant Share") of the Issuer for a period of twelve months following the Initial Closing Date (as hereinafter defined) at a price of \$♦ each during the first six months following the Initial Closing Date and at a price of \$♦ each thereafter. Each FT Share will be a Common Share that qualifies as a "flow-through share" as defined in the *Income Tax Act* (Canada). The Issuer will incur and renounce to each subscriber of FT Shares, effective on or before December 31, 2004, Qualifying Expenditures (as hereinafter defined) in an amount equal to 100% of the aggregate purchase price paid by each such subscriber. See "Plan of Distribution" on page 65 and "Canadian Federal Income Tax Consequences" on page 78.

The issued and outstanding Common Shares of the Issuer have been listed on the TSX Venture Exchange Inc. (the "Exchange") under the trading symbol "AAO" ("APR" prior to February 6, 2004). On November 26, 2004, the closing price of the Common Shares of the Issuer on the Exchange was \$0.23.

There is currently no market through which the Warrants may be sold and purchasers may not be able to resell Warrants purchased under this Prospectus. The Offering Prices of \$◆ per Unit and \$◆ per FT Share were determined by negotiation between the Issuer and the Agent.

	<b>Price to Public</b>	<b>Agent's Commission <sup>(1)</sup></b>	<b>Net Proceeds to the Issuer <sup>(2)(3)</sup></b>
Per Unit	\$ 0.◆	\$ 0.◆	\$ 0.◆
Per FT Share	\$ 0.◆	\$ 0.◆	\$ 0.◆
<b>Total</b>	<b>\$ 3,500,000</b>	<b>\$ 262,500</b>	<b>\$ 3,237,500</b>

**Notes:**

- (1) The Agent will receive an aggregate commission equal to 7.5% of the gross proceeds of the Offering (the "Agent's Commission"). The Agent will reduce its Agent's Commission to 5% of the gross proceeds from subscriptions received from insiders of the Issuer. This table assumes that the Agent will receive the Agent's Commission at a rate of 7.5% of the gross proceeds of the Offering. The Agent will also be granted an option (the "Agent's Option") exercisable one year from each Closing Date to purchase units (the "Agent's Units") in an amount equal to 10% of the number of FT Shares and Units sold to investors under the Offering (including securities sold under the Over-Allotment Option defined below), at a price of \$◆ each. Each Agent's Unit will consist of one Common Share and one-half of one Agent's Warrant. The Issuer will also pay the Agent's expenses incurred in connection with the Offering and has provided the Agent a \$5,000 retainer in this regard. See "Description of the Securities Distributed" on page 48 and "Plan of Distribution" on page 65. The balance of the Agent's expenses and the Agent's Commission will be paid out from the proceeds of the sale of the Units, the Issuer's working capital, revenues from operations, or bank debt or a combination thereof.
- (2) Before deduction of the costs of the Offering estimated to be \$75,000 and excluding proceeds of up to \$500,000, if any, raised pursuant to the exercise of the Over-Allotment Option defined below and the exercise of the Agent's Option.
- (3) Subscription proceeds will be held by a depository who is a registrant, bank or trust company during the 90 day period after the date of the final MRRS Decision Document (as hereinafter defined) for this Prospectus. See "Plan of Distribution" on page 65.

The Issuer has granted to the Agent a non-transferable option (the "Over-Allotment Option") to sell an additional ◆ Units and/or FT Shares, exercisable in whole or in part at the Offering Price for a period of sixty days from the Closing Date to cover the Agent's over-allocation position.

This Prospectus qualifies the distribution of the FT Shares and the Common Shares and Warrants forming the Units, the Agent's Option, the Over-Allotment Option and the Units and/or FT Shares issuable upon the exercise of the Over-Allotment Option pursuant to an agency agreement to be made between the Agent and the Issuer in respect of the Offering. See "Description of the Securities Distributed" on page 48.

This Offering is made on a "commercially reasonable efforts" basis by the Agent which conditionally offers the Units and FT Shares, subject to prior sale, if, as and when issued, sold and delivered by the Issuer and accepted by the Agent in accordance with the terms and conditions contained in the Agency Agreement described under "Plan of Distribution" on page 65.

Subscriptions for Units and FT Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing of this Offering will take place on or before December 31, 2004, or such other date or dates as may be agreed to by the Issuer and the Agent.

It is expected that the Initial Closing will take place on or about ◆, 2004, subject to postponement, as the Agent and the Issuer may agree, but not later than ◆, 2004. Notwithstanding the above, the Offering will be discontinued in the event that a closing in respect of the Offering has not occurred on or prior to the date which is 90 days from the issuance of a final MRRS Decision Document (as hereinafter defined) for this Prospectus, unless each of the persons or companies who have subscribed within such period consents to the continuation of the Offering.

All subscription funds received by the Agent will be held by the Agent. This Offering is not underwritten and if the Offering is not completed prior to the expiry of the 90 day period, the Agent shall promptly return the proceeds of subscriptions to the subscribers without interest or deduction unless such subscribers have otherwise instructed the Agent.

Should Initial Closing occur in respect of part of the Offering, one or more additional closings, if necessary, may occur until the earlier of the Offering being completely subscribed and ◆, 2004.

Certificates representing the FT Shares, the Common Shares and the Warrants comprising the Units will be available for delivery on the applicable Closing Date.

**An investment in the securities offered hereunder is speculative and involves a high degree of risk. The risk factors identified under the heading “Risk Factors” on page 68 should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered hereunder.**

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## GLOSSARY OF GENERAL TERMS

The following is a glossary of certain general terms used in this Prospectus:

“Additional Escrow Shares”	means 20,472 Old Arapahoe Shares subject to the Arapahoe Escrow Agreement.
“Agency Agreement”	means the comprehensive agreement to be made between the Agent and the Issuer in respect of the Offering which will supercede the Letter Agreement.
“Agent”	means Woodstone Capital Inc.
“Agent’s Option”	means a one year non-transferable option issuable to the Agent by the Issuer in partial satisfaction of the consideration due to the Agent for services rendered under the Agency Agreement entitling the Agent to purchase an aggregate number of Agent’s Units equal to 10% of the number of Units and FT Shares sold to investors under the Offering (including securities sold under the Over-Allotment Option), at a price of \$◆ each.
“Agent’s Unit”	means the units issuable to the Agent on exercise of the Agent’s Option, and each Agent’s Unit will consist of one Common Share and one-half of an Agent’s Warrant.
“Agent’s Warrant”	means the non-transferable common share purchase warrant included in each Agent’s Unit. Each whole Agent’s Warrant will entitle the holder to purchase one Common Share for a period of 12 months following the Closing Date, at a price of \$◆ each during the first 6 months following the Closing Date and at a price of \$◆ each thereafter.
“AIT”	means after income tax has been deducted.
“Alberta Act”	means the <i>Business Corporations Act (Alberta)</i> .
“Amalgamation”	means the amalgamation of Old Arapahoe and Crazy Horse under the Alberta Act effected February 6, 2004 pursuant to the Arrangement Agreement.
“Arapahoe Escrow Agreement”	means the escrow agreement dated October 22, 1998 among Charger Energy Inc., Montreal Trust Company of Canada and Canaccord Capital Corporation ITF Jeffrey L. Standen. See “Escrowed Securities” on page 55.
“Arrangement Agreement”	means the terms of a plan of arrangement agreement dated November 12, 2003, as amended, between Old Arapahoe and Crazy Horse whereby Old Arapahoe amalgamated with Crazy Horse on February 6, 2004 and the amalgamated corporation (the Issuer) continued under the name “Arapahoe Energy Corporation”.
“BIT”	means before income tax has been deducted.
“Business Day”	means a day which is not a Saturday, Sunday or statutory holiday in Alberta, British Columbia or Ontario.
“Canadian Development Expense(s)” or “CDE”	means Canadian development expense described in the definition of “Canadian development” expense” in subsection 66.2(5) of the Tax Act, excluding amounts which are prescribed to constitute “Canadian exploration and development overhead expense” under the Tax Act, the amount of any assistance described in paragraph 66(12.62)(a) of the Tax Act, and any expense described in paragraph 66(12.62)(b.1) of the Tax Act.

“Canadian Exploration Expense(s)” or “CEE”	means Canadian exploration expense described in the definition of “Canadian exploration expense” in subsection 66.1(6) of the Tax Act, excluding amounts which are prescribed to constitute “Canadian exploration and development overhead expense” under the Tax Act, the amount of any assistance described in paragraph 66(12.6)(a) of the Tax Act, and any expense described in paragraph 66(12.6)(b.1) of the Tax Act.
“CEO”	means the chief executive officer of the Issuer and includes an individual who served as chief executive officer of the Issuer or acted in a similar capacity during the most recently completed financial year.
“CFO”	means the chief financial officer of the Issuer and includes an individual who served as chief financial officer of the Issuer or acted in a similar capacity during the most recently completed financial year.
“Closing Date”	means the date or dates of completion of one or more tranches of the Offering, including the Initial Closing, the last of which shall be no later than ♦, 2004, subject to regulatory approval, unless specifically extended in writing by the Agent and the Issuer.
“Common Share”	means one common share without par value in the capital stock of the Issuer.
“Compensation Options”	means the compensation options issued to First Associates entitling the holders thereof to purchase 125,906 units of the Issuer at a price of \$2.75 each until February 6, 2005. See “Compensation Options” on page 53.
“CCRA”	means the Canada Customs and Revenue Agency.
“Crazy Horse”	means Crazy Horse Energy Inc., a privately held corporation incorporated under the Alberta Act on April 23, 2001, and one of the predecessor corporations to the Issuer.
“Crazy Horse Shares”	means the common shares of Crazy Horse as constituted immediately before the Amalgamation.
“Effective Date”	means the date on which the final MRRS Decision Document is issued by the British Columbia, Alberta and Ontario Securities Commissions for this Prospectus.
“Escrow Agent”	means Computershare Trust Company of Canada.
“Escrow Agreement”	means the Tier 2 “value security” escrow agreement dated February 6, 2004 in the form required by the Exchange. See “Escrowed Securities” on page 55.
“Escrow Shares”	means the 3,766,667 Common Shares originally subject to the Escrow Agreement.
“Exchange” or “TSXV”	means the TSX Venture Exchange Inc.
“Executive Officer”	means the chairman and any vice-chairman of the board of directors of the Issuer, where the functions of the office are performed on a full-time basis, the president, any vice-president in charge of a principal business unit, division or function such as sales, finance or production, and any officer of the Issuer or any other person who performed a policy-making function in respect of the Issuer.
“Expenditure Period”	means the period commencing on the Closing Date and ending December 31, 2005 during which certain CEE is incurred and renounced by the Issuer to subscribers by March 31, 2005 with an effective date of December 31, 2004.
“Extreme”	means Extreme Energy Corporation.

“First Associates”	means First Associates Investments Inc.
“Fiscal 2003”	means the financial year of the Issuer ended December 31, 2003.
“Fiscal 2002”	means the financial year of the Issuer ended December 31, 2002.
“FT Share”	means one flow-through Common Share. Each FT Share will be a Common Share that qualifies as a “flow-through share” within the meaning of subsection 66(15) of the Tax Act.
“GORR”	means gross overriding royalty, a percentage of gross revenue earned at the well head, which can be an interest or a burden.
“Grouard Farm-Out Agreement”	means the farm-out agreement dated July 1, 2004, entered into between the Issuer and the Grouard Farmees whereby the Issuer acquired the right to earn an 18.75% working interest in and to certain oil and gas properties located in the Grouard area, Alberta, being 50% of Extreme’s 37.5% interest in these properties.
“Grouard Farmees”	means Extreme, Enermax Resource Corporation and Smalloil Empire Ltd.
“Grouard Project”	means the drilling project to be conducted on certain oil and gas properties located in the Grouard area, Alberta in accordance with the terms of the Grouard Farm-Out Agreement.
“Hemsworth Agreement”	means the September 1, 2003 consulting agreement between Crazy Horse and H. Barry Hemsworth.
“Hotchkiss Farm-Out Agreement”	means the farm-out agreement dated July 1, 2004, entered into between the Issuer and the Hotchkiss Farmees whereby the Issuer acquired the right to earn a 28.125% interest in and to certain oil and gas properties located in the Hotchkiss area, Alberta, being 50% of Extreme’s 56.25% interest in these properties.
“Hotchkiss Farmees”	means Extreme, Amethyst Petroleums Ltd., Smalloil Empire Ltd. and Cypress Hills Resource Corp.
“Hotchkiss Project”	means the drilling project to be conducted on certain oil and gas properties located in the Hotchkiss area, Alberta in accordance with the terms of the Hotchkiss Farm-Out Agreement.
“Initial Closing”	means, in the case of multiple closings, the first closing, being the completion of part of the Offering, or in the case of one closing, the completion of up to the entire Offering and if applicable, the Over-Allotment Option.
“Issuer”	means Arapahoe Energy Corporation, the resultant corporation formed on February 6, 2004 on the Amalgamation of Old Arapahoe and Crazy Horse.
“Kinghorn”	means Kinghorn Resources Ltd., a private company controlled by Jeffery L. Standen, a director of the Issuer.
“Kinghorn Agreement”	means the January 1, 2002 consulting agreement between Old Arapahoe and Kinghorn.
“Letter Agreement”	means the June 28, 2004 letter of engagement between the Agent and the Issuer in respect of the Offering.
“LTIP”	is short for “Long Term Incentive Plan” and means any plan providing compensation intended to motivate performance over a period greater than one financial year. LTIPs do not include option or stock appreciation rights plans or plans for compensation through shares or units that are subject to restrictions on resale.

“MRRS Decision Document”	means the mutual reliance review system decision document evidencing that principal receipts of the regulators in each of Alberta, British Columbia and Ontario have been issued for the Prospectus.
“Named Executive Officer” or “NEO”	means: <ul style="list-style-type: none"><li>(a) each CEO;</li><li>(b) each CFO;</li><li>(c) each of the Issuer’s three most highly compensated executive officers, other than the CEO and CFO, who were serving as executive officers at the end of the most recently completed financial year, and whose total salary and bonus exceeds \$150,000; and</li><li>(d) any additional individuals for whom disclosure would have been provided under (c) above, but for the fact that the individual was not serving as an executive officer of the Issuer at the end of the most recently completed financial year-end.</li></ul>
“Offering”	means the public offering of Units and FT Shares under this Prospectus.
“Offering Prices”	mean \$◆ per Unit and \$◆ per FT Share.
“Old Arapahoe”	means Arapahoe Energy Corporation, a corporation incorporated under the Alberta Act on January 14, 1997, and one of the predecessor corporations to the Issuer.
“Old Arapahoe Shares”	means the common shares in the capital of Old Arapahoe, as constituted immediately before the Amalgamation.
“Over-Allotment Option”	means the non-transferable over-allotment option granted by the Issuer to the Agent to acquire up to an additional ◆ Units and/or FT Shares, exercisable at the Offering Price for a period of sixty days from the Closing Date.
“Plan”	means the stock option plan adopted by the Issuer and approved by shareholders on June 14, 2004.
“Principals”	are the: <ul style="list-style-type: none"><li>(a) directors and senior officers of the Issuer;</li><li>(b) promoters of the Issuer during the two years preceding this Offering;</li><li>(c) those who own and/or control more than 10% of the Issuer’s voting securities immediately before and immediately after completion of this Offering if they also have elected or appointed or have the right to elect or appoint a director or senior officer of the Issuer; and</li><li>(d) those who own and/or control more than 20% of the Issuer’s voting securities immediately before and immediately after completion of this Offering.</li></ul>
“Prospectus”	means this preliminary long form prospectus dated ◆, 2004.
“Qualifying Expenditures”	means an expense which is CEE or CDE incurred during the Expenditure Period which may be renounced by the Issuer pursuant to subsection 66(12.6), 66(12.62) or 66(12.66), as the case may be, of the Tax Act with an effective date not later than December 31, 2004, and in respect of which, but for the renunciation, the Issuer would be entitled to a deduction from income for income tax purposes.

“SAR”	is short for “Stock Appreciation Right” and means a right, granted by the Issuer or any of its subsidiaries as compensation for services rendered or otherwise in connection with office or employment, to receive a payment of cash or an issue or transfer of securities based wholly or in part on changes in the trading price of the Common Shares.
“Sarcee Farm-Out Agreement”	means the farm-out agreement dated October 20, 2003, as amended December 3, 2003, June 2, 2004, September 20, and October 15, 2004, entered into between Crazy Horse and Extreme whereby Crazy Horse acquired the right to earn a 50% interest in and to certain oil and gas properties owned by Extreme.
“Sarcee Project”	means the drilling project to be conducted in accordance with the terms of the Sarcee Farm-Out Agreement on certain oil and gas properties owned by Extreme and located on the Tsuu T’ina (Sarcee) First Nations land, situated immediately west of the City of Calgary, Alberta.
“710311 Agreement”	means the consulting agreement dated August 1, 2004 between the Issuer and 710311 Alberta Ltd., a private company controlled by Ross Moulton, the Vice President Exploration and a director of the Issuer and a former director of Old Arapahoe.
“Subsidiary”	means the Issuer’s wholly owned subsidiary, Torrence Resources Inc., a corporation incorporated pursuant to the Alberta Act.
“Subscription Agreement”	means the agreement to be executed by the Agent for and on behalf of subscribers of Units and accepted by the Issuer at or prior to Closing setting out, among other things, the contractual relationship between the Issuer and such subscribers relating to the Units, which agreement shall be in a form satisfactory to both the Issuer and the Agent.
“Tax Act”	means the <i>Income Tax Act</i> (Canada), together with any and all regulations thereto, as amended from time to time.
“TSE”	means The Toronto Stock Exchange.
“Unit”	means the Units offered under this Prospectus, each Unit consisting of one Common Share and one-half of a Warrant.
“Warrant”	means a transferable common share purchase warrant entitling the holder to purchase one Warrant Share for a period of 12 months following the Initial Closing Date, at a price of \$◆ each during the first 6 months following the Initial Closing Date and at a price of \$◆ each thereafter.
“Warrant Share”	means one Common Share issuable upon the exercise of a Warrant in accordance with the terms of such Warrant.

## ABBREVIATIONS AND CONVERSION

The following is a glossary of certain abbreviations used in this Prospectus:

### Oil and Natural Gas Liquids

Bbl	barrel
Bbls	barrels
Mbbl	thousand barrels
MSTB	1,000 stock tank barrels
Bbl/d	barrels per day
NGL	natural gas liquids
STB	standard tank barrels

### Natural Gas

Mcf	thousand cubic feet
MMscf	million standard cubic feet
Mcf/d	thousand cubic feet per day
MMscf/d	million standard cubic feet per day
MMBTU	million British Thermal Units
Bcf	billion cubic feet
GJ	gigajoule

### Other

API means the American Petroleum Institute.

<sup>o</sup>API is an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid Petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.

ARTC means Alberta Royalty Tax Credit.

BOE means barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

BOE/d means barrel of oil equivalent per day.

GRF means gas reference price.

m<sup>3</sup> means cubic meters.

M\$ means thousands of dollars.

WTI means West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade.

## GLOSSARY OF OIL & GAS TERMS

The following is a glossary of certain oil and gas terms used in this Prospectus:

“associated gas”	means the gas cap overlying a crude oil accumulation in a reservoir.
“Chapman”	means Chapman Petroleum Engineering Ltd. of Calgary, Alberta.
"Chapman Drumheller/ Zama Report"	means the reserve and economic evaluation dated January 1, 2004 as prepared by Chapman on the properties owned by the Issuer as at December 31, 2003, namely the two oil wells located in the Drumheller Area, Alberta and one gas well located in the Zama Area, Alberta.
"Chapman Mississippian Report"	means the reserve and economic evaluation dated November 1, 2004 as prepared by Chapman on the property optioned by the Issuer in the Mississippian Block of Lands, Sarcee (Rundle) Area, Alberta, as of October 31, 2004.
“Chapman Reports”	means collectively, the Chapman Drumheller/Zama Report, the Chapman Sarcee Report and the Chapman Mississippian Report.
"Chapman Sarcee Report"	means the reserve and economic evaluation dated April 1, 2004 as prepared by Chapman on the Sarcee 13-29 Well owned by the Issuer located in the Owl Block of Lands, Sarcee (Blairmore) Area, Alberta as of March 31, 2004.
“constant prices and costs”	means prices and costs used in an estimate that are:  (a) the Issuer’s prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies;  (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Issuer is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).
“crude oil” and “oil”	means a mixture that consists mainly of pentanes and heavier hydrocarbons, which may contain sulfur and other non-hydrocarbon compounds, that is recoverable at a well from an underground reservoir and that is liquid at the conditions under which its volume is measured or estimated. It does not include solution gas or natural gas liquids.
“development costs”	means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves.
“development well”	means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
“exploration costs”	means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as “prospecting costs”) and after acquiring the property.
“exploratory well”	means a well that is not a development well, a service well or a stratigraphic test well.
“field”	means an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two

or more reservoirs in a field that are separated vertically by intervening impervious strata or laterally by local geologic barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms “structural feature” and “stratigraphic condition” are intended to denote localized geological features, in contrast to broader terms such as “basin”, “trend”, “province”, “play” or “area of interest”.

“future prices or costs”

means future prices and costs that are:

- (a) generally accepted as being a reasonable outlook on the future;
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Issuer is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

“future net revenue”

means the estimated net amount to be received with respect to the development and production of reserves (including synthetic oil, coal bed methane and other non-conventional reserves) estimated using constant prices and costs or forecast prices and costs.

“gross”

means:

- (a) in relation to the Issuer’s interest in production or reserves, its “company gross reserves”, which are its working interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of the Issuer;
- (b) in relation to wells, the total number of wells in which the Issuer has an interest; and
- (c) in relation to properties, the total area of properties in which the Issuer has an interest.

“natural gas”

means the lighter hydrocarbons and associated non-hydrocarbon substances occurring naturally in an underground reservoir, which under atmospheric conditions are essentially gases but which may contain natural gas liquids. Natural gas can exist in a reservoir either dissolved in crude oil (solution gas) or in a gaseous phase (associated gas or non-associated gas). Non-hydrocarbon substances may include hydrogen sulphide, carbon dioxide and nitrogen.

“natural gas liquids” or “NGL”

means those hydrocarbon components that can be recovered from natural gas as liquids including, but not limited to, ethane, propane, butanes, pentanes plus, condensate and small quantities of non-hydrocarbons.

“net”

means

- (a) in relation to the Issuer’s interest in production or reserves its working interest (operating non-operating) share after deduction of royalty obligations, plus the its royalty interests in production or reserves;
- (b) in relation to the Issuer’s interest in wells, the number of wells obtained by aggregating the Issuer’s working interest in each of its gross wells; and
- (b) in relation to the Issuer’s interest in a property, the total area in which the Issuer has an interest multiplied by the working interest owned by the Issuer.

“non-associated gas”

means an accumulation of natural gas in a reservoir where there is no crude oil.

“operating costs” or “production costs”	means costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities.
“production”	means recovering, gathering, treating, field or plant processing (for example, processing gas to extract natural gas liquids) and field storage of oil and gas.
“property”	includes: <ul style="list-style-type: none"><li>(a) fee ownership or a lease, concession, agreement, permit, license or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest;</li><li>(b) royalty interests, production payments payable in oil or gas, and other non-operating interests in properties operated by others; and</li><li>(c) an agreement with a foreign government or authority under which a reporting issuer participates in the operation of properties or otherwise serves as “producer” of the underlying reserves (in contrast to being an independent purchaser, broker, dealer or importer). A property does not include supply agreements, or contracts that represent a right to purchase, rather than extract, oil or gas.</li></ul>
“property acquisition costs”	means costs incurred to acquire a property (directly by purchase or lease, or indirectly by acquiring another corporate entity with an interest in the property), including: <ul style="list-style-type: none"><li>(a) costs of lease bonuses and options to purchase or lease a property;</li><li>(b) the portion of the costs applicable to hydrocarbons when land including rights to hydrocarbons is purchased in fee;</li><li>(c) brokers’ fees, recording and registration fees, legal costs and other costs incurred in acquiring properties.</li></ul>
“proved property”	means a property or part of a property to which reserves have been specifically attributed.
“reservoir”	means a porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
“service well”	means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for combustion.
“solution gas”	means natural gas dissolved in crude oil.
“stratigraphic test well”	means a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Ordinarily, such wells are drilled without the intention of being completed for hydrocarbon production. They include wells for the purpose of core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic test wells are classified as (a) “exploratory type” if not drilled into a proved property; or (b) “development type”, if drilled into a proved property. Development type stratigraphic wells are also referred to as “evaluation wells”.

“support equipment and facilities”	means equipment and facilities used in oil and gas activities including seismic equipment, drilling equipment, construction and grading equipment, vehicles, repair shops, warehouses, supply points, camps, and division or field offices.
“unproved property”	means a property or part of a property to which no reserves have been specifically attributed.
“well abandonment costs”	means costs of abandoning a well (net of salvage value) and of disconnecting the well from the surface gathering system. They do not include costs of abandoning the gathering system or reclaiming the wellsite.

### **Determination of Oil and Gas Reserves**

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable and possible reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

“reserves”	are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on (a) analysis of drilling, geological, geophysical, and engineering data; (b) the use of established technology; and (c) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.
“Proved reserves”	are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
“Undeveloped reserves”	are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator’s assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

“Probable reserves”	are those additional reserves that are less certain to be recovered than Proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.
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**Words importing the singular number, where the context requires, include the plural and vice versa and words importing any gender include all genders. All dollar amounts herein are in Canadian dollars, unless otherwise stated.**



### Use of Proceeds from the Offering

The Issuer will incur and renounce to subscribers Qualifying Expenditures as to \$♦ per FT Share effective on or before December 31, 2004, pursuant to the Tax Act. The proceeds of the Offering will be used as follows:

Description	Offering (\$) (1)(2)(3)(4)(6)(8)	Offering & Over- Allotment (\$) (1)(2)(3)(5)(7)(8)
To drill the Mississippian Test Well	2,000,000	2,000,000
To drill the Hotchkiss Test Well	211,000	211,000
To drill the Grouard Test Well	150,000	150,000
Follow up exploration and development activities	194,500	657,000
Rectify working capital deficiency <sup>(1)</sup>	407,000	407,000
Working capital for ongoing general and administrative expenses	200,000	200,000
<b>Total:</b>	<b>3,162,500</b>	<b>3,625,000</b>

**Notes:**

- (1) As at October 31, 2004, the Issuer's working capital deficiency was estimated at \$407,000.
- (2) Excluding proceeds, if any, raised pursuant to the exercise of the Agent's Option.
- (3) Based on the completion of the entire Offering of \$3,500,000.
- (4) Excluding proceeds, if any, raised pursuant to the exercise of the Over-Allotment Option.
- (5) Based on the completion of the entire Offering and the exercise of the Over-Allotment Option in its entirety for proceeds of \$500,000 for aggregate proceeds of \$4,000,000.
- (6) After deducting the Agent's Commission estimated to be \$262,500.
- (7) After deducting the Agent's Commission estimated to be \$300,000.
- (8) After deducting the costs of the Offering estimated to be \$75,000.

The Issuer will pay the Agent's Commission and the balance of the Agent's expenses (to a maximum of \$10,000) plus GST by certified cheque on closing the Offering, which payment will be made from the proceeds of the sale of the Units, revenues from operations, working capital, or bank debt or a combination thereof.

See "Use of Proceeds" on page 36, "Risk Factors" on page 68 and "Canadian Federal Income Tax Consequences" on page 78.

### Risk Factors

An investment in the securities offered hereunder should be considered highly speculative due to the Issuer's involvement in the exploration for, and the acquisition, development and exploration for oil and natural gas, the early stage of the Issuer's development and certain other factors. An investment in the Issuer's securities is suitable only for those knowledgeable and sophisticated investors who are willing to risk a loss of their entire investment. Investors should consult with their professional advisors to assess an investment in the Issuer's securities.

No assurance can be given that the actual allocation of Qualifying Expenditures or the timing thereof will in whole or in part approximate the estimates set forth herein, nor that the CCRA will agree with the characterization or the renunciation of the Qualifying Expenditures by the Issuer.

The Issuer's activities are subject to the risks normally encountered in the oil and natural gas exploration and development business. The economics of developing and operating oil and natural gas properties are affected by many factors including the cost of operations, reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. The future development of the Issuer's oil and natural gas properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Issuer. Both oil and natural gas prices are unstable and are subject to fluctuation. The Issuer is completely reliant on its farm-out agreements with Extreme which cover the principal properties of the Issuer. The Issuer competes with other companies with greater financial resources, staff and facilities. The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of the Issuer. Certain of the Issuer's directors and officers serve as directors or officers of other public and private companies, and to the extent that such other companies may participate in ventures in which the Issuer may participate, such directors and officers of the Issuer may have a conflict of interest. There are other risks which should be considered. See "Risk Factors" on page 68.

### Summary Financial Information

The following table summarizes selected financial data reported by the Issuer for the periods indicated. Historical financial statements of the Issuer are those of Old Arapahoe, the predecessor entity that carried on the business of the Issuer, in respect of those periods ended prior to the Amalgamation.

	<b>Fiscal 2003</b> (\$)	<b>As at June 30, 2004</b> (\$)
Cash	1,378	150,396
Current assets	85,371	233,369
Property, plant and equipment <sup>(1)</sup>	25,325	2,233,880
Total assets	110,696	2,467,249
Current and total liabilities	328,408	515,361
Net loss	(331,876)	(29,762) <sup>(2)</sup>
Loss per Common Share	(0.10)	(0.001) <sup>(2)</sup>

**Notes:**

- (1) Interests in the Issuer's oil and natural gas properties include acquisition, exploration and development costs.
- (2) These figures relate to the period from February 6, 2004 to June 30, 2004.

See "Selected Consolidated Financial Information and Management's Discussion and Analysis" on page 38.

## **CORPORATE STRUCTURE**

### **Name and Incorporation**

Old Arapahoe was incorporated on January 14, 1997 under the Alberta Act under the name 723765 Alberta Ltd. On February 5, 1998, it changed its name to “Charger Petroleums Inc.”. On September 15, 1998, its articles were amended to delete the “private company” provisions and on July 23, 1999, it changed its name to “Charger Energy Inc.”. On April 11, 2003, it consolidated its outstanding common shares on a 10 for 1 basis and changed its name to “Arapahoe Energy Corporation”.

Old Arapahoe was engaged in the acquisition, exploration, development and production of oil and natural gas since April 1997. Its common shares were listed on The Alberta Stock Exchange (now the Exchange) on December 8, 1998 and traded under the symbol “CHC” until April 15, 2003, and thereafter under the symbol “APR” until October 3, 2003, the date on which the shares of Old Arapahoe were halted from trading in accordance with Exchange policies governing reverse takeovers.

Pursuant to the terms of the Arrangement Agreement, Old Arapahoe amalgamated with Crazy Horse on February 6, 2004 and the amalgamated corporation continued as the Issuer under the name “Arapahoe Energy Corporation”. Under the Arrangement Agreement, the Amalgamation was completed on the basis of existing Old Arapahoe securityholders exchanging three Old Arapahoe securities for one equivalent security of the Issuer and existing Crazy Horse securityholders exchanging one Crazy Horse security for one equivalent security of the Issuer. The business transactions contemplated by the Arrangement Agreement resulted in a reverse takeover of the assets of Old Arapahoe and, as a consequence, historical financial statements of the Issuer are those of Old Arapahoe, the predecessor entity that carried on the business of the Issuer, in respect of those periods ended prior to the Amalgamation. The Issuer is a reporting issuer under applicable securities legislation in the provinces of British Columbia and Alberta and its common shares have been listed on the Exchange since February 6, 2004 under the trading symbol “AAO”.

The head office of the Issuer is located at Suite 2703, 1100 – 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3T8. Its registered office is located at Suite 3000, Shell Centre, 400 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 0J4.

### **Intercorporate Relationships**

The Issuer has one wholly owned active subsidiary, namely Torrence Resources Inc. (the “Subsidiary”), incorporated pursuant to the Alberta Act on October 1, 1997.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

The Issuer is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves primarily in the Province of Alberta.

### **Three Year History**

Prior to the Amalgamation, Old Arapahoe was engaged in the acquisition, exploration, development and production of oil and natural gas. Upon the acquisition of the Subsidiary in 1997, Old Arapahoe became the owner, via the Subsidiary, of a 14.7485% working interest in one producing oil well and a 29.09375% working interest in one suspended oil well, both located in the Drumheller area of southern Alberta. Old Arapahoe also owned through its Subsidiary, a 2.2% working interest in a gas well located in the Zama area of northern Alberta. Production from these three wells are subject to Alberta oil and gas crown royalties. In addition to these producing properties, Old Arapahoe owned an interest in various minor

non-producing properties located in western Canada. These minor properties are either shut-in or not productive, no value has been assigned to them and they have not been included in the Chapman Reports.

On November 21, 2002, Old Arapahoe issued 928,916 Old Arapahoe Shares in settlement of debts owing to two creditors. On October 1, 2001, Old Arapahoe issued an aggregate of 8,811,866 Old Arapahoe Shares in settlement of various debts owing, including debts related to (a) convertible debentures issued in 1999; (b) property acquisition costs and cost overruns on projects located in Texas; and (c) trade payables.

On September 17, 2003, Old Arapahoe completed a private placement of 1,000,000 units at a price of \$0.15 per unit for gross proceeds of \$150,000. Each unit was comprised of one Old Arapahoe Share and one share purchase warrant. Each such share purchase warrant entitled the holder to purchase one Old Arapahoe Share at a price of \$0.20 until March 17, 2005.

Effective April 11, 2003, Old Arapahoe completed a 10 for 1 share consolidation and changed its name to Arapahoe Energy Corporation. On April 15, 2003, the Old Arapahoe Shares traded on the Exchange under the symbol "APR" to reflect the name change and consolidation.

Crazy Horse was incorporated under the Alberta Act on April 23, 2001. It was inactive until October 20, 2003 when it entered into the Sarcee Farm-Out Agreement. It then entered into the Arrangement Agreement on November 12, 2003 with Old Arapahoe. During its existence, Crazy Horse did not carry on, own or operate a business. Under the terms of the Sarcee Farm-Out Agreement, Crazy Horse acquired the right to farm-in to the Sarcee Project Lands owned by Extreme by drilling and completing up to three wells on the properties. The Issuer and Extreme are related by virtue of having a common director, namely Jeffrey L. Standen. Jeffrey L. Standen also beneficially owns 1,039,213 common shares of Extreme.

Old Arapahoe did not participate in any material exploration and development activities in 2002 and up to the date of the Arrangement Agreement. For the purposes of the business transactions contemplated by the Arrangement Agreement, Old Arapahoe was classified as a "non-operating public enterprise" since its activities were insignificant.

### **Significant Acquisitions and Significant Dispositions**

On February 6, 2004, Old Arapahoe amalgamated with Crazy Horse and the amalgamated corporation continued as the Issuer under the name "Arapahoe Energy Corporation". See "Corporate Structure" on page 1.

Other than the transactions entered into as part of the Arrangement Agreement and the Sarcee Farm-Out Agreement entered into by Crazy Horse, none of the Issuer, Old Arapahoe or Crazy Horse completed any material acquisitions or dispositions during the years ended December 31, 2003, 2002 and 2001.

As a result of the Amalgamation, the Issuer owns all of the right, title and interests in and to the resource properties of Old Arapahoe and the rights of Crazy Horse under the Sarcee Farm-Out Agreement.

On July 1, 2004, the Issuer entered into the Grouard Farm-Out Agreement and the Hotchkiss Farm-Out Agreement. See "Narrative Description of the Business – General – Oil and Gas Properties" on page 4.

### **Trends**

There are a number of trends that appear to be developing, which may have both long and short-term effects on the oil and gas industries. See "Risk Factors" on page 68.

The first trend is the volatility of commodity prices. It appears that natural gas prices have entered an era of extreme volatility. With the supply and demand balance for natural gas being extremely tight, the market is experiencing a great deal of elasticity in pricing due to a number of factors, including weather, drilling activity, declines, storage level, and fuel switching.

Although the Issuer has been successful in accessing the capital markets, it appears that equity financings may become more difficult and selective. As a result, companies may have to work within existing cash flows and opportunities that can be internally generated. This may result in further industry consolidation, as companies have to focus on cost savings and operational controls in order to perform to market expectations.

A final trend appears to be the establishment of a number of start-up companies with experienced management teams that are available as a result of the industry consolidation over the past three years. This may result in greater competition for a number of the smaller corporate and property acquisitions that will be available.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **General**

#### *Stated Business Objectives*

The business plan of the Issuer is to create sustainable and profitable growth in the oil and gas industry with properties located in the Province of Alberta. To accomplish this, the Issuer is pursuing an integrated growth strategy including acquisitions, development and exploration and drilling in Alberta. The Issuer will continue to be focused on its exploration and development drilling programs in Alberta as it expends the funds raised under the Offering. In addition, the Issuer will pursue asset or corporate acquisitions of crude oil and natural gas properties and may seek to enter into joint venture agreements when the Issuer deems it advantageous to do so.

While the Issuer believes it has the skills and resources necessary to achieve its objectives, participation in the exploration for and development of commercially viable oil and natural gas producing properties has a number of inherent risks. See “Risk Factors” on page 68.

In selecting exploration and development prospects, management of the Issuer chooses those that offer an appropriate combination of risk and economic reward, recognizing that all drilling involves substantial risk and that a high degree of competition exists for prospects. Going forward, management believes that the appropriate allocation of risk for such prospects is 50% to high risk projects and 50% to low and medium risk projects. No assurance can be given that drilling will prove successful in establishing commercially recoverable reserves. The Issuer acquires petroleum and natural gas rights through Crown land sales and by farming in to petroleum properties of other oil and natural gas companies. The Issuer will endeavour to establish new core areas of operation by following successful drilling with strategic acquisitions of land, facilities and producing properties where warranted.

The board of directors of the Issuer may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to these guidelines based upon the board’s consideration of the qualitative aspects of the subject properties including risk profile, technical upside, reserve life and asset quality.

The Issuer proposes to use \$2,000,000 of the proceeds of the Offering on exploring and developing oil and natural gas reserves on the Sarcee Project on the Tsuu T’ina First Nations land, located immediately west of the City of Calgary, Alberta, Canada, by drilling the Mississippian Test Well. In this regard, the

Issuer has assembled an experienced technical advisory board consisting of senior technical personnel and representatives of First Nations in Alberta and the North West Territories. \$150,000 of the proceeds of the Offering will be used to drill the Grouard Test Well and \$211,000 will be used to drill the Hotchkiss Test Well. The Issuer plans to utilize the balance of the proceeds from the Offering for follow up exploration activities on the Sarcee Project lands, the Hotchkiss Project lands, and the Grouard Project lands. See “Use of Proceeds” on page 36.

### *Competitive Conditions*

The petroleum industry is competitive in all its phases. See “Risk Factors – Competition” on page 69.

### *Oil and Gas Properties*

A summary description of the Issuer’s material producing and exploration properties is set out below. References to net volumes refer to the Issuer’s working interest share before the deduction of royalties payable to others. The Issuer currently owns the interests in the resource properties previously held by Old Arapahoe as well as the rights previously held by Crazy Horse under the Sarcee Farm-Out Agreement and the rights acquired by the Issuer under the Hotchkiss Farm-Out Agreement and the Grouard Farm-Out Agreement, see “General Development of the Business – Three Year History” on page 1.

### Sarcee Project

The Sarcee Project lands are comprised of two blocks of land, the Owl Block of Lands and the Mississippian Block of Lands (both defined herein).

Extreme is the lessee of record as to an undivided 100% working interest in Indian Oil & Gas Lease #OL-6068 covering the Owl Block of lands (the “Owl Block of Lands”) which is located in Sections 28, 29, 30, 31, 32 and 33 of Township 23, Range 3 West of the 5<sup>th</sup> Meridian. Under the terms of the Sarcee Farm-Out Agreement, the Issuer earned an undivided 50% working interest in the entire Owl Block of Lands including the Sarcee 13-29 Well (defined below) and in the well known as Sarcee 4-30-23-3W5M (the “Sarcee 4-30 Well”), both located on the Owl Block of Lands, by paying 100% of the costs of drilling the Sarcee 4-30 Well. The Owl Block of Lands contains the well 13-29-23-3W5 (the “Sarcee 13-29 Well”) which was drilled in 1996 and was plugged and abandoned but cased to total depth of  $\pm 2,752$  meters subsurface. The Sarcee 13-29 Well has indicated bypassed gas pay in the Blairmore formation at  $\pm 2,608$  meters. Chapman, in the Chapman Sarcee Report, has evaluated the Issuer’s interest in the Sarcee 13-29 Well and assigned  $\pm 2.063$  Bcf of probable gas reserves. It is the Issuer’s long-term intention to re-enter the Sarcee 13-29 Well and attempt a recompletion for natural gas production from the Blairmore Formation some time in the future. None of the proceeds of the Offering will be used for this re-entry. The Issuer’s interests in the Owl Block of Lands and the Sarcee 4-30 Well are subject to the Issuer paying its proportionate share of an Indian Land Royalty which is equivalent to the applicable Alberta oil and gas crown royalty payable thereon in accordance with the requirements of the *Alberta Corporate Tax Act*, a 3.5% GORR payable to Tsuu T’ina Energy Corporation, and a 3% GORR payable to Owl Exploration Ltd. By way of a trust agreement dated June 3, 2004 between the Issuer and Extreme, the Issuer agreed that Extreme will hold the Issuer’s interest in Indian Oil & Gas Lease #OL-6068 and in the Owl Block of Lands in trust for the Issuer.

The Issuer began drilling the Sarcee 4-30 Well on March 5, 2004. It was “rig released” on March 25, 2004. The Sarcee 4-30 Well was drilled to a total depth of 2,270 meters subsurface and has been fraced in the Cardium formation. The cost of such drilling to the Issuer was approximately \$2,000,000. The Sarcee 4-30 Well was tested and evaluated for the economic potential for oil/gas production. The Sarcee 4-30 Well is now suspended, cased and shut-in pending further evaluation of feasible production.

The Mississippian Block of lands (the “Mississippian Block of Lands”) is comprised of 2,560 acres located in Sections 12, 13, 14 and 23 of Township 23, Range 4 West of the 5<sup>th</sup> Meridian, as to any petroleum and natural gas substances below the base of the Mannville Formation to the basement only. Pursuant to the Sarcee Farm-Out Agreement, the Issuer has the option to earn an undivided 30% working interest in the entire Mississippian Block of Lands and to a test well (the “Mississippian Test Well”) to be drilled on the Mississippian Block of Lands at a location at 12-13-23-4 West of the 5<sup>th</sup> Meridian, by paying 50% of the costs to drill and complete or abandon the Mississippian Test Well on or before February 1, 2005 for the recovery of petroleum substances to a depth sufficient to penetrate 100 meters into the top of the Turner Valley Formation or to a total depth of 3,300 meters subsurface, whichever depth shall first occur, subject to adequate financing of the Issuer. In the event the Issuer earns a 30% working interest in and to the Mississippian Test Well and the Mississippian Block of Lands, the Issuer’s interests will be subject to the Issuer paying its proportionate share of an Indian Land Royalty thereon which is equivalent to the applicable Alberta crown royalty, a 3.5% GORR payable to Tsuu T’ina Energy Corporation and a 3% GORR payable to Owl Exploration Ltd. The Issuer’s costs to drill the Mississippian Test Well are estimated to be \$2,000,000. If the net proceeds raised under this Offering from the sale of FT Shares are less than \$2,000,000 the Issuer may require additional financing in order to pay its share of the costs of drilling the Mississippian Test Well and thereby exercise its option on the Mississippian Block of Lands. See "Use of Proceeds" on page 36 and "Risk Factors" on page 68.

#### Grouard Project

Under the terms of the Grouard Farm-Out Agreement, the Issuer is entitled to earn an undivided 18.75% working interest in the Grouard Project lands and to a test well (the “Grouard Test Well”) to be drilled on the Grouard Project lands, by paying 37.5% of the costs to drill the Grouard Test Well. The Grouard Project is located in Section 15, Township 75, Range 15 West of the 5<sup>th</sup> Meridian, as to all petroleum and natural gas rights below the Bluesky-Bullhead formation. On or before February 1, 2005, Extreme, as operator, is required to use its best efforts to drill the Grouard Test Well at a location at 6-15-75-15W5M for the recovery of petroleum substances. The Grouard Test Well is to be drilled to a depth sufficient to penetrate 15 meters into the Debolt formation or to a total depth of approximately 825 meters subsurface, whichever shall first occur. Should events beyond Extreme’s control prevent it from beginning to drill the Grouard Test Well on or before February 1, 2005, the Issuer has agreed to participate in drilling the Grouard Test Well at such time as circumstances do permit the drilling of the Grouard Test Well and the Issuer will release Extreme from any and all liability in connection with its failure to begin drilling the Grouard Test Well as contemplated. In the event the Issuer earns an undivided 18.75% working interest in and to the Grouard Project lands and the Grouard Test Well, the Issuer will be subject to paying its proportionate share of the Alberta crown royalty payable thereon in accordance with the requirements of the *Alberta Corporate Tax Act*.

The Issuer has exercised its option under the Grouard Farm-Out Agreement and has agreed to pay 37.5% of the costs to drill the Grouard Test Well.

The target to be tested by the Grouard Test Well is a Belloy closure that has been defined by 3-D seismic data. The interpretation by professional geologists employed by the Issuer is that the seismic data indicates that approximately 15 meters “up dip” can be obtained from an analogous well located at 4-16-7-15 which showed roughly 1.5 meters of gas cross over on logs and tested gas at 4.1 MMscf/d from the Belloy Formation. That well is currently a Gething gas producer having not yet put the Belloy Formation on stream. Well costs to the Issuer are roughly \$150,000 drilled and completed.

#### Hotchkiss Project

Under the terms of the Hotchkiss Farm-Out Agreement, the Issuer is entitled to earn a 28.125% working interest in and to the Hotchkiss Project lands and to a test well (the “Hotchkiss Test Well”) to be drilled

on the Hotchkiss Project lands, by paying 56.25% of the costs to the Hotchkiss Test Well. The Hotchkiss Project lands are comprised of 1,920 acres located in Sections 8, 9, 16, 17, 20 and 21 of Township 92, Range 25 West of the 5<sup>th</sup> Meridian, as to any petroleum and natural gas substances in all geological formations within the area. On or before February 1, 2005, Extreme, as operator, is required to use its best efforts to drill the Hotchkiss Test Well at a location at 13-9-92-25W5M for the recovery of petroleum substances to a depth sufficient to penetrate 15 meters into the Debolt formation or to a total depth of approximately 800 meters subsurface, whichever shall first occur. Should events beyond Extreme's control prevent it from beginning to drill the Hotchkiss Test Well on or before February 1, 2005, the Issuer has agreed to participate in drilling the Hotchkiss Test Well at such time as circumstances do permit the drilling of the Hotchkiss Test Well and the Issuer will release Extreme from any and all liability in connection with its failure to begin drilling the Hotchkiss Test Well as contemplated. The estimated cost to drill the Hotchkiss Test Well is \$375,000. The Issuer's share of these costs will be approximately \$211,000. In the event the Issuer earns an undivided 28.125% working interest in and to the Hotchkiss Test Well, the Issuer will be subject to paying its proportionate share of the Alberta crown royalty payable thereon in accordance with the requirements of the *Alberta Corporate Tax Act*.

Management believes that 2-D seismic data at the location of the Hotchkiss Test Well ties to an analogous well located at 7-16-92-25W5M and that it likely delineates a Mississippian Debolt Formation erosional edge that is on trend with Debolt erosional edge production to the north west and the south east. So far this erosional edge has not been tested locally. Debolt outliers have also been identified by professional geologists employed by the Issuer to the east of the main edge from this seismic. Typical Debolt wells in this area have reserves from 1 to 4 Bcf with initial production rates of 1 to 3 MMscf/d. Management also believes that a successful well in this location may give rise to 2 to 4 follow up locations. Target depths to the Debolt Formation are roughly 800 meters with an estimated cost of the Hotchkiss Test Well being approximately \$375,000 drilled and completed. In addition, the Cretaceous Bluesky Formation is regionally present. Often the Bluesky Formation is draped over the underlying Debolt edge thus creating a structural trap. Management is of the view that the seismic suggests that the Bluesky may be draped over the Debolt edge.

#### *Oil and Gas Wells*

The following tables summarize the Issuer's interest as at December 31, 2003 in oil and gas wells that are producing and non-producing.

<b>Producing Properties</b>				
<b>Area</b>	<b>Gas Wells</b>		<b>Oil Wells</b>	
	<b>Gross<sup>(1)</sup></b>	<b>Net<sup>(2)</sup></b>	<b>Gross<sup>(1)</sup></b>	<b>Net<sup>(2)</sup></b>
Drumheller, Alberta	-	-	2	0.4384
Zama, Alberta	1	0.022	-	-
<b>TOTAL</b>	<b>1</b>	<b>0.022</b>	<b>2</b>	<b>0.4384</b>

<b>Non-Producing Properties</b>				
<b>Area</b>	<b>Gas Wells</b>		<b>Oil Wells</b>	
	<b>Gross<sup>(1)</sup></b>	<b>Net<sup>(2)</sup></b>	<b>Gross<sup>(1)</sup></b>	<b>Net<sup>(2)</sup></b>
Drumheller, Alberta	-	-	2	0.6969
Pembina, Alberta	-	-	1	0.0611
Retlaw, Alberta	-	-	2	0.3395
Morinville, Alberta	1	0.185	-	-
<b>TOTAL</b>	<b>1</b>	<b>0.185</b>	<b>5</b>	<b>1.0975</b>

**Notes:**

- (1) “Gross Wells” means the total number of wells in which the Issuer has an interest.
- (2) “Net Wells” means the total number of wells in which the Issuer has an interest multiplied by their percentage working interest in such wells and assuming that all interests convertible to working interests have been covered.

*Oil and Gas Activities*

In accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (“NI 51-101”), Chapman prepared the Chapman Reports, evaluating the Issuer’s material oil, NGL and natural gas reserves. The tables below are a summary of the oil, NGL and natural gas reserves of the Issuer and the net present value of future net revenue attributable to such reserves as evaluated in the Chapman Reports based on constant and forecast price and cost assumptions. The tables summarize the data contained in the Chapman Reports and as a result may contain slightly different numbers than such reports due to rounding. Also due to rounding, certain columns may not add exactly. **The net present value of future net revenue attributable to the Issuer’s reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures, and well abandonment costs for only those wells assigned reserves by Chapman. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the Issuer’s reserves estimated by Chapman represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of the Issuer’s oil, NGL and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.**

DeGolyer and MacNaughton Canada Limited (“DMC”) also prepared an appraisal report dated December 31, 2003 for Extreme in accordance with NI 51-101 (the “DMC Report”). The DMC Report evaluates, among other things, the reserves associated with the Sarcee Project. The DMC Report classifies these reserves as “possible reserves” whereas the Chapman Sarcee Report classifies them as “proved, probable and possible reserves”. The variance in the evaluations presented in these two reports is a function of the dates of each report, the confidence levels each respective firm places on their interpretation of data available due to each firm’s respective background and experience on the properties and is also due to the fact that the reports were prepared for different purposes and under different circumstances. Management has concluded that the reserve classifications provided in the Chapman Sarcee Report are appropriate.

Extracts from the DMC Report were filed by Extreme on the System for Electronic Document Analysis and Retrieval (“SEDAR”) on May 19, 2004 and can be found under the company profile for Extreme at [www.sedar.com](http://www.sedar.com) as oil and gas annual disclosure filing (Forms 51-101F1, F2 and F3).

Oil and Gas Reserves and Net Present Values on Properties Owned by the Issuer as at December 31, 2003

The following tables dated January 1, 2004 were prepared by Chapman in accordance with the requirements of National Instrument 51-101F1 and represent the reserves, value and potential future net revenues of the Issuer on the properties owned by the Issuer as at December 31, 2003, namely the two oil wells located in the Drumheller Area, Alberta, and the gas well located in the Zama Area, Alberta.

**Summary of Oil and Reserves for Drumheller and Zama, Alberta  
January 1, 2004  
(as of December 31, 2004)**

**Forecast Prices and Cost**

Reserves Category	Company Reserves							
	Light and Medium Oil		Heavy Oil		Natural Gas [1]		Natural Gas Liquids	
	Gross MSTB	Net MSTB	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbl	Net Mbbl
<b>PROVED</b>								
Developed Producing	2	2	0	0	11	8	0	0
<b>TOTAL PROVED</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>8</b>	<b>0</b>	<b>0</b>
<b>PROBABLE</b>	1	1	0	0	6	5	0	0
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>13</b>	<b>0</b>	<b>0</b>
Reference: Item 2.2 (1) Form 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								
Notes: [1] Includes associated, non-associated and solution gas.								

**Summary of Net Present Values for Drumheller and Zama, Alberta  
January 1, 2004  
(as of December 31, 2004)**

**Forecast Prices and Cost**

<b>Before Income Tax</b>					
Reserves Category	Net Present Values of Future Net Revenue [1]				
	Discounted at				
	0 %/yr. M\$	5 %/yr. M\$	10 %/yr. M\$	15 %/yr. M\$	20 %/yr. M\$
<b>PROVED</b>					
Developed Producing	79	69	62	56	51
<b>TOTAL PROVED</b>	<b>79</b>	<b>69</b>	<b>62</b>	<b>56</b>	<b>51</b>
<b>PROBABLE</b>	41	33	27	22	19
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>120</b>	<b>102</b>	<b>88</b>	<b>78</b>	<b>70</b>
<b>After Income Tax</b>					
Reserves Category	Net Present Values of Future Net Revenue [1]				
	Discounted at				
	0 %/yr. M\$	5 %/yr. M\$	10 %/yr. M\$	15 %/yr. M\$	20 %/yr. M\$
<b>PROVED</b>					
Developed Producing	79	69	62	56	51
<b>TOTAL PROVED</b>	<b>79</b>	<b>69</b>	<b>62</b>	<b>56</b>	<b>51</b>
<b>PROBABLE</b>	41	33	27	22	19
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>120</b>	<b>102</b>	<b>88</b>	<b>78</b>	<b>70</b>
Reference: Item 2.2 (2) Form 51-101F1					
Columns may not add precisely due to accumulative rounding of values.					
Notes: [1] Includes ARTC.					

**Total Future Net Revenue (Undiscounted) for Drumheller and Zama, Alberta  
January 1, 2004  
(as of December 31, 2004)**

**Forecast Prices and Cost**

Reserve Category	Revenue M\$	Royalties M\$	Operating Costs M\$	Development Costs M\$	Well Abandonment Costs M\$	Future Net Revenues BIT [1] M\$	Income Taxes M\$	Future Net Revenues AIT M\$
Total Proved	129	18	29	0	8	79	0	79
Proved Plus Probable	192	27	43	0	8	120	0	120
Reference: Item 2.2 (3)(b) NI 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								
Notes [1] Includes ARTC.								

**Future Net Revenue for Drumheller and Zama, Alberta  
January 1, 2004  
(as of December 31, 2004)**

**Forecast Prices and Cost**

Reserve Category	Production Group	Future Net Revenue Before Income Taxes [1] Discounted at 10%/yr. \$M
Total Proved	Light and Medium Oil ( including solution gas and other by-products)	58
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	4
Proved Plus Probable	Light and Medium Oil ( including solution gas and other by-products)	77
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	11
Reference: Item 2.2 (3)(c) NI 51-101F1		
Notes: [1] Includes ARTC.		

**Oil and Gas Reserves and Net Present Values for Drumheller and Zama, Alberta  
By Production Group  
January 1, 2004  
(as of December 31, 2004)**

**Forecast Prices and Cost**

Reserve Group by Category	Reserves						Net Present Value (BIT)[2] 10% M\$	Unit Values @ 10%/yr. \$/STB
	Oil		Gas		NGL			
	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl		
<b>Light and Medium Oil [1]</b>								
<b>Proved</b>								
Developed Producing	2	2	9	7	0	0	58	25.36
<b>Total Proved</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>58</b>	<b>25.36</b>
Probable	1	1	3	2			19	22.08
<b>Proved Plus Probable</b>	<b>3</b>	<b>3</b>	<b>12</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>77</b>	<b>24.47</b>
<b>Assoc &amp; Non-Assoc Gas</b>								\$/Mscf
<b>Proved</b>								
Developed Producing	0	0	2	1	0	0	4	3.58
<b>Total Proved</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>3.58</b>
Probable	0	0	3	3	0	0	8	2.55
<b>Proved Plus Probable</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>2.81</b>
Reference: Item 2.2 (3)(c) NI 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								
Note: [1] Includes solution gas.								
[2] Includes ARTC.								

**Summary of Oil and Reserves for Drumheller and Zama, Alberta  
January 1, 2004  
(as of December 31, 2004)**

**Constant Prices and Cost**

Reserves Category	Company Reserves							
	Light and Medium Oil		Heavy Oil		Natural Gas [1]		Natural Gas Liquids	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	MSTB	MSTB	MSTB	MSTB	MMscf	MMscf	Mbbl	Mbbl
<b>PROVED</b>								
Developed Producing	2	2	0	0	11	8	0	0
<b>TOTAL PROVED</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>8</b>	<b>0</b>	<b>0</b>
<b>PROBABLE</b>	1	1	0	0	7	6	0	0
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>14</b>	<b>0</b>	<b>0</b>
Reference: Item 2.1 (1) Form 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								
Notes [1] Includes associated, non-associated and solution gas.								

**Summary of Net Present Values for Drumheller and Zama, Alberta  
January 1, 2004  
(as of December 31, 2004)**

**Constant Prices and Cost**

Reserves Category	Net Present Values of Future Net Revenue [1]					
	Before Income Tax			After Income Tax		
	Undiscounted	Discounted @	Discounted @	Undiscounted	Discounted @	Discounted @
	M\$	10%/yr. M\$	15%/yr. M\$	M\$	10%/yr. M\$	15%/yr. M\$
<b>PROVED</b>						
Developed Producing	98	74	66	98	74	66
<b>TOTAL PROVED</b>	<b>98</b>	<b>74</b>	<b>66</b>	<b>98</b>	<b>74</b>	<b>66</b>
<b>PROBABLE</b>	51	32	27	51	32	27
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>148</b>	<b>106</b>	<b>93</b>	<b>148</b>	<b>106</b>	<b>93</b>
Reference: Item 2.1 (2) Form 51-101F1						
Columns may not add precisely due to accumulative rounding of values.						
Notes: [1] Includes ARTC.						

**Total Future Net Revenue (Undiscounted) for Drumheller and Zama, Alberta  
January 1, 2004  
(as of December 31, 2004)**

**Constant Prices and Cost**

Reserve Category	Revenue M\$	Royalties M\$	Operating Costs M\$	Development Costs M\$	Well Abandonment Costs M\$	Future Net Revenues BIT [1] M\$	Income Taxes M\$	Future Net Revenues AIT M\$
Total Proved	147	20	27	0	7	98	0	98
Proved Plus Probable	221	32	42	0	7	148	0	148
Reference: Item 2.1 (3)(b) NI 51-101F1								
Notes [1] Includes ARTC.								

**Future Net Revenue for Drumheller and Zama, Alberta**  
**January 1, 2004**  
**(as of December 31, 2004)**

**Constant Prices and Cost**

Reserve Category	Production Group	Future Net Revenue Before Income Taxes [1] Discounted at 10%/yr. \$M
Total Proved	Light and Medium Oil ( including solution gas and other by-products)	70
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	4
Proved Plus Probable	Light and Medium Oil ( including solution gas and other by-products)	92
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	14
Reference: Item 2.1 (3)(c) NI 51-101F1		
Notes [1] Includes ARTC.		

**Oil and Gas Reserves and Net Present Values for Drumheller and Zama, Alberta  
By Production Group  
January 1, 2004  
(as of December 31, 2004)**

**Constant Prices and Cost**

Reserve Group by Category	Reserves						Net Present Value (BIT) [2]	Unit Values @ 10%/yr.
	Oil		Gas		NGL			
	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl		
<b>Light and Medium Oil [1]</b>								
<b>Proved</b>								
Developed Producing	2	2	9	7	0	0	70	30.44
<b>Total Proved</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>70</b>	<b>30.44</b>
Probable	1	1	3	2	0	0	22	25.99
<b>Proved Plus Probable</b>	<b>3</b>	<b>3</b>	<b>12</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>92</b>	<b>29.24</b>
<b>Assoc &amp; Non-Assoc Gas</b>								\$/Mscf
<b>Proved</b>								
Developed Producing	0	0	2	1	0	0	4	4.27
<b>Total Proved</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>4.27</b>
Probable	0	0	4	4	0	0	10	2.48
<b>Proved Plus Probable</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>2.83</b>
Reference: Item 2.1 (3)(c) NI 51-101F1								
Notes: [1] Includes solution gas.								
[2] Includes ARTC.								

**CHAPMAN PETROLEUM ENGINEERING LTD.**  
**CRUDE OIL**  
**CONSTANT PRICES & PRICE FORECASTS**  
**For Drumheller and Zama, Alberta**  
**JANUARY 1, 2004**

Date	WTI [1] \$US/STB	Alberta Par Price [2] \$CDN/STB	ART Credits [3]	
			Rate %	Max M\$
<b>HISTORICAL PRICES</b>				
1994	17.16	22.27	n/a	n/a
1995	18.41	25.11	n/a	n/a
1996	21.98	29.39	n/a	n/a
1997	20.59	27.90	n/a	n/a
1998	14.46	20.39	n/a	n/a
1999	19.21	27.88	n/a	n/a
2000	30.39	44.90	n/a	n/a
2001	25.98	39.66	n/a	n/a
2002	26.09	40.63	n/a	n/a
2003	30.84	43.57	n/a	n/a
<b>CONSTANT PRICES</b>				
December 31, 2003	32.52	41.65	n/a	n/a
<b>CURRENT YEAR FORECAST</b>				
2004	31.25	41.17	25.00	500
<b>FUTURE FORECAST</b>				
2005	29.25	38.50	25.00	500
2006	28.25	37.17	25.00	500
2007	27.00	35.50	25.00	500
2008	27.41	36.03	25.00	500
2009	27.82	36.57	25.00	500
2010	28.23	37.12	25.00	500
2011	28.66	37.68	25.00	500
2012	29.09	38.24	25.00	500
2013	29.52	38.82	25.00	500
2014	29.97	39.40	25.00	500
2015	30.42	39.99	25.00	500
2016	30.87	40.59	25.00	500
2017	31.33	41.20	25.00	500
2018	31.80	41.82	25.00	500
2019	32.28	42.44	25.00	500
Constant thereafter				

Notes:

[1] West Texas Intermediate quality (D2/S2) crude landed in Cushing, Oklahoma.

[2] Equivalent price for Light Sweet Crude (D2/S2) landed in Edmonton, Alberta after exchange of .750 \$US/\$CDN and transportation differential of \$0.50 CDN/STB.

[3] ARTC rate ranges from 75% maximum to 25% minimum; Crown royalty shelter, \$2,000,000.

CHAPMAN PETROLEUM ENGINEERING LTD.

NATURAL GAS & BY-PRODUCTS  
 CONSTANT PRICES & PRICE FORECASTS  
 For Drumheller and Zama, Alberta

JANUARY 1, 2004

Date	GRP [1]		AECO Spot	NGL
	\$/MMBTU	\$/GJ	Gas [NIT] \$/MMBTU	Mix [2] \$/BBL
<b>HISTORICAL PRICES</b>				
1994	1.82	1.73	1.78	15.62
1995	1.31	1.24	1.08	17.18
1996	1.63	1.55	1.33	23.35
1997	1.97	1.87	1.67	22.08
1998	1.94	1.84	1.94	14.63
1999	2.48	2.35	2.82	20.09
2000	4.50	4.27	5.56	36.96
2001	5.78	5.48	5.44	35.08
2002	3.86	3.66	4.13	27.41
2003	6.45	6.11	7.03	34.46
<b>CONSTANT PRICES</b>				
December 31, 2003	5.61	5.32	6.12	34.90
<b>CURRENT YEAR FORECAST</b>				
2004	5.25	4.98	5.75	29.95
<b>FUTURE FORECAST</b>				
2005	5.00	4.74	5.25	27.85
2006	4.75	4.50	5.00	26.81
2007	4.75	4.50	5.00	25.76
2008	4.75	4.50	5.00	26.15
2009	4.75	4.50	5.00	26.54
2010	4.75	4.50	5.00	26.94
2011	4.82	4.57	5.08	27.34
2012	4.89	4.64	5.15	27.75
2013	4.97	4.71	5.23	28.17
2014	5.04	4.78	5.31	28.59
2015	5.12	4.85	5.39	29.02
2016	5.19	4.92	5.47	29.46
2017	5.27	5.00	5.55	29.90
2018	5.35	5.07	5.63	30.35
2019	5.43	5.15	5.72	30.80

Constant thereafter

Notes:

[1] Gas Reference Price (GRP) represents the average of all system and direct (spot and firm) sales.

[2] Natural Gas Liquids blended mix price assuming typical liquid composition of 40% propane, 30% butane and 30% pentanes plus.

[3] Capital expenditures and operating costs are escalated at 1.5% per year until 2019.

Oil and Gas Reserves and Net Present Values on Property Subsequently Earned by the Issuer in March 2004

The following tables dated April 1, 2004 were prepared by Chapman in accordance with the requirements of National Instrument 51-101F1 and represent the combined reserves, value and potential future net revenues of the Issuer on the Sarcee 13-29 Well located in the Owl Block of Lands as of March 31, 2004.

**Summary of Oil and Gas Reserves for the Sarcee 13-29 Well  
April 1, 2004  
(as of March 31, 2004)**

**Constant Prices and Cost**

Reserves Category	Company Reserves							
	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids	
	Gross MSTB	Net MSTB	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl
<b>TOTAL PROVED</b>	0	0	0	0	0	0	0	0
<b>PROBABLE</b>	0	0	0	0	3,113	2,154	85	55
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,113</b>	<b>2,154</b>	<b>85</b>	<b>55</b>
Reference: Item 2.2 (1) Form 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Summary of Net Present Value for the Sarcee 13-29 Well  
April 1, 2004  
(as of March 31, 2004)**

**Forecast Prices and Cost**

<b>Before Income Tax</b>					
Reserves Category	Net Present Values of Future Net Revenue				
	Discounted at				
	0 %/yr. M\$	5 %/yr. M\$	10 %/yr. M\$	15 %/yr. M\$	20 %/yr. M\$
<b>TOTAL PROVED</b>	0	0	0	0	0
<b>PROBABLE</b>	<u>10,661</u>	<u>6,377</u>	<u>4,373</u>	<u>3,269</u>	<u>2,585</u>
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>10,661</b>	<b>6,377</b>	<b>4,373</b>	<b>3,269</b>	<b>2,585</b>
<b>After Income Tax</b>					
Reserves Category	Net Present Values of Future Net Revenue				
	Discounted at				
	0 %/yr. M\$	5 %/yr. M\$	10 %/yr. M\$	15 %/yr. M\$	20 %/yr. M\$
<b>TOTAL PROVED</b>	0	0	0	0	0
<b>PROBABLE</b>	<u>10,661</u>	<u>6,377</u>	<u>4,373</u>	<u>3,269</u>	<u>2,585</u>
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>10,661</b>	<b>6,377</b>	<b>4,373</b>	<b>3,269</b>	<b>2,585</b>
Reference: Item 2.2 (2) Form 51-101F1					
Columns may not add precisely due to accumulative rounding of values.					

**Total Future Net Revenue (Undiscounted) for the Sarcee 13-29 Well  
April 1, 2004  
(as of March 31, 2004)**

**Forecast Prices and Cost**

Reserve Category	Revenue M\$	Royalties M\$	Operating Costs M\$	Development Costs M\$	Well Abandonment Costs M\$	Future Net Revenues BIT M\$	Income Taxes M\$	Future Net Revenues AIT M\$
Total Proved	0	0	0	0	0	0	0	0
Proved Plus Probable	19,237	5,904	2,314	330	29	10,661	0	10,661
Reference: Item 2.2 (3)(b) NI 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Future Net Revenue for for the Sarcee 13-29 Well  
By Production Group  
April 1, 2004  
(as of March 31, 2004)**

**Forecast Prices and Cost**

Reserve Category	Production Group	Future Net Revenue Before Income Taxes Discounted at 10%/yr. \$M
Total Proved	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	0
Proved Plus Probable	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	4,373
Reference: Item 2.2 (3)(c) NI 51-101F1		

**Oil and Gas Reserves and Net Present Values for the Sarcee 13-29 Well  
By Production Group  
April 1, 2004  
(as of March 31, 2004)**

**Forecast Prices and Cost**

Reserve Group by Category	Reserves						Net Present Value (BIT) 10% M\$	Unit Values @ 10%/yr. \$/Mscf
	Oil		Gas		NGL			
	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl		
<b>Assoc &amp; Non-Assoc Gas</b>								
<b>Total Proved</b>	0	0	0	0	0	0	0	0.00
Probable	0	0	3,113	2,154	85	55	4,373	2.03
<b>Proved Plus Probable</b>	<b>0</b>	<b>0</b>	<b>3,113</b>	<b>2,154</b>	<b>85</b>	<b>55</b>	<b>4,373</b>	<b>2.03</b>
Reference: Item 2.2 (3)(c) NI 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Summary of Oil and Reserves for the Sarcee 13-29 Well  
April 1, 2004  
(as of March 31, 2004)**

**Constant Prices and Cost**

Reserves Category	Company Reserves							
	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids	
	Gross MSTB	Net MSTB	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl
<b>TOTAL PROVED</b>	0	0	0	0	0	0	0	0
<b>PROBABLE</b>	0	0	0	0	3,113	2,163	85	54
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,113</b>	<b>2,163</b>	<b>85</b>	<b>54</b>
Reference: Item 2.1 (1) Form 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Summary of Net Present Value for the Sarcee 13-29 Well  
April 1, 2004  
(as of March 31, 2004)**

**Constant Prices and Cost**

Reserves Category	Net Present Values of Future Net Revenue					
	Before Income Tax			After Income Tax		
	Undiscounted	Discounted @ 10%/yr.	Discounted @ 15%/yr.	Undiscounted	Discounted @ 10%/yr.	Discounted @ 15%/yr.
	M\$	M\$	M\$	M\$	M\$	M\$
<b>TOTAL PROVED</b>	0	0	0	0	0	0
<b>PROBABLE</b>	13,272	5,616	4,240	13,272	5,616	4,240
<b>TOTAL PROVED PLUS PROBABLE</b>	13,272	5,616	4,240	13,272	5,616	4,240

Reference: Item 2.1 (2) Form 51-101F1

Columns may not add precisely due to accumulative rounding of values.

**Total Future Net Revenue (Undiscounted) for the Sarcee 13-29 Well  
April 1, 2004  
(as of March 31, 2004)**

**Constant Prices and Cost**

Reserve Category	Revenue M\$	Royalties M\$	Operating Costs M\$	Development Costs M\$	Well Abandonment Costs M\$	Future Net Revenues BIT M\$	Income Taxes M\$	Future Net Revenues AIT M\$
Total Proved	0	0	0	0	0	0	0	0
Proved Plus Probable	22,565	6,948	1,997	325	23	13,272	0	13,272

Reference: Item 2.1 (3)(b) NI 51-101F1

**Future Net Revenue for the Sarcee 13-29 Well  
April 1, 2004  
(as of March 31, 2004)**

**Constant Prices and Cost**

Reserve Category	Production Group	Future Net Revenue Before Income Taxes Discounted at 10%/yr.
		\$M
Total Proved	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	0
Proved Plus Probable	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	5,616

Reference: Item 2.1 (3)(c) NI 51-101F1

**Oil and Gas Reserves and Net Present Values for the Sarcee 13-29 Well  
By Production Group  
April 1, 2004  
(as of March 31, 2004)**

**Constant Prices and Cost**

Reserve Group by Category	Reserves						Net Present Value (BIT) 10% M\$	Unit Values @ 10%/yr. \$/Mscf
	Oil		Gas		NGL			
	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl		
<b>Assoc &amp; Non-Assoc Gas</b>								
<b>Total Proved</b>	0	0	0	0	0	0	0	0.00
Probable	0	0	3,113	2,163	85	54	5,616	2.60
<b>Proved Plus Probable</b>	<b>0</b>	<b>0</b>	<b>3,113</b>	<b>2,163</b>	<b>85</b>	<b>54</b>	<b>5,616</b>	<b>2.60</b>

Reference: Item 2.1 (3)(c) NI 51-101F1

Columns may not add precisely due to accumulative rounding of values.

**CHAPMAN PETROLEUM ENGINEERING LTD.**  
**NATURAL GAS & BY-PRODUCTS**  
**CONSTANT PRICES & PRICE FORECASTS**  
**For the Sarcee 13-29 Well**  
**APRIL 1, 2004**

Date	GRP [1]		AECO Spot	NGL
	\$/MMBTU	\$/GJ	Gas [NIT] \$/MMBTU	Mix [2] \$/BBL
<b>HISTORICAL PRICES</b>				
1994	1.82	1.73	1.78	15.62
1995	1.31	1.24	1.08	17.18
1996	1.63	1.55	1.33	23.35
1997	1.97	1.87	1.67	22.08
1998	1.94	1.84	1.94	14.63
1999	2.48	2.35	2.82	20.09
2000	4.50	4.27	5.56	36.96
2001	5.78	5.48	5.44	35.08
2002	3.86	3.66	4.13	27.41
2003	6.45	6.11	7.03	34.46
2004 (3 months)	6.03	5.72	6.46	35.05
<b>CONSTANT PRICES</b>				
March 31, 2004	5.78	5.48	6.33	33.78
<b>CURRENT YEAR FORECAST</b>				
2004 (April - December)	5.50	5.21	6.00	33.61
<b>FUTURE FORECAST</b>				
2005	5.00	4.74	5.25	30.21
2006	4.75	4.50	5.00	29.16
2007	4.75	4.50	5.00	27.85
2008	4.75	4.50	5.00	28.27
2009	4.75	4.50	5.00	28.70
2010	4.75	4.50	5.00	29.13
2011	4.82	4.57	5.08	29.56
2012	4.89	4.64	5.15	30.01
2013	4.97	4.71	5.23	30.46
2014	5.04	4.78	5.31	30.91
2015	5.12	4.85	5.39	31.38
2016	5.19	4.92	5.47	31.85
2017	5.27	5.00	5.55	32.33
2018	5.35	5.07	5.63	32.81
2019	5.43	5.15	5.72	33.30
Constant thereafter				

Notes:

- [1] Gas Reference Price (GRP) represents the average of all system and direct (spot and firm) sales.
- [2] Natural Gas Liquids blended mix price assuming typical liquid composition of 40% propane, 30% butane and 30% pentanes plus.
- [3] Capital expenditures and operating costs are escalated at 1.5% per year until 2019.

Oil and Gas Reserves and Net Present Values on Properties **Optioned** by the Issuer as at October 31, 2004

The following tables dated November 1, 2004 were prepared by Chapman in accordance with the requirements of National Instrument 51-101F1 and represent the combined reserves, value and potential future net revenues of the Issuer for the property optioned by the Issuer as at October 31, 2004, namely the Mississippian Block of Lands. See "Use of Proceeds" on page 36 and "Risk Factors" on page 68.

**Summary of Oil and Gas Reserves for the Mississippian Block of Lands  
November 1, 2004  
(as of October 31, 2004)**

**Forecast Prices and Costs**

Reserves Category	Company Reserves							
	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids	
	Gross MSTB	Net MSTB	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbl	Net Mbbl
<b>PROVED</b>								
Undeveloped	0	0	0	0	1,260	822	23	15
<b>TOTAL PROVED</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,260</b>	<b>822</b>	<b>23</b>	<b>15</b>
<b>PROBABLE</b>	0	0	0	0	5,623	3,919	103	66
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,883</b>	<b>4,741</b>	<b>126</b>	<b>81</b>
Reference: Item 2.2 (1) Form 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Summary of Net Present Values for the Mississippian Block of Lands  
November 1, 2004  
(as of October 31, 2004)**

**Forecast Prices and Costs**

<b>Before Income Tax</b>					
Reserves Category	Net Present Values of Future Net Revenue				
	Discounted at				
	0 %/yr. M\$	5 %/yr. M\$	10 %/yr. M\$	15 %/yr. M\$	20 %/yr. M\$
<b>PROVED</b>					
Undeveloped	3,266	2,637	2,174	1,822	1,549
<b>TOTAL PROVED</b>	<b>3,266</b>	<b>2,637</b>	<b>2,174</b>	<b>1,822</b>	<b>1,549</b>
<b>PROBABLE</b>	21,506	16,825	13,801	11,708	10,180
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>24,772</b>	<b>19,462</b>	<b>15,975</b>	<b>13,530</b>	<b>11,729</b>
<b>After Income Tax</b>					
Reserves Category	Net Present Values of Future Net Revenue				
	Discounted at				
	0 %/yr. M\$	5 %/yr. M\$	10 %/yr. M\$	15 %/yr. M\$	20 %/yr. M\$
<b>PROVED</b>					
Undeveloped	3,266	2,637	2,174	1,822	1,549
<b>TOTAL PROVED</b>	<b>3,266</b>	<b>2,637</b>	<b>2,174</b>	<b>1,822</b>	<b>1,549</b>
<b>PROBABLE</b>	21,506	16,825	13,801	11,708	10,180
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>24,772</b>	<b>19,462</b>	<b>15,975</b>	<b>13,530</b>	<b>11,729</b>
Reference: Item 2.2 (2) Form 51-101F1					
Columns may not add precisely due to accumulative rounding of values.					

**Total Future Net Revenue (Undiscounted) for the Mississippian Block of Lands  
November 1, 2004  
(as of October 31, 2004)**

**Forecast Prices and Costs**

Reserve Category	Revenue M\$	Royalties M\$	Operating Costs M\$	Development Costs M\$	Well Abandonment Costs M\$	Future Net Revenues BIT M\$	Income Taxes M\$	Future Net Revenues AIT M\$
Total Proved	8,683	2,696	929	1,776	16	3,266	0	3,266
Proved Plus Probable	46,996	14,573	4,775	2,842	34	24,772	0	24,772
Reference: Item 2.2 (3)(b) NI 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Future Net Revenue for the Mississippian Block of Lands  
By Production Group  
November 1, 2004  
(as of October 31, 2004)**

**Forecast Prices and Costs**

Reserve Category	Production Group	Future Net Revenue Before Income Taxes Discounted at 10%/yr. \$M
Total Proved	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	2,174
Proved Plus Probable	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	15,975
Reference: Item 2.2 (3)(c) NI 51-101F1		

**Oil and Gas Reserves and Net Present Values for the Mississippian Block of Lands  
By Production Group  
November 1, 2004  
(as of October 31, 2004)**

**Forecast Prices and Costs**

Reserve Group by Category	Reserves						Net Present Value (BIT) 10% M\$	Unit Values @ 10%/yr. \$/Mscf
	Oil		Gas		NGL			
	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl		
<b>Assoc &amp; Non-Assoc Gas</b>								
<b>Proved</b>								
Undeveloped	0	0	1,260	822	23	15	2,174	2.64
<b>Total Proved</b>	<b>0</b>	<b>0</b>	<b>1,260</b>	<b>822</b>	<b>23</b>	<b>15</b>	<b>2,174</b>	<b>2.64</b>
Probable	0	0	5,623	3,919	103	66	13,801	3.52
<b>Proved Plus Probable</b>	<b>0</b>	<b>0</b>	<b>6,883</b>	<b>4,741</b>	<b>126</b>	<b>81</b>	<b>15,975</b>	<b>3.37</b>
Reference: Item 2.2 (3)(c) NI 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Summary of Oil and Gas Reserves for the Mississippian Block of Lands  
November 1, 2004  
(as of October 31, 2004)**

**Constant Prices and Costs**

Reserves Category	Company Reserves							
	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids	
	Gross MSTB	Net MSTB	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl
<b>PROVED</b>								
Undeveloped	0	0	0	0	1,260	850	23	16
<b>TOTAL PROVED</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,260</b>	<b>850</b>	<b>23</b>	<b>16</b>
<b>PROBABLE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,623</b>	<b>3,783</b>	<b>103</b>	<b>63</b>
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,883</b>	<b>4,633</b>	<b>126</b>	<b>79</b>
Reference: Item 2.1 (1) Form 51-101F1								
Columns may not add precisely due to accumulative rounding of values.								

**Summary of Net Present Values for the Mississippian Block of Lands  
November 1, 2004  
(as of October 31, 2004)**

**Constant Prices and Costs**

Reserves Category	Net Present Values of Future Net Revenue					
	Before Income Tax			After Income Tax		
	Undiscounted	Discounted @	Discounted @	Undiscounted	Discounted @	Discounted @
	M\$	10%/yr. M\$	15%/yr. M\$	M\$	10%/yr. M\$	15%/yr. M\$
<b>PROVED</b>						
Undeveloped	4,472	3,003	2,532	4,472	3,003	2,532
<b>TOTAL PROVED</b>	<b>4,472</b>	<b>3,003</b>	<b>2,532</b>	<b>4,472</b>	<b>3,003</b>	<b>2,532</b>
<b>PROBABLE</b>	27,068	17,176	14,484	27,068	17,176	14,484
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>31,540</b>	<b>20,179</b>	<b>17,016</b>	<b>31,540</b>	<b>20,179</b>	<b>17,016</b>
Reference: Item 2.1 (2) Form 51-101F1						
Columns may not add precisely due to accumulative rounding of values.						

**Total Future Net Revenue (Undiscounted) for the Mississippian Block of Lands  
November 1, 2004  
(as of October 31, 2004)**

**Constant Prices and Costs**

Reserve Category	Revenue M\$	Royalties M\$	Operating Costs M\$	Development Costs M\$	Well Abandonment Costs M\$	Future Net Revenues BIT M\$	Income Taxes M\$	Future Net Revenues AIT M\$
Total Proved	10539	3432	870	1750	14	4472	0	4472
Proved Plus Probable	57,572	18,839	4,364	2,800	28	31,540	0	31,540
Reference: Item 2.1 (3)(b) NI 51-101F1								

**Future Net Revenue for the Mississippian Block of Lands  
By Production Group  
November 1, 2004  
(as of October 31, 2004)**

**Constant Prices and Costs**

Reserve Category	Production Group	Future Net Revenue Before Income Taxes Discounted at 10%/yr.
		\$M
Total Proved	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	3,003
Proved Plus Probable	Light and Medium Oil ( including solution gas and other by-products)	0
	Heavy Oil (including solution gas and other by-products)	0
	Natural Gas (including by-products but not solution gas)	20,179

Reference: Item 2.1 (3)(c) NI 51-101F1

**Oil and Gas Reserves and Net Present Values for the Mississippian Block of Lands  
By Production Group  
November 1, 2004  
(as of October 31, 2004)**

**Constant Prices and Costs**

Reserve Group by Category	Reserves						Net Present Value (BIT) 10% M\$	Unit Values @ 10%/yr. \$/Mscf
	Oil		Gas		NGL			
	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbbl	Net Mbbbl		
<b>Assoc &amp; Non-Assoc Gas</b>								
<b>Proved</b>								
Undeveloped	0	0	1,260	850	23	16	3,003	3.53
<b>Total Proved</b>	<b>0</b>	<b>0</b>	<b>1,260</b>	<b>850</b>	<b>23</b>	<b>16</b>	<b>3,003</b>	<b>3.53</b>
Probable	0	0	5,623	3,783	103	63	17,176	4.54
<b>Proved Plus Probable</b>	<b>0</b>	<b>0</b>	<b>6,883</b>	<b>4,633</b>	<b>126</b>	<b>79</b>	<b>20,179</b>	<b>4.36</b>

Reference: Item 2.1 (3)(c) NI 51-101F1

Columns may not add precisely due to accumulative rounding of values.

**CHAPMAN PETROLEUM ENGINEERING LTD.**  
**NATURAL GAS & BY-PRODUCTS**  
**CONSTANT PRICES & PRICE FORECASTS**  
**For the Mississippian Block of Lands**

Date	GRP [1]		AECO Spot	NGL
	\$/MMBTU	\$/GJ	Gas [NIT] \$/MMBTU	Mix [2] \$/BBL
<b>HISTORICAL PRICES</b>				
1994	1.82	1.73	1.78	15.62
1995	1.31	1.24	1.08	17.18
1996	1.63	1.55	1.33	23.35
1997	1.97	1.87	1.67	22.08
1998	1.94	1.84	1.94	14.63
1999	2.48	2.35	2.82	20.09
2000	4.50	4.27	5.56	36.96
2001	5.78	5.48	5.44	35.08
2002	3.86	3.66	4.13	27.41
2003	6.45	6.11	7.03	34.46
2004 (9 months)	6.25	5.92	6.68	38.62
<b>CONSTANT PRICES</b>				
October 29, 2004	[3] 7.06	7.45	7.49	49.98
<b>CURRENT YEAR FORECAST</b>				
2004 (October - December)	6.50	6.16	7.00	47.29
<b>FUTURE FORECAST</b>				
2005	6.50	6.16	7.00	41.94
2006	6.00	5.69	6.50	39.81
2007	5.50	5.21	6.00	36.60
2008	5.00	4.74	5.50	33.40
2009	5.08	4.81	5.58	33.90
2010	5.15	4.88	5.66	34.40
2011	5.23	4.96	5.74	34.92
2012	5.31	5.03	5.83	35.44
2013	5.39	5.11	5.92	35.98
2014	5.47	5.18	6.01	36.52
2015	5.55	5.26	6.10	37.06
2016	5.63	5.34	6.19	37.62
2017	5.72	5.42	6.28	38.18
2018	5.80	5.50	6.37	38.76
2019	5.89	5.58	6.47	39.34

Constant thereafter

Notes:

- [1] Gas Reference Price (GRP) represents the average of all system and direct (spot and firm) sales.
- [2] Natural Gas Liquids blended mix price assuming typical liquid composition of 40% propane, 30% butane and 30% pentanes plus.
- [3] October 29, 2004 is the last business day of the month ending October 31, 2004.
- [4] Capital expenditures and operating costs are escalated at 1.5% per year until 2019.

*Reconciliations of Changes in Reserves and Future Net Revenue*

Reserves Reconciliation

The following tables sets forth a reconciliation of the Issuer's total Proved reserves, Probable reserves, and total Proved reserves plus Probable reserves as at December 31, 2003 against such reserves as at December 31, 2002 for Drumheller and Zama.

	Light and Medium Oil			Natural Gas Liquids		
	Total Proved Reserves	Probable Reserves	Total Proved Plus Probable	Total Proved Reserves	Probable Reserves	Total Proved Plus Probable
	Bbls	Bbls	Bbls	Bbls	Bbls	Bbls
<b>December 31, 2002</b>	1,400	-	1,400			
Acquisitions	-	-	-			
Technical Revisions	1,200	800	2,000			
Dispositions	-	-	-			
Production	(300)	-	(300)			
<b>December 31, 2003</b>	<u>2,300</u>	<u>800</u>	<u>3,100</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Associated and Non-Associated Gas		
	Total Proved Reserves	Probable Reserves	Total Proved Plus Probable
	MMscf	MMscf	MMscf
<b>December 31, 2002</b>	3	-	3
Extensions	-	-	-
Acquisitions	-	-	-
Technical Revisions	(0)	3	3
Dispositions	-	-	-
Production	(2)	-	(2)
<b>December 31, 2003</b>	<u>1</u>	<u>3</u>	<u>4</u>

Future Net Revenue Reconciliation

The following table sets for the a reconciliation of the estimate of the net present value of future revenue attributable to the Issuer's net Proved reserves as evaluated in the Chapman Drumheller/Zama Report as at December 31, 2003 against the estimate of such amounts at December 31, 2002, calculated before tax using a discount rate of 10% and constant price and cost assumptions.

**PROVED RESERVES CONSTANT PRICES AND COSTS  
(Drumheller and Zama Areas)**

	2003 (M\$)
Estimated Future Net Revenue at Beginning of Year (December 31, 2002)	73
Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	(33)
Net Change in Prices, Production Costs and Royalties Related to Future Production	-
Changes in Previously Estimated Development Costs Incurred During the Period	-
Changes in Estimated Future Development Costs	-
Extensions and Improved Recovery	-
Discoveries	-
Acquisitions of Reserves	-
Dispositions of Reserves	-
Net Change Resulting from Revisions in Quantity Estimates	30
Accretion of discount	4
Net Change in Income Taxes	-
Other (may include value of production in disposed and acquired properties, changes in timing of future production)	-
Estimated Future Net Revenue at End of Year (December 31, 2003)	74

*Undeveloped Reserves*

The following discussion generally describes the basis on which the Issuer attributes Proved and Probable Undeveloped reserves and its plans for developing those Undeveloped reserves for the Sarcee 13-29 Well and for the Mississippian Block of Lands.

Proved Undeveloped Reserves

Proved Undeveloped reserves are generally those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells further away from the Issuer gathering systems. In addition, such reserves may relate to planned infill drilling locations. The majority of these reserves are planned to be on stream within a two year timeframe.

Probable Undeveloped Reserves

Probable Undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production. The majority of these reserves are planned to be on stream within a two year timeframe.

### *Significant Factors or Uncertainties Affecting Reserves Data*

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and cost change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions. The Issuer's reserves are evaluated by Chapman, an independent engineering firm.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices, and reservoir performances. Such revisions can be either positive or negative.

### *Future Development Costs*

The Issuer does not have any development costs in association with the Drumheller and Zama areas.

### *Drilling Activity*

The Issuer did not participate in the drilling of any wells during the year ended December 31, 2003.

### *Additional Information Concerning Abandonment and Reclamation Costs*

The Issuer estimates well abandonment costs stereotypically area by area. Such costs are included in the Chapman Drumheller/Zama Report as deductions in arriving at future net revenue. The expected total abandonment costs included in the Chapman Drumheller/Zama Report for 0.17 net wells under the Proved reserve category is \$7,000 undiscounted (\$3,395 discounted at 10%), of which a total of \$814 is estimated to be incurred by 2005. This estimate includes expected reclamation costs for surface leases and salvage value recovery. Expected future abandonment costs related to facilities are expected to match the salvage value recovery.

### *Tax Horizon*

Old Arapahoe was not required to pay income taxes during the year ended December 31, 2003. Based on a strategy of re-investing fully all internally generated cash flow in an exploration and development program and based on the commodity prices used in the Chapman Drumheller/Zama Report, the Issuer estimates that it will not be required to pay income taxes.

### *Costs Incurred*

The following table summarized Old Arapahoe's property acquisition costs, exploration costs and development costs for the year ended December 31, 2003.

Property Acquisition Costs				
	Proven Properties	Unproven Properties	Exploration Costs	Development Costs
Total (\$)	0	0	16,500	10,589

*Production Estimate for the Drumheller and Zama Areas*

The following table discloses for each product type the total volume of production estimated by Chapman for 2004 reflected in the estimates of future net revenue from Proved reserves disclosed above under the heading “Oil and Gas Activities” on page 7.

	Oil Bbls	Natural Gas MMscf	Natural gas Liquids Bbls	BOE	%
Drumheller	402	2	25	760	80%
Zama	0	1	19	186	20%
Estimated Total Production	402	3	44	946	100%

*Production History for the Drumheller and Zama Areas*

The following table discloses, on a quarterly basis for the year ended December 31, 2003, Old Arapahoe's share of average daily production volume, prior to royalties, and the prices received, royalties paid, production costs incurred and netbacks on a per unit of volume basis for each production type.

Average Daily Production Volume

	Three Months Ended				
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003	Total
Oil (Bbl/d)	2	2	9	1	4
Natural Gas (Mcf/d)	11	9	48	6	19
NGL (Bbl/d)	0	0	0	0	0
Total (BOE/d)	4	4	18	3	7

Prices Receive, Royalties Paid, Production Costs and Netback –  
Light and Medium Crude Oil / Natural Gas and NGLs

	Three Months Ended				
	March 31, 2003 (\$)	June 30, 2003 (\$)	September 30, 2003 (\$)	December 31, 2003 (\$)	Total (\$)
<b>Prices Received</b>					
Oil (\$ per Bbl)	32.17	31.86	32.08	31.95	32.58
Gas (\$ per Mcf)	6.57	6.41	6.94	6.59	6.69
NGL (\$ per Bbl)	32.21	31.90	34.14	30.87	32.99

**Royalties Paid**

Oil (\$ per Bbl)	3.36	2.86	3.49	3.46	3.46
Gas (\$ per Mcf)	1.43	1.43	1.43	1.43	1.70
NGL (\$ per Bbl)	2.36	2.67	2.56	2.76	3.10
Production Costs per BOE	10.01	8.01	7.80	8.71	8.60
Netback	19.12	20.21	22.22	20.17	20.91

*Production Volume by Field for the Drumheller and Zama Areas*

The following table discloses for each important field, and in total, Old Arapahoe's production volumes for the financial year ended December 31, 2003 for each product type.

	Oil (Bbls)	Natural Gas (Mcf)	NGL (Bbl)	BOE	%
Drumheller, Alberta	1,118	4,391	31	1,881	74%
Zama, Alberta	253	2,256	25	654	26%
Others	0	0	0	0	0%
Total	1,371	6,647	56	2,535	100%

**USE OF PROCEEDS**

**Proceeds**

The total gross proceeds to the Issuer from this Offering will be \$3,500,000 in the event the Offering is fully subscribed for, or \$4,000,000 in the event the Over-Allotment Option is fully exercised, before deducting the Agent's commission and the expenses of the Offering.

**Funds Available**

The total funds available to the Issuer at the closing of the Offering will be as follows. As at October 31, 2004, the Issuer had a working capital deficit position of approximately \$407,000.

Description	Offering (\$)	Offering & Over-Allotment (\$) <sup>(3)</sup>
Net proceeds to be derived by the Issuer from the Offering <sup>(1)(2)</sup>	3,162,500 <sup>(4)</sup>	3,625,000 <sup>(5)</sup>
Working capital deficiency as at October 31, 2004	407,000	407,000
Funds available to the Issuer from other sources	Nil	Nil
<b>Total Funds Available:</b>	<b>2,755,500</b>	<b>3,218,000</b>

**Notes:**

- (1) Assumes completion of the entire Offering. The Agent's Commission and the Agent's estimated expenses of the Offering will be paid by the Issuer from the proceeds of the sale of the Units or by certified cheque on closing from working capital, revenues from operations, or bank debt or a combination thereof.
- (2) After deducting the costs of the Offering estimated to be \$75,000.

- (3) Assumes the Agent exercises the Over-Allotment Option in its entirety for proceeds of \$500,000.
- (4) After deducting the Agent's Commission estimated to be \$262,500.
- (5) After deducting the Agent's Commission estimated to be \$300,000.

### Principal Purposes

The Issuer intends to spend the total funds available to it from the Offering for the following principal purposes in order of priority as stated below. The Issuer will use the funds received from the sale of FT Shares under the Offering to incur Qualifying Expenditures in respect of ongoing drilling activities on the Sarcee Project lands, the Hotchkiss Project lands and the Grouard Project lands, namely the drilling of the Mississippian Test Well, the Hotchkiss Test Well and the Grouard Test Well, on the basis of completing the entire Offering, or the entire Offering and the exercise of the Over-Allotment Option in its entirety as follows:

Description	Offering (\$) <small>(2)(3)(4)(6)(8)</small>	Offering & Over- Allotment (\$) <small>(2)(3)(5)(7)(8)</small>
To drill the Mississippian Test Well	2,000,000	2,000,000
To drill the Hotchkiss Test Wells	211,000	211,000
To drill the Grouard Test Wells	150,000	150,000
Follow up exploration and development activities	194,500	657,000
To rectify working capital deficiency <sup>(1)</sup>	407,000	407,000
For working capital to fund ongoing general and administrative expenses	200,000	200,000
<b>Total:</b>	<b>3,162,500</b>	<b>3,625,000</b>

### Notes:

- (1) As at October 31, 2004, the Issuer's working capital deficiency was estimated at \$407,000.
- (2) Excluding proceeds, if any, raised pursuant to the exercise of the Agent's Option.
- (3) Based on the completion of the entire Offering of \$3,500,000.
- (4) Excluding proceeds, if any, raised pursuant to the exercise of the Over-Allotment Option.
- (5) Based on the exercise of the Over-Allotment Option in its entirety for proceeds of \$500,000.
- (6) After deducting the Agent's Commission estimated to be \$262,500.
- (7) After deducting the Agent's Commission estimated to be \$300,000.
- (8) After deducting the costs of the Offering estimated to be \$75,000.

If less than the entire Offering is completed, the proceeds raised under the Offering will be allocated among each of the above-noted uses in approximately the same proportions indicated above. The Issuer intends to spend the funds available to it as stated in this Prospectus. There may be circumstances, however, where for sound business reasons, a reallocation of funds, provided that Qualified Expenditures are incurred, may be necessary in order for the Issuer to achieve its stated business objectives. Pending such use, the Issuer intends to invest the available funds to the extent practicable in short-term, investment grade, interest-bearing securities and other marketable securities.

If the proceeds from the sale of the FT Shares under this Offering are less than \$2,000,000 additional financing may be required to enable the Issuer to pay its share of the costs of drilling the Mississippian

Test Well and thereby exercise its option on the Mississippian Block of Lands under the Sarcee Farm-Out Agreement. See "Risk Factors" on page 68.

On or before December 31, 2004, the Issuer proposes to complete a brokered financing of up to 5,714,285 flow-through common shares at a price of \$0.35 each for gross proceeds of up to \$2,000,000. On or before December 22, 2004, the Issuer proposes to complete a brokered private placement of up to 1,666,666 non flow-through units at a price of \$0.30 each for gross proceeds of up to \$500,000. Each unit will consist of one Common Share and one-half of one share purchase warrant. A whole warrant will entitle the holder to acquire an additional Common Share for \$0.35 for a period of 12 months. Both financings will be offered to accredited investors in the Provinces of British Columbia, Alberta and Ontario. The Agent, as to 70%, and First Associates, as to 30%, will act as agents in respect of these proposed financings.

### SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

The following tables summarize selected financial data reported by the Issuer for the periods indicated therein and should be read in conjunction with the audited comparative consolidated financial statements of Old Arapahoe as at December 31, 2003 and 2002 together with the auditors' report thereon, and the unaudited comparative consolidated financial statements of the Issuer for the interim period ended June 30, 2004 and 2003 (collectively, the "Financial Statements"), as found on F1 and F2 respectively of this Prospectus. Historical financial statements of the Issuer are those of Old Arapahoe, the predecessor entity that carried on the business of the Issuer, in respect of those periods ended prior to the Amalgamation.

#### Annual Information for the years ended December 31, 2003 and 2002 and for the six month periods ended June 30, 2004 and 2003

	Period Ended June 30, 2004 (unaudited)	6 months ended June 30, 2003 (unaudited)	Year ended December 31, 2003 <sup>(2)</sup>	Year ended December 31, 2002 <sup>(2)</sup>
Total revenues net of royalties (\$)	45,759	40,629	71,025	42,135
Total net loss (\$)	(29,762)	(105,882)	(331,876)	(223,815)
Net loss per Common Share (\$) <sup>(1)</sup>	(0.01)	(0.04)	(0.10)	(0.08)
Total assets (\$)	2,467,249	73,615	110,696	81,621
Total long term debt (\$)	Nil	Nil	Nil	Nil
Cash dividends declared per Common Share (\$)	Nil	Nil	Nil	Nil
Shareholders' equity/deficiency (\$)	1,908,845	(251,844)	(269,838)	(145,962)
Capital stock (#)	9,813,714	2,865,798	3,958,691	29,586,893

**Notes:**

- (1) Diluted loss per share does not differ materially from basic loss per share from any of the above-noted periods, as the conversion or exercise of any potentially dilutive securities was either not dilutive or was not materially dilutive.
- (2) Derived from audited financial statements.

As at the balance sheet date for the completed fiscal period, the Issuer had no long-term debt and no preferred shares outstanding, and during such fiscal period the Issuer reported no extraordinary items.

## Quarterly Information

The following table summarizes selected financial data reported by Old Arapahoe for each of the eight most recently completed quarters ending at December 31, 2003. All quarterly financial data presented in this table is non-cumulative.

	Quarter ended Dec. 31, 2003	Quarter ended Sept. 30, 2003	Quarter ended June 30, 2003	Quarter ended March 31, 2003	Quarter ended Dec. 31, 2002	Quarter ended Sept. 30, 2002	Quarter ended June 30, 2002	Quarter ended March 31, 2002
Total net revenues (\$)	19,098	11,298	28,848	11,781	(1,505)	20,395	639	22,606
Total income (loss) from continuing operations (\$)	(52,622)	(72,702)	(79,061)	(26,821)	(169,551)	10,211	(109,373)	(1,493)
Total net income (loss) (\$)	(118,792)	(107,202)	(79,061)	(26,821)	(115,711)	10,211	(112,441)	(5,875)
Net income (loss) per Common Share (\$) <sup>(2)</sup>	(0.103)	(0.036)	(0.03)	(0.009)	(0.04)	0.004	(0.039)	(0.002)

### Notes:

- (1) A breakdown of the total net revenues (revenue less royalties) for each of the eight most recently completed quarters ending at December 31, 2003 is set out under “Management’s Discussion and Analysis – Year Ended December 31, 2003 as compared to the Year ended December 31, 2002 on page 44.
- (2) Diluted earnings (loss) per share does not differ materially from basic earnings (loss) per share from any of the above-noted periods, as the conversion or exercise of any potentially dilutive securities was either not dilutive or was not materially dilutive.

## Dividends

The Issuer has not paid any dividends on its Common Shares. Any decision to pay dividends on Common Shares in the future will be made by the board of directors on the basis of earnings, financial requirements and other conditions existing at such time. Management does not foresee payment of dividends on Common Shares in the short or medium term.

## Management’s Discussion and Analysis

### *Interim Period Ended June 30, 2004*

The management’s discussion and analysis (“MD&A”) regarding the Issuer covers the period from February 6, 2004 to June 30, 2004 prior to which the Issuer (which for accounting purposes was Crazy Horse) had no operations and has insignificant revenues at that time. Pursuant to the Arrangement, Crazy Horse entered into an agreement with Old Arapahoe, a public company which traded on the Exchange under the symbol “APR” and now continues business as the Issuer, a publicly traded junior oil and natural gas exploration company with its Common Shares listed on the Exchange under the trading symbol “AAO”.

This MD&A should be read in conjunction with the unaudited consolidated financial statements and the selected accompanying notes therein for the six month period ended June 30, 2004 included in this

Prospectus and filed on SEDAR. The results reported therein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars unless otherwise stated. The information in this MD&A was approved by a majority of the Issuer's board of directors on September 16, 2004 and incorporates all relevant considerations to that date.

Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of the Issuer's management at the time the statements were made. BOE amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil ("6:1"). The 6:1 conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. BOE disclosure may be misleading, particularly if used in isolation.

## **RESULTS OF OPERATIONS**

The results presented herein cover the period from February 6, 2004 to June 30 2004. The Issuer had no operations prior to the reverse takeover of Old Arapahoe and therefore data does not exist for comparison purposes.

### **2004 Overview**

The Issuer began operations as a result of the amalgamation of Old Arapahoe and Crazy Horse with gross equity funding on February 6, 2004 of \$2,555,775 (net \$2,250,631). The flow through portion of the funding was utilized in drilling and completion operations on the Tsuu T'ina First Nation located west of the City of Calgary in the Alberta Foothills and the balance of the funding was utilized for general corporate purposes.

By way of the Sarcee Farm-Out Agreement, the Issuer has a joint farm-out agreement with Extreme on a portion of the Tsuu T'ina First Nation. To date one (1) well has been drilled, cased and completed as a potential tight Cardium formation oil well (the Sarcee 4-30 Well). Well logs from the Sarcee 4-30 Well indicated potential gas play in two uphole Edmonton formation sands. These sands have not been tested and probably will not be tested until the Cardium formation in the Sarcee 4-30 Well is fully evaluated for commerciality. The total well costs for the Sarcee 4-30 Well exceeded the original cost estimates substantially. The increased costs were due to common foothills drilling difficulties and an early spring breakup.

Due to the increased costs encountered in the Sarcee 4-30 Well the Issuer renegotiated the terms of the Sarcee Farm-Out Agreement with Extreme. Instead of the Issuer having to drill two (2) test wells and perform one (1) re-completion to earn an interest, Extreme has agreed that by drilling and completing the Sarcee 4-30 Well the Issuer has satisfied all of its farm-out obligations and has earned a 50% interest in the farm-out lands (3,840 acres). The Issuer has the option until February 1, 2005 in which to commence the drilling of the option well to evaluate the Mississippian formation underlying the option lands (2,500 acres).

The details of the original exploration and development farm-out program can be found in the management information circular of Old Arapahoe dated November 13, 2003 and news releases of Old Arapahoe dated October 23, 2003 and January 26, 2004.

The Issuer had insignificant revenues for the six month period ended June 30, 2004. The Issuer had no operations prior to the Amalgamation with Old Arapahoe and therefore data is not available for comparison purposes.

## Share Consolidation

On February 6, 2004, the business transaction with Crazy Horse was concluded. Old Arapahoe shareholders exchanged all their Old Arapahoe Shares for Common Shares of the Issuer on a basis of one Common Share of the Issuer for every three Old Arapahoe Shares held.

## Quarterly Results

The following table summarizes the results of the insignificant operations from February 6, 2004 to June 30, 2004. Prior to February 6, 2004, the Issuer did not have any operations.

After the external auditor's reviewed the interim consolidated financial statements for the three and six month periods ended March 31, 2004 and June 30, 2004, amendments to previously reported amounts were required and these have been incorporated herein and filed on SEDAR.

In addition, the Issuer recorded stock based compensation expense of \$359,258 for the three month period ended March 31, 2004 as a result of adopting the fair value method of accounting for stock options granted to employees and directors. Stock based compensation is credited to contributed surplus and does not affect cash flow. For the three month period ended June 30, 2004, the Issuer did not record any additional stock based compensation expense as all previously granted stock options vested on the grant date.

PRODUCTION HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
<b><u>AVERAGE PRODUCTION</u></b>				
Oil - Barrels	379		787	
Barrels per day	4		4	
Gas - mcf	1,868		3,766	
Mcf per day	21		21	
NGL - Barrels	31		58	
Barrels per day	0		0	
BOE (6:1) per day	8		8	
BOE totals	721		1,473	
<b><u>Price (\$)</u></b>				
Oil price/bbl	37.51		35.18	
Gas price per mcf	7.61		7.30	
NGL price/bbl	32.02		29.78	
Average price per BOE	\$ 40.78		\$ 38.63	

## General, Administrative and Interest Costs

General and administrative expenses for three month and six month period ended June 30, 2004 were \$82,669 and \$181,021 respectively. Most of the administration costs included the costs associated with maintaining a public company. Additional expenses were incurred as drilling and exploration program commenced in March 2004.

## Depletion and Depreciation

Depletion, depreciation and accretion expenses, for the three month and six month period ended June 30, 2004 were \$10,417 and \$21,495 respectively.

OPERATION HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
<b><u>REVENUE (\$)</u></b>				
Oil revenue	\$14,202		27,704	
Gas revenue	14,201		27,473	
NGL revenue	987		1,723	
	<b>29,390</b>	<b>-</b>	<b>56,900</b>	<b>-</b>
<b><u>ROYALTIES</u></b>				
Oil royalties	629		1,902	
Gas royalties	2,522		8,147	
NGL royalties	528		1,092	
	<b>3,679</b>	<b>-</b>	<b>11,141</b>	<b>-</b>
Royalty per BOE	<b>5.10</b>		<b>7.56</b>	
<b><u>OPERATIONS</u></b>				
Operating expenses	<b>6,110</b>		<b>10,327</b>	
Operating expense per BOE	<b>8.47</b>		<b>7.01</b>	
Operations Netbacks (\$/BOE)	<b>27.21</b>		<b>24.06</b>	

HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
<b><u>General &amp; Administration</u></b>				
G & A Expense	<b>82,669</b>		<b>181,021</b>	
G & A per BOE	<b>114.66</b>		<b>122.89</b>	
Depletion & Depreciation	<b>10,417</b>		<b>21,495</b>	
Depletion & Depreciation per BOE	<b>\$ 14.45</b>		<b>\$ 14.59</b>	

### Income Taxes

Income taxes recovered in the six month period ended June 30, 2004 amounted to \$494,578.

### Net Income or Loss

Operating activities resulted in a net loss of \$72,610 for the three month period ended June 30 2004.

FINANCIAL HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
Oil and Gas Revenue	\$ 29,390		56,900	
Cash Flow from Operations	(62,193)		(143,587)	
Cash Flow Per share – basic and diluted	(0.01)		\$ (0.02)	
Net Loss	(72,610)		(29,762)	
Net Loss Per share – basic and diluted	\$ (0.01)		\$ (0.00)	

FINANCIAL HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
Capital Expenditures	(845,676)		(2,170,241)	
Number of Shares Outstanding	9,813,714		9,813,714	
Flow Through Shares Obligations	-		-	

### Liquidity and Capital Resources

The Issuer has insignificant revenues as it continues with the business opportunities outlined above. Capital expenditures for the three month period ended June 30, 2004 amounted to \$845,676 as shown in the table below.

Net Capital Expenditures (\$)	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
Lease Acquisitions	10,928		10,928	
Geological and geophysical	0		0	
Drilling and completion	834,748		2,157,265	
Facilities and equipment	0		0	
Other	0		2,048	
Net Capital Expenditures	845,676		2,170,241	

### Financing Activities

As part of the business transactions contemplated by the Arrangement Agreement, on February 6, 2004 a total of \$2,555,776 (\$1,846,621 being for flow through shares and \$709,155 for Common Shares) in gross proceeds was raised resulting in the issuance of 3,357,492 flow through shares and 1,289,373 Common Shares priced at \$0.55 each. On February 6, 2004, a total of 2,548,433 share purchase warrants were issued of which the holders of 2,098,433 share purchase warrants may acquire one additional common share at a price of \$0.80 each for a period of one year from the date of issue and the holders of 450,000 warrants may acquire one additional common share at price of \$0.70 each for a period of one year from the date of issue. At the same time, agents' warrants totalling 314,764 were issued. Each whole share purchase warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.80 each for a period of one year from the date of issue. In the event the Common Shares trade for 20 consecutive trading days at a price of not less than \$1.20 each, the Issuer may accelerate the exercise period of the share purchase warrants to not less than 30 days by providing the share purchase warrant holders with written notice of such reduction in the exercise period. Old Arapahoe stock options and warrants were exchanged for stock options and warrants of the Issuer on a 3:1 basis.

### Investing Activities

Capital spending was \$845,676 for the three month period ended June 30, 2004 which includes \$10,928 in petroleum and natural gas properties purchases and \$834,748 in drilling and completion.

### Related Party Transactions

The amount due to related parties at June 30, 2004 consists primarily of the following:

- a) On October 20, 2003, Crazy Horse entered into the Sarcee Farm-Out Agreement with Extreme as a part of the Arrangement Agreement, whereby Crazy Horse acquired the right to farm-in to certain oil and gas properties owned by Extreme by drilling and completing up to four wells on

the properties. After the Amalgamation, the Issuer and Extreme became related by virtue of a common director. Old Arapahoe and Extreme were related by virtue of having a common director and a common officer. Drilling costs associated with the renegotiated Sarcee Farm-Out Agreement amounted to \$2,078,407 as at June 30, 2004 and has a net outstanding amount of \$305,368 due to Extreme.

- b) The Issuer has accrued \$25,000 each payable to an officer and a director for services provided to the Issuer. Payment for the services provided by both parties will be withheld until such time as and when the Issuer has revenues to sustain the same.
- c) General administration charges of \$4,500 per month are paid to a company related by virtue of a common director and a common officer.
- d) Over a period of time, the Subsidiary had granted a loan to a director of the Issuer in the amount of \$6,357. The loan is non-interest bearing and has no fixed repayment terms. The loan was repaid in full on October 5, 2004. See "Indebtedness of Directors and Executive Officers" on page 65.

### **Going Concern**

The Issuer reported a loss of \$29,762 and negative cash flow from operations of \$143,587 for the six month period ended June 30, 2004. The Issuer had a working capital deficit of \$281,992 at June 30, 2004. The Issuer's ability to continue as a going concern is dependent upon success of the drilling and exploration program.

### **Subsequent Events**

The Issuer is pursuing its drilling program as originally planned. The initial well in the proposed drilling program was drilled in 4-30-23-3 W5M. The Sarcee 4-30 Well was tested and evaluated for economic potential for oil/gas production. The Sarcee 4-30 Well is currently suspended, cased and shut-in pending further evaluation of feasible production.

On or before December 31, 2004, the Issuer proposes to complete a brokered financing of up to 5,714,285 flow-through common shares at a price of \$0.35 each for gross proceeds of up to \$2,000,000. On or before December 22, 2004, the Issuer proposes to complete a brokered private placement of up to 1,666,666 non flow-through units at a price of \$0.30 each for gross proceeds of up to \$500,000. Each unit will consist of one Common Share and one-half of one share purchase warrant. A whole warrant will entitle the holder to acquire an additional Common Share for \$0.35 for a period of 12 months. Both financings will be offered to accredited investors in the Provinces of British Columbia, Alberta and Ontario. The Agent, as to 70%, and First Associates, as to 30%, will act as agents in respect of these proposed financings.

### *Year Ended December 31, 2003 as Compared to the Year Ended December 31, 2002*

MD&A in this section should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended December 31, 2003 and December 31, 2002 attached hereto as F1. The results reported therein have been prepared in accordance with GAAP and are presented in Canadian dollars unless otherwise stated. The information in this MD&A was approved by the Issuer's board of directors on November 24, 2004 and incorporates all relevant considerations to that date. The Issuer's board of directors has amended this MD&A from the original MD&A approved on May 12, 2004.

Forward-looking statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of management at the time the statements were made. BOE amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one BOE (“6:1”). The 6:1 conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. BOE disclosure may be misleading, particularly if used in isolation.

### **Annual Results**

The following table summarizes the annual results for the year ended December 31, 2003 compared with the year ended December 31, 2002.

<b>Sales Volumes</b>	<b>Year Ended December 31</b>	
	<b>2003</b>	<b>2002</b>
Crude Oil-barrels per day	3.76	2.7
Natural gas volumes – mcf/day	18.53	11.81
Liquids volumes – barrels per day	0.18	0
BOE per day (6:1)	7	5
<b>Financial Results (\$)</b>		
Oil and gas gross revenues	92,040	50,150
Cash Flow from Operations	(231,206)	(270,206)
Net (loss)	331,876)	(223,815)
Basic & diluted loss per share	(0.10)	(0.08)
Capital (Expenditures) disposal	(27,589)	75,356
Other Disposal	-	102,088
Total assets	110,696	81,621
Working capital (deficit)	(243,037)	(134,242)
Shareholders' deficiency	(269,838)	(145,962)

### **Revenues and Royalties**

Since Old Arapahoe had insignificant revenues, the figures presented herein cannot be compared to industry standards. Total revenue increased 83% for the 12 months ended December 31, 2003 to \$92,040 as compared to \$50,150 for the twelve months ended December 31, 2002. This increase was a result of the higher production rates.

Production for the 2003 year increased marginally to a rate of 7 BOE per day from 5 BOE per day in 2002. The total royalties deducted from petroleum and natural gas sales revenue in 2003 were \$21,015 or 23% of revenue as compared to \$8,015 or 16% of revenue for 2002.

The average price per barrel of oil increased 3% to \$32.58 in 2003, compared to \$31.50 in 2002 and the average price of natural gas for 2003 was \$6.69 per mcf compared to \$10.00 per mcf in 2002 a decrease of 33%.

### **Operating Costs**

Operating expenses were \$22,104 in 2003 compared to \$13,052 in 2003 reflecting an increase of 69% due to higher production costs. The operating netbacks of \$19.13 per BOE in 2003 compared to \$17.16 per BOE in 2002.

### **General, Administrative and Interest Costs**

General and administrative expenses for year 2003 were \$338,127 (\$131.56 per BOE) as compared to \$299,289 (\$176.50 per BOE) in 2002. The figures per BOE are irrelevant due to the very low production volumes. The general and administrative expenses for 2003 include \$58,000 stock based compensation that Old Arapahoe recorded as a result of adopting the fair value method of accounting for stock options granted to employees and directors. Stock based compensation is credited to contributed surplus and does not affect cash flow.

Most of the administration costs included the costs associated with maintaining a public company, the costs associated with discontinuing operations in the United States of America, and consulting fees for the management of Old Arapahoe. Additional expenses were incurred in 2003 as new oil and gas and corporate opportunities for Old Arapahoe were sourced and evaluated.

### **Depletion and Depreciation**

Depreciation and depletion expenses, including provision for site restoration expenses, for 2003 was \$16.70 per BOE compared to \$12.92 per BOE in 2002. Depreciation and depletion expenses, including provision for site restoration expenses, for 2003 were \$42,670 compared to \$21,911 in 2002. Reduced Proved reserves, 2003 compared to 2002, plus additional capital cost in 2003 resulted in an increase in the depletion rate per BOE.

### **Income Taxes**

Income taxes were not recovered in 2003 or 2002.

### **Net Income or Loss**

Activities resulted in a net loss of \$(331,876) or \$(0.10) per share for the year ended December 31, 2003 compared to a net loss of \$(223,815) or \$(0.08) per share for the year ended December 31, 2002.

### **Summary of Quarterly Results**

The following is selected data for the years ending December 31, 2003 and 2002.

Financial Data (\$)	2003					2002				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Revenue	92,040	32,282	47,980	(573)	12,351	50,150	419	23,408	426	25,897
Royalties	(21,015)	(13,184)	(36,682)	29,421	(570)	(8,015)	(1,924)	(3,013)	213	(3,291)
Net Revenue	71,025	19,098	11,298	28,848	11,781	42,135	(1,505)	20,395	639	22,606
Expenses										
Operating	22,104	15,321	4,035	(740)	3,488	13,052	2,177	7,085	(1,321)	5,111
General and Administration	338,127	114,398	79,965	108,650	35,114	299,289	165,869	3,099	111,333	18,988
Depletion and Site Restoration	42,670	8,170	34,500	0	0	21,911	14,461	0	3,068	4,382
	402,901	137,889	118,500	107,909	38,602	334,252	182,507	10,184	113,080	28,481
Operating loss	(331,876)	(118,791)	(107,202)	(79,061)	(26,821)	(292,117)	(184,012)	10,211	(112,441)	(5,875)
Gain on disposal of assets	0	0	0	0	0	68,302	68,302	0	0	0
Loss from continuing operations and net loss	(331,876)	(118,881)	(107,202)	(79,061)	(26,821)	(223,815)	(115,710)	10,211	(112,441)	(5,875)
EPS basic and diluted	(0.103)	(0.030)	(0.036)	(0.03)	(0.009)	(0.078)	(0.040)	0.004	(0.039)	(0.002)
No. of shares outstanding ('000s)	3959	3959	2959	2959	2959	2959	2866	2866	2866	2866

<b>Annual Production &amp; Netback Summary</b>	<b>2003</b>	<b>2002</b>
<b>Production Volumes</b>		
Oil and NGL (bbl)	1,436	977
Gas (mcf)	6,764	4,312
BOE (6:1) per day	7	5
<b>Product Prices</b>		
Oil price per barrel	\$32.58	\$31.50
Gas price per mcf	\$6.69	\$10.00
NGL price per barrel	\$32.99	\$26.24
<b>Netbacks (\$/BOE)</b>		
Revenue	\$35.91	\$29.59
Royalties	\$8.18	\$4.73
Operating expenses	\$8.50	\$7.70
Operating Netbacks (\$/BOE)	\$19.23	\$17.16
G & A (\$/BOE)	\$131.56	\$176.50

### **Liquidity and Capital Resources**

Old Arapahoe had insignificant revenues in the past resulting in working capital deficiency of \$(243,073) at December 31, 2003, compared to a deficiency of \$(134,242) at December 31, 2002. Capital expenditures in 2003 amounted to \$27,589 compared to proceeds received from the sale of capital assets of \$75,356 and marketable securities of \$102,088 in 2002.

<b>Capital Expenditures &amp; Funding (\$)</b>	<b>2003</b>	<b>2002</b>
Petroleum & natural gas property expenditures	(27,589)	-
Proceeds on disposal of petroleum and natural gas properties	-	75,356
Proceeds from disposal of marketable securities	-	102,088
Net Capital Expenditures	(27,589)	177,444
Adjusted Cash flow from operations	(231,206)	(270,206)
Change in cash balance	(9,429)	7,284
Issue of capital stock for cash	150,000	-
Change in working capital	99,366	100,046
Total Investing Activities	(27,589)	177,444

### **Financing Activities**

During 2003, Old Arapahoe raised \$150,000 of equity through the issuance of 1,000,000 Old Arapahoe Shares priced at \$0.15 per share. The funding was primarily used for fees associated with the Arrangement. As part of the business transactions, on February 6, 2004 a total of \$2,555,775 in gross proceeds (\$1,846,620 being for flow-through shares and \$709,155 for commons shares) was raised resulting in the issuance of 3,357,492 flow through shares and 1,289,373 common shares both priced at \$0.55 each. A total of 2,098,432 warrants were issued entitling the holder to acquire one additional common share at a price of \$0.80 each for a period of one year.

### **Investing Activities**

Capital spending was \$27,589 for 2003, compared to the disposal and gain on sale of assets of \$75,356 in 2002.

### **Related Parties Transactions**

The directors have provided certain consulting services. The cost of such services was \$121,000 (2002 \$47,384) and is included in general and administrative expenses. Old Arapahoe rented office space at the going rate from a company related by a common officer and a director on a month-to-month basis. At December 31, 2003, \$80,096 (2002-\$47,384) was payable to directors and companies related by virtue of common officers and a director. All charges are in the normal course of conducting business. For 2004, senior management personnel have agreed to defer receiving payment for their services until such time as the Issuer has revenues to sustain the same.

### **Changes in Accounting Policy**

#### *Stock Based Compensation*

Effective January 1, 2003, Old Arapahoe chose to prospectively adopt the fair value method of accounting for employees' and directors' stock options. The fair value of options granted is determined using an option pricing model and the resulting value is recognized over the vesting period of the options. Compensation cost of \$58,000 was recorded in 2003 as a result of this accounting change.

#### *Asset Retirement Obligations*

Effective January 1, 2004, Old Arapahoe was required to retroactively adopt a new Canadian accounting standard for asset retirement obligations. The standard requires that the fair value of an asset retirement obligation be recognized when a reasonable estimate of the fair value can be made. The present value of the obligation is capitalized as part of the carrying amount of the related asset. This change in accounting is not expected to have a material effect on Old Arapahoe's financial statements.

#### *Full Cost Accounting*

Effective January 1, 2004, Old Arapahoe was required to adopt the new Canadian Accounting Guideline #16, "Oil and Gas Accounting Full Cost". The guideline modifies how the ceiling test is performed by requiring that a cost center be tested for recoverability using undiscounted future cash flows determined using expected prices applied to Proved reserves. When the carrying amount of a cost center is not recoverable, the cost center is written down to the fair value of Proved reserves and Probable reserves plus the unimpaired cost of unproved property that does not contain Probable reserves. This revised ceiling test would not have resulted in an impairment write-down as at December 31, 2003.

## **DESCRIPTION OF THE SECURITIES DISTRIBUTED**

The Issuer is offering for sale through the Agent, Units and FT Shares.

### **Units**

Each Unit is comprised of one Common Share and one-half of one Warrant.

### **Common Shares**

The Issuer is authorized to issue an unlimited number of shares designated as common shares without par value, an unlimited number of shares designated as non-voting shares without par value, and an unlimited number of shares designated as preferred shares without par value, of which 9,813,714 Common Shares, no non-voting shares and no preferred shares are issued and outstanding as at the date of this Prospectus. Except for meetings at which only holders of another specified class or series of shares of the Issuer are

entitled to vote separately as a class or series, each holder of a Common Share is entitled to receive notice of, to attend and to vote at all meetings of the shareholders of the Issuer. Each holder of Common Shares is entitled to one vote for each Common Share held. Subject to the rights, privileges and conditions attached to any preferred share of the Issuer, the directors may from time to time declare a dividend, and the Issuer shall pay thereon out of money of the Issuer properly applicable to the payment of the dividend, a limited dividend payable to the holders of the Common Shares or the non-voting shares to the exclusion of the holders of the remaining class of shares, or a general dividend payable to the holders of both the Common Shares and the non-voting shares. Subject to the rights, privileges, restrictions and conditions attached to any preferred shares of the Issuer in the event of liquidation, dissolution or winding-up of the Issuer or upon any distribution of the assets of the Issuer among its shareholders being made (other than by way of dividend out of money properly applicable to the payment of dividends) the holders of each of the Common Shares and the non-voting shares shall be entitled to share equally.

The FT Shares have the same attributes as the Common Shares and will qualify as “flow-through shares” as defined in the Tax Act.

### **Warrants**

Each whole Warrant will entitle the holder to purchase one Common Share for a period of 12 months following the Initial Closing Date at a price of \$◆ each during the first 6 months following the Initial Closing Date and at a price of \$◆ each thereafter. The Warrants are transferable.

The Warrants will be governed by a warrant indenture to be entered into before the Initial Closing of this Offering (the “Warrant Indenture”) between the Issuer and Computershare Trust Company of Canada as trustee (the “Trustee”). The Issuer has designated the Trustee, in its Vancouver and Calgary offices, as transfer agent for the Warrants where such Warrants can be surrendered for their exercise or exchange.

Certificates for the Warrants will be issued on Closing.

The Warrant Indenture will provide that, in the event of any change, reclassification or modification of the Common Shares, or in the event of a merger of the Issuer with another corporation or the transfer of nearly all of its assets, a pro-rata adjustment will be made to the number and type of securities that will be issued upon the exercise of the Warrants.

No fraction of a Common Share will be issued upon the exercise of a Warrant. Holders of Warrants are not entitled to any voting rights or other rights to which holders of Common Shares are entitled.

### **CONSOLIDATED CAPITALIZATION**

The following table sets forth the changes in the capitalization of the Issuer since its financial year ended December 31, 2003:

<b><u>Date Issued</u></b>	<b><u>Number of Common Shares</u></b>	<b><u>\$</u></b>
Balance as at December 31, 2003	3,958,691	\$10,918,692
Elimination of Old Arapahoe Shares pursuant to the Amalgamation	(3,958,691)	
Common Shares issued by the Issuer to Old Arapahoe shareholders in exchange for 3,958,691 Old Arapahoe Shares <sup>(1)</sup>	1,319,563	
<hr/>		
Balance on February 6, 2004 after the 3:1 (Old Arapahoe:Issuer) share exchange	1,319,563	
Common Shares issued by the Issuer to Crazy Horse shareholders in exchange for their existing Crazy Horse Shares <sup>(1)</sup>	4,216,667	
Common Shares issued pursuant to a private placement offering	839,373	\$461,655
Flow-through Common Shares issued pursuant to a private placement offering	3,357,492	\$1,846,621
Common Shares issued for settlement of indebtedness	80,619	\$48,371
<hr/>		
Balance as at November 26, 2004	9,813,714	\$1,598,655

**Note:**

- (1) On February 6, 2004, the business transactions contemplated by the Arrangement Agreement were concluded resulting in the reverse takeover of Old Arapahoe. Under the Arrangement Agreement, existing Old Arapahoe securityholders exchanged three Old Arapahoe Shares for one Common Share of the Issuer and existing Crazy Horse securityholders exchanged one Crazy Horse Share for one Common Share of the Issuer.

The following table sets out the share and loan capital of the Issuer, on a consolidated basis.

<b>Designation of Security</b>	<b>Amount Authorized</b>	<b>Amount outstanding as at December 31, 2003 <sup>(1)(3)</sup></b>	<b>Amount outstanding as at June 30, 2004 (unaudited) <sup>(3)</sup></b>	<b>Amount outstanding upon completion of the Offering <sup>(2)(3)(4)(5)</sup></b>	<b>Amount outstanding upon completion of the Offering and the Over-Allotment <sup>(2)(3)(4)(6)</sup></b>
Common Shares	Unlimited	3,958,691 \$10,918,692	9,813,714 \$1,598,655	◆ \$4,749,516	◆ \$5,212,106
Warrants	5,131,767 to ◆	1,000,000	2,881,767	◆	◆
Long Term Debt	Nil	Nil	Nil	Nil	Nil

**Notes:**

- (1) Derived from the audited consolidated financial statements of Old Arapahoe as at December 31, 2003 and 2002.
- (2) Reflects the cost of the Offering and assumes the Agent's Commission is 7.5% of the gross proceeds of the Offering. Excluding Common Shares and Warrants issuable (a) upon exercise by the Agent of the Agent's Option and (b) upon exercise of the Compensation Option.
- (3) Excluding FT Shares and/or Common Shares and Warrants issuable (a) upon exercise of the Over-Allotment Option, (b) upon exercise by the Agent of the Agent's Option (c) upon exercise of the Compensation Option.

- (4) Excluding proceeds, if any, raised (a) pursuant to the exercise of the Over-Allotment Option, (b) pursuant to the exercise by the Agent of the Agent's Option, and (c) upon exercise of the Compensation Option.
- (5) Assumes ♦ Units are sold for gross proceeds of \$1,000,000 and ♦ FT Shares are sold for gross proceeds of \$2,500,000.
- (6) Assumes Over-Allotment Option is exercised into ♦ Units and ♦ FT Shares for gross proceeds of \$500,000.

## OPTIONS TO PURCHASE SECURITIES

### Stock Options

The Issuer has adopted the Plan approved by the shareholders of the Issuer at the annual general and special meeting held on June 14, 2004, pursuant to which it may grant incentive stock options to directors, officers, employees and consultants of the Issuer or any affiliate thereof. The Plan meets Exchange requirements.

The purpose of the Plan is to offer to directors, officers, employees and consultants of Issuer and its affiliates the opportunity to acquire a proprietary interest in the Issuer, thereby providing an incentive to such persons to promote the best interests of the Issuer and to provide the Issuer with the ability to attract qualified persons as directors, officers and employees.

The Plan provides that the aggregate number of Common Shares reserved for issuance thereunder is equal to 10% of the issued and outstanding Common Shares of the Issuer, from time to time. The Plan is administered by the Issuer's directors. Options issued pursuant to the Plan will have an exercise price determined by the directors of the Issuer provided that the exercise price shall not be less than the price permitted by the Exchange.

The Plan includes the following provisions:

- (a) options are non-assignable and non-transferable;
- (b) the term of an option cannot exceed five years from the date of grant;
- (c) no more than 5% of the issued Common Shares may be granted to any one individual in any 12 month period without the consent of the Exchange;
- (d) no more than 2% of the issued Common Shares may be granted to any one consultant in any 12 month period without the consent of the Exchange;
- (e) no more than an aggregate of 2% of the issued Common Shares may be granted to employees conducting investor relations activities in any 12 month period without the consent of the Exchange;
- (f) the period in which an optionee's heirs or administrators can exercise any portion of its outstanding options must not exceed one year from the optionee's death;
- (g) disinterested shareholder approval will be obtained for any reduction in the exercise price if the optionee is an insider of the Issuer at the time of the proposed amendment; and
- (h) for stock options granted to employees, consultants or management company employees, the Issuer represents that the proposed optionee is a bona fide employee, consultant or management company employee, as the case may be.

As at the date of this Prospectus, the Issuer has granted the following stock options pursuant to the Plan entitling the holders thereof to acquire an aggregate of 929,014 Common Shares, subject to all necessary regulatory approvals:

Optionee	Number of Common Shares Under Option	Exercise Price	Date of Grant	Expiry Date	Market Value on Date of Grant	Market Value as at 26, 2004
Executive Officers (includes Executive Officers who are also Directors) (One)	100,000	\$ 0.55	Feb. 6, 2004	Feb 6, 2009	\$ 0.60 <sup>(2)</sup>	\$ 0.23
Directors and past directors (excludes directors who are Executive Officers) (Three)	50,000	\$ 0.55	Feb. 6, 2004 <sup>(1)</sup>	Dec. 17, 2004	\$ 0.60 <sup>(2)</sup>	\$ 0.23
	65,834	\$ 0.75	Feb. 6, 2004 <sup>(1)</sup>	July 2, 2008	\$ 0.60 <sup>(2)</sup>	
	507,347	\$ 0.55	Feb. 6, 2004	Feb 6, 2009	\$ 0.60 <sup>(2)</sup>	
	50,000	\$0.55	Mar. 4, 2004	Mar. 4, 2009	\$ 0.55	
Consultants	30,833	\$ 0.75	Feb. 6, 2004 <sup>(1)</sup>	July 2, 2008	\$ 0.60 <sup>(2)</sup>	\$ 0.23
	125,000	\$ 0.55	Mar. 4, 2004	Mar. 4, 2009	\$ 0.55	

**Notes:**

- (1) Pursuant to the Arrangement, these options were granted in exchange for stock options that were previously granted to these individuals by Old Arapahoe and by Crazy Horse (the "Old Options"). These options expire on the expiry date set for the Old Options.
- (2) Trading price as at February 24, 2004, the date on which the Issuer's Common Shares first traded on the Exchange after its February 6, 2004 listing date.

**Warrants**

As at November 26, 2004, the Issuer has share purchase warrants outstanding, entitling the holders thereof to acquire an aggregate of 2,881,767 Common Shares, subject to all necessary regulatory approvals. The following table discloses the share purchase warrants held by executive officers, directors (present and past), employees and consultants of the Issuer and the Subsidiary.

Holder	Number of Common Shares Issuable if Warrant is fully exercised	Exercise Price	Date of Issuance	Expiry Date	Market Value on Date of Issuance <sup>(1)</sup>	Market Value as at 26, 2004
Executive Officers (includes Executive Officers who are also Directors) (One)	55,556	\$0.60	Feb. 06/04	March 17/05	\$ 0.60	\$ 0.23
	45,500	\$0.70	Feb. 06/04	Feb. 6/05	\$ 0.60	
Directors and past directors (excludes directors who are Executive Officers) (Two)	118,891	\$0.60	Feb. 06/04	March 17/05	\$ 0.60	\$ 0.23
	72,726	\$0.70	Feb. 06/04	Feb. 6/05	\$ 0.60	

Holder	Number of Common Shares Issuable if Warrant is fully exercised	Exercise Price	Date of Issuance	Expiry Date	Market Value on Date of Issuance <sup>(1)</sup>	Market Value as at 26, 2004
Consultants	30,000	\$0.70	Feb. 06/04	Feb. 6/05	\$ 0.60	\$ 0.23
	20,000	\$0.80	Feb. 06/04	Feb. 6/05	\$ 0.60	\$ 0.23

**Note:**

- (1) Trading price as at February 24, 2004, the date on which the Issuer's Common Shares first traded on the Exchange after its February 6, 2004 listing date.

**Compensation Options**

As part of the business transactions contemplated by the Arrangement Agreement, Crazy Horse conducted a brokered private placement offering of 3,000 convertible promissory notes (the "Notes") for gross proceeds of \$3,011,250. Each Note was in the principal amount of \$1,003.75 and was exchanged for a promissory note of the Issuer pursuant to the Amalgamation (the "New Notes"). Each New Note was converted into 365 units of the Issuer for a total of 839,373 units at a deemed price of \$2.75 each. Each unit was comprised of four flow-through common shares, one common share, and five (5) halves of a share purchase warrant. By way of an agency agreement dated December 3, 2003, as amended January 5, 2004, Crazy Horse appointed First Associates to act as its exclusive agent in respect of this financing. Closing of this private placement occurred on February 6, 2004, immediately prior to completion of the Amalgamation. Pursuant to the terms of the agency agreement governing this private placement, Crazy Horse issued to First Associates compensation options entitling the holders thereof to purchase 125,906 units (or 15% of the number of units sold pursuant to the brokered private placement offering) at the same price and on the same terms as the units sold pursuant to the brokered private placement offering (each a "Compensation Option"). Under the terms of the Arrangement Agreement, existing Crazy Horse securityholders exchanged one Crazy Horse security for one equivalent security of the Issuer. As a result, the existing Compensation Option holders are entitled to purchase 125,906 units of the Issuer at a price of \$2.75 each until February 6, 2005. Each of these units will consist of five Common Shares and five (5) halves of a share purchase warrant. Each whole share purchase warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.80 each until February 6, 2005. A total of 629,530 Common Shares and 251,812 whole share purchase warrants entitling the holder to purchase 251,812 Common Shares are issuable if the Compensation Options are exercised in full. In the event the Common Shares trade for 20 consecutive trading days at a price of not less than \$1.20 each, the Issuer may accelerate the exercise period of the share purchase warrants to not less than 30 days by providing the share purchase warrant holders with written notice of such reduction in the exercise period. See "Prior Sales" on page 53.

There is no assurances that the options, warrants or other rights described above will be exercised in whole or in part.

**PRIOR SALES**

**Prior Sales of Securities**

The Issuer has issued the following securities during the 12 months prior to the date of this Prospectus:

<b>Date of Issuance</b>	<b>Number of Shares</b>	<b>Number of Warrants</b>	<b>Reason for Issuance</b>
February 6, 2004	1,319,563 Common Shares	333,334 <sup>(1)</sup>	These securities were issued by the Issuer in exchange for the existing securities held by Old Arapahoe securityholders pursuant to the Arrangement Agreement.
February 6, 2004	4,216,667 Common Shares	450,000 <sup>(2)</sup>	These securities were issued by the Issuer in exchange for the existing securities held by Crazy Horse securityholders pursuant to the Arrangement Agreement.
February 6, 2004	3,357,492 flow-through shares; 839,373 Common Shares	2,098,433 <sup>(3)</sup>	These securities were issued by the Issuer in exchange for the existing securities issued by Crazy Horse in accordance with a brokered private placement offering of promissory notes convertible into 839,373 units at a deemed price of \$2.75 each as part of the Arrangement Agreement. Each unit was comprised of four flow-through common shares, one common share, and five (5) halves of a share purchase warrant.
February 6, 2004	80,619 Common Shares	0	Issued for settlement of indebtedness.
<b>Totals:</b>	<b>9,813,714</b> <sup>(4)</sup>	<b>2,881,767</b> <sup>(5)</sup>	

**Notes:**

- (1) Each warrant entitles the holder thereof to acquire one Common Share of the Issuer at a price of \$0.60 each until March 17, 2005.
- (2) Each warrant entitles the holder thereof to acquire one Common Share of the Issuer at a price of \$0.70 each until February 6, 2005.
- (3) Each warrant entitles the holder thereof to acquire one Common Share of the Issuer at a price of \$0.80 each until February 6, 2005.
- (4) 2,825,000 of these Common Shares are held in escrow and will be released in accordance with the Exchange's value security release schedule. See "Escrowed Securities – February 6, 2004 Escrow Agreement" on page 55.
- (5) Does not include the Compensation Option issued to First Associates.

**Stock Exchange Price**

The issued and outstanding Common Shares of the Issuer have been listed on the Exchange under the trading symbol "AAO" ("APR" prior to February 6, 2004). The following tables set forth the reported high and low sale prices (which are not necessarily the closing prices) and the trading volumes for the Issuer's Common Shares for the periods indicated as reported by sources the Issuer believes to be reliable. Historical trading information are those of Old Arapahoe, the predecessor entity that carried on the business of the Issuer, in respect of those periods ended prior to the February 6, 2004.

<b>Month Ended</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume (#)</b>
October	\$ 0.28	\$ 0.21	67,474
September	\$ 0.28	\$ 0.21	116,346
August	\$ 0.35	\$ 0.225	10,815
July	\$ 0.40	\$ 0.225	12,625

Quarter Ended	High (\$)	Low (\$)	Volume (#)
June 30, 2004	\$ 0.55	\$ 0.315	94,812
March 31, 2004 <sup>(1)</sup>	\$ 0.60	\$ 0.35	195,772
December 31, 2003 <sup>(1)</sup>	\$0.30	\$0.20	88,685
September 30, 2003	\$ 0.36	\$ 0.15	172,183
April 15 – June 30, 2003 <sup>(2)</sup>	\$ 0.28	\$ 0.12	35,525
April 1 – April 14, 2003 <sup>(2)</sup>	\$ 0.02	\$ 0.01	235,000
March 31, 2003	\$ 0.05	\$ 0.02	913,934
December 31, 2002	\$ 0.04	\$ 0.01	442,338
September 30, 2002	\$ 0.03	\$ 0.01	349,000

**Notes:**

- (1) Trading in Old Arapahoe Shares was halted on October 3, 2003 pending completion of the business transactions contemplated by the Arrangement Agreement. Trading in the Issuer's Common Shares commenced trading on February 6, 2004.
- (2) On April 15, 2003, the Old Arapahoe Shares began trading on a consolidated basis following a 10 for 1 consolidation filed on April 11, 2003.

**ESCROWED SECURITIES**

The following table sets forth details of the securities of the Issuer held in escrow as at the date of this Prospectus, pursuant to the terms of the escrow agreements described below:

Designation of Class	Number of Securities held in Escrow	Percentage of Class
Common Shares	2,845,472	28.99%

**February 6, 2004 Escrow Agreement**

The release of 2,825,000 of the Common Shares held in escrow is subject to “value escrow” restrictions, as described in the policies of the Exchange, on a pro rata basis and will occur in tranches over a three year period. Of the 3,766,667 Escrow Shares originally subject to the Escrow Agreement, 376,667 (or 10%) of the Escrow Shares were released on February 6, 2004, the date of issuance of the final Exchange bulletin announcing completion of the business transactions contemplated by the Arrangement Agreement (the “Final Exchange Bulletin”), 565,000 (or 15%) were released on August 6, 2004, and 15% of the Escrow Shares subject to the value escrow will be released on each of the 12, 18, 24, 30 and 36 month anniversaries of the Final Exchange Bulletin.

In the event that the Issuer graduates from a Tier 2 issuer to a Tier 1 issuer on the Exchange, the value security release schedule set out above be accelerated to that of a Tier 1 value security escrow agreement (that is, that releases will occur over an 18 month period rather than the 36 month period set out above). Under a Tier 1 value security release schedule, 25% of the escrowed shares are released from escrow on each of the issuance of the Final Exchange Bulletin and each of the 6, 12 and 18 month anniversaries of the Final Exchange Bulletin.

Transfers within escrow to directors and senior officers, transfers to other Principals, transfers upon bankruptcy, transfers upon realization of pledged, mortgaged or charged escrow securities, and transfers to certain plans and funds are permitted, subject to the terms of the Escrow Agreement.

### October 22, 1998 Escrow Agreement

In addition to the above, the Additional Escrow Shares held indirectly by Jeffrey L. Standen will remain subject to the provisions of the Arapahoe Escrow Agreement, an agreement dated October 22, 1998 among Charger Energy Inc. (Old Arapahoe as it then was), Montreal Trust Company of Canada (Computershare as it then was) and Canaccord Capital Corporation ITF Jeffrey L. Standen prepared in accordance with Form 16 of the *Securities Act* (Alberta). The Arapahoe Escrow Agreement was originally executed in conjunction with Old Arapahoe's initial public offering and the requirements (as they then were) of the *Securities Act* (Alberta). Of the 722,540 Old Arapahoe Shares originally subject to the Arapahoe Escrow Agreement, a total of 108,381 Old Arapahoe Shares (15%) were released on March 9, 1999 upon satisfactory completion of the distribution of common shares issued pursuant to Old Arapahoe's initial public offering prospectus. Sixty percent (60%) or 433,524 Old Arapahoe Shares originally escrowed under the terms of the Arapahoe Escrow Agreement (now 14,451 Common Shares) were eligible for release at the end of the second, third, fourth and fifth years from the date of the initial public offering prospectus. Twenty-five percent (25%) or 180,635 Old Arapahoe Shares (now 6,021 Common Shares) are releasable, upon application to the Executive Director of the Alberta Securities Commission, if the Issuer satisfies the Executive Director that the work program disclosed in Old Arapahoe's initial public offering prospectus has been completed. The Additional Escrow Shares will be cancelled in the event they have not been released from escrow by October 22, 2008.

### PRINCIPAL SHAREHOLDERS AND SELLING SECURITY HOLDERS

The following table sets forth, to the knowledge of the Issuer, details of each principal shareholder of the Issuer as of November 26, 2004 of those persons or companies who beneficially own, directly or indirectly, or exercise control or direction over, more than 10% of the outstanding Common Shares of the Issuer:

Name	Type of Ownership	No. of Common Shares Held	% of Common Shares Held Before Offering	% of Common Shares Held After Offering <sup>(1)(2)(3)</sup>	% of Common Shares Held After Offering and Over-Allotment <sup>(1)(6)</sup>
H. Barry Hemsworth <sup>(4)</sup>	Direct	1,151,055 <sup>(5)</sup>	11.73%	◆%	◆%

**Notes:**

- (1) Excluding Common Shares issuable upon exercise by the Agent of the Agent's Option.
- (2) Excluding Common Shares issuable upon the exercise of the Over-Allotment Option by the Agent.
- (3) Assumes ◆ FT Shares (\$2,500,000) and ◆ Units (\$1,000,000) are sold under the Offering.
- (4) On a diluted basis, 2,881,767 Common Shares will be issued on exercise of all of the Issuer's outstanding share purchase warrants, 881,342 Common Shares will be issued on exercise of the Compensation Options and on exercise of the warrants comprising a portion of the Compensation Options, and 929,014 Common Shares will be issued on exercise of all of the Issuer's outstanding stock options. Mr. Hemsworth also holds a stock option entitling him to purchase up to 100,000 Common Shares at a price of \$0.55 each, a share purchase warrant entitling him to purchase 55,556 Common Shares at a price of \$0.60 each, and a share purchase warrant entitling him to purchase 45,500 Common Shares at a price of \$0.70 each. Assuming the exercise of all of the Issuer's outstanding options and share purchase warrants, Mr. Hemsworth will hold 1,352,111 Common Shares (9.32%) before the Offering. Assuming the exercise of all of the Issuer's outstanding options and share purchase warrants, the Agent's Option and the share purchase warrants comprising a portion of the Agent's Option, and the Warrants comprising a portion of

the Units offered under this Prospectus, Mr. Hemsworth will hold ♦% of the Common Shares after completing the Offering (excluding any securities issuable on exercise of the Over-Allotment Option), and ♦% of the Common Shares after completing the Offering and the exercise of the Over-Allotment Option in its entirety. The foregoing assumes that ♦ FT Shares and ♦ Units are sold under the Offering and that the Over-Allotment Option is exercised into ♦ FT Shares and ♦ Units.

- (5) 787,500 of these Common Shares are held in escrow pursuant to the terms of the Escrow Agreement.
- (6) Assumes the Over-Allotment Option is exercised into ♦ FT Shares and ♦ Units.

## DIRECTORS AND OFFICERS

### Name, Address, and Security Holdings

The following table sets out the name and municipality of residence of the directors and executive officers of the Issuer, their positions and offices held with the Issuer, their principal occupations during the past five years and their shareholding. Each director's term of office will expire at the next annual general meeting of the Issuer's shareholders or until his or her successor is duly elected or appointed in accordance with the Alberta Act and the Issuer's Articles.

Name and Municipality of Residence	Position with the Issuer	Principal Occupation for Past 5 years	Period as a Director	Security-holdings
H. Barry Hemsworth Vancouver, British Columbia	President, CEO, CFO and a Director	Barrister and solicitor since 1971; Director of numerous public companies.	Since February 6, 2004 <sup>(3)</sup>	1,151,055 Common Shares; share purchase warrants to acquire 101,056 Common Shares; stock option to acquire 100,000 Common Shares
Jeffrey L. Standen <sup>(1)</sup> Calgary, Alberta	Director	Director of the Issuer; President, CEO and a director of Extreme since February 1997; President, CEO and a director of Old Arapahoe from April 1997 to February 6, 2004; President, Kinghorn Resources Ltd. since 1977.	Since February 6, 2004 <sup>(2)</sup>	139,362 Common Shares; share purchase warrants to acquire 137,072 Common Shares; stock options to acquire 549,014 Common Shares
Ross E. Moulton <sup>(1)</sup> Calgary, Alberta	Vice President, Exploration and a Director	Professional geologist with over 30 years of oil and gas industry experience, both domestically and internationally.	Since September 20, 2004	9,090 Common Shares; share purchase warrant to acquire 9,090 Common Shares; stock options to acquire 74,167 Common Shares

Name and Municipality of Residence	Position with the Issuer	Principal Occupation for Past 5 years	Period as a Director	Security-holdings
Yvonne A. Petkovic <sup>(1)</sup> Vancouver, British Columbia	Director	Self-employed management consultant with Yvonne A. Petkovic Management Consultant Services since 2001; Former Vice President of Corporate Administration & Communications, Intracoastal System Engineering Corporation, 1999 to 2002.	Since July 6, 2004	Nil

**Notes:**

- (1) Member of the Issuer’s audit committee.
- (2) Director and Officer of Old Arapahoe, one of the Issuer’s predecessor entities, since April 1992.
- (3) Director and Officer of Crazy Horse, one of the Issuer’s predecessor entities, since April 2001.

Pursuant to the provisions of the Alberta Act, the Issuer is required to have an audit committee. The audit committee of the Issuer currently consists of Jeffrey L. Standen, H. Barry Hemsworth and Yvonne A. Petkovic. The general function of the audit committee is to review the overall audit plan and the Issuer’s system of internal controls, to review the results of the external audit, and to resolve any potential dispute with the Issuer’s auditors. The Issuer does not have an executive committee.

The Issuer established a reserve committee effective July 6, 2004 which currently consists of Ross E. Moulton, H. Barry Hemsworth and Yvonne A. Petkovic. The Issuer also established a compensation committee effective July 6, 2004 which currently consists of Ross E. Moulton and Yvonne A. Petkovic.

All directors and executive officers of the Issuer as a group beneficially own, directly or indirectly, or exercise control or direction over an aggregate of 1,299,507 Common Shares representing 13.24% of the outstanding Common Shares prior to completion of the Offering, and which will represent ♦% of the then outstanding Common Shares upon completion of the entire Offering, and ♦% of the then outstanding Common Shares upon completion of the entire Offering and the exercise of the Over-Allotment Option.

As of the date hereof, the directors and executive officers also hold stock options and share purchase warrants to acquire an aggregate of an additional 723,181 Common Shares and 247,218 Common Shares, respectively.

**Management**

*General*

H. Barry Hemsworth, age 64, will devote approximately 15% of his time to the affairs of the Issuer. Jeffrey L. Standen, age 50, is a non-executive director whose services are provided to the Issuer on an as-needed basis. Ross E. Moulton, age 58, will devote approximately 50% of his time to the affairs of the Issuer.

A description of each of the members of the Issuer’s management team (including details with regard to their principal occupations for the last five years) is as follows:

**H. Barry Hemsworth**

*President, CEO, CFO and a Director*

Mr. Hemsworth has been a practicing securities lawyer in Vancouver for over 30 years and has been a director and officer of numerous public companies. He has been a director of Vault Minerals Inc. (TSXV) since February 2000 and the President, a director of Exchequer Resource Corp. (NEX) since June 1991, and a director of Tiger Pacific Mining Corp. (NEX) since June 2004. Mr. Hemsworth served as a director of International Dunlap Resources Inc. (VSE) from June 1998 to October 1999 and as a director of Mirage Resources Corp. (VSE) from June 1993 to June 1994. Mr. Hemsworth received both his Bachelor of Commerce and his Bachelor of Laws from the University of British Columbia.

**Jeffrey L. Standen**

*Director*

Mr. Standen will provide oil and gas consulting services to the Issuer in addition to performing his duties as a director of the Issuer. Mr. Standen has been the President, Chief Executive Officer and a director of Extreme, a public oil and gas exploration and development company listed on the Exchange, since February 1997 and the President of Kinghorn Resources Ltd., a private oil and gas consulting company, since 1977. He has been a director of Coyotenet Communication from September 11, 2003 until November 9, 2004. He served as a director of Cobra Ventures Ltd. from May 24, 2004 to August 31, 2004, the President, Chief Executive Officer and a director of Old Arapahoe (TSXV) from April 1997 to February 6, 2004, the President of Kinghorn Petroleum Corporation (TSXV) from September 1988 to February 1993, a director of Centurion Energy International Inc. (a public company listed on the TSE) from May 1997 to May 1998, the President and Chief Executive Officer of Canadian Leader Energy Inc. (now Centurion Energy International, an international oil and gas exploration and development company) (TSE) from June 1993 to April 1997, and the President, CEO and a director of Camrex Resources Inc. (a public oil and gas exploration company listed on the Alberta Stock Exchange) from January 1992 to May 1993. Mr. Standen is a Petroleum Landman with in excess of 26 years oil and gas industry experience in Western Canada and internationally. He graduated from the University of Alberta in 1976 with a Bachelor of Arts degree majoring in Economics and Political Science.

**Ross E. Moulton, B.Sc., P. Geol.**

*Vice President, Exploration and a Director*

Mr. Moulton is a professional petroleum geologist with over 30 years of oil and gas industry experience both domestically and internationally. He was formally a geological consultant on an as-needed basis for Mart Resources Inc., Centurion Energy International Inc., Extreme, Murphy Oil Corporation, and Devon Canada Corporation (formerly Anderson Exploration Ltd.) During the past 10 years, he was a geological consultant for Abacan Resource Corporation on various operations in Nigeria, Benin, Cameroon (offshore) and Sudan, a geological consultant for Mart Resources Inc. on acreage acquisitions in the Democratic Republic of Congo, the Republic of the Congo, Cabinda-Angola and Syria, a geological consultant for Mart Resources Inc. on the Tsuu T'ina First Nations Cretaceous test well, a geological consultant for Centurion Energy International on its production and exploration operations in Tunisia and Egypt (Nile Delta) as well as acreage acquisition evaluations in Argentina and Colombia, and a geological consultant for Young West Oil and Gas on Devonian and Mississippian projects on the Tsuu T'Ina (Sarcee) First Nations land resulting in two wells being drilled on the reserve. Prior to that, Mr. Moulton spent 17 years with Phillips Petroleum Resources Ltd., Phillips Petroleum Company, and Phillips Petroleum Company Indonesia.

### **Cease Trade Orders or Bankruptcies**

Other than as disclosed below, no director, officer or controlling shareholder of the Issuer has, within the past ten years, been a director or officer of any other issuer that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions under Canadian securities legislation for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

A cease trade order was issued by the British Columbia Superintendent of Brokers against Jeffrey L. Standen for a period of three months from February 22, 1995 to May 24, 1995 for failure to file insider reports in a timely manner.

### **Personal Bankruptcies**

No director, officer or controlling shareholder of the Issuer or a personal holding company of any such person has, within the past ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver manager or trustee appointed to hold such person's assets.

### **Penalties or Sanctions**

Since June 1991, Mr. Hemsworth has served as President and a director of Exchequer Resource Corp., formerly Blackline Oil Corporation ("Blackline"), a company listed on the NEX board of the Exchange. In July 1999, Blackline entered into an Agreed Statement of Facts and Undertaking with the Executive Director of the Alberta Securities Commission with regards to the dissemination of a magazine article by Blackline which was deemed to be made while engaging in investor relations activities or with the intention of effecting a trade in a security, contrary to subsection 50(1)(b) (as it then was) of the *Securities Act* (Alberta). The statement of facts indicated that Blackline had cooperated fully with staff of the Alberta Securities Commission, had refrained from further distributing the magazine article at issue, and had undertaken to pay the sum of \$1,000 to the Alberta Securities Commission to cover the costs of the investigation and \$4,000 to the Investor Education Fund.

No other director, officer or controlling shareholder of the Issuer has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

Certain directors and officers of the Issuer are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In particular, Jeffrey L. Standen, a director of the Issuer, is the President, Chief Executive Officer and a director of Extreme, a party to the Sarcee Farm-Out Agreement, the Grouard Farm-Out Agreement, and the Hotchkiss Farm-Out Agreement. Pursuant to a letter agreement with Extreme dated March 1, 2004, the Issuer pays an aggregate of \$4,500 each month to Extreme for the rental of office space (as to \$1,500 each month) and for accounting, general office administration services, supplies, etc. (as to \$3,000 each month). Ross Moulton, the Vice President,

Exploration and a director of the Issuer, is the Vice President Exploration of Extreme and a one-third owner (32%) of Owl Exploration Ltd. Owl Exploration Ltd. has a 3% gross overriding royalty interest on the Sarcee Project lands and on the oil and gas production therefrom. Owl provides seismic data to Extreme. The Issuer pays \$5,000 each month plus GST to a private company controlled by Mr. Moulton for geological consulting services.

In accordance with the Alberta Act, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with the Issuer are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Issuer. Certain of the directors of the Issuer have either other employment or other business or time restrictions placed on them and accordingly, these directors of the Issuer will only be able to devote part of their time to the affairs of the Issuer.

### EXECUTIVE COMPENSATION

In accordance with the provisions of applicable securities legislation, the Issuer has three "Named Executive Officers" or "NEOs", namely H. Barry Hemsworth, who has served as the chief executive officer, president and a director of the Issuer since February 6, 2004 and as the chief financial officer of the Issuer since November 9, 2004, and Jeffrey L. Standen, a director of the Issuer and the former president, chief executive officer and a director of Old Arapahoe. The following table sets forth all compensation rendered in all capacities by the Issuer in respect of the Named Executive Officers since January 1, 2001. Historical compensation are those of Old Arapahoe, the predecessor entity that carried on the business of the Issuer, in respect of those periods ended prior to the Amalgamation.

#### SUMMARY COMPENSATION TABLE

NEO Name And Principal Position	Period	Annual Compensation			Long Term Compensation			All Other Compen- sation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compen- sation (\$)	Awards		Payouts	
					Securities Under Options/ SAR's Granted <sup>(2)</sup> (#)	Shares or Units Subject to Resale Restrict- ions (\$)	LTIP Payouts (\$)	
Jeffrey L. Standen, Director (former President, CEO and a director of Old Arapahoe)	For the period from January 1, 2004 to October 31, 2004	50,000 <sup>(1)</sup>	Nil	Nil	507,347 <sup>(4)</sup>	Nil	Nil	Nil
	Year ended Dec 31/2003	60,000 <sup>(2)</sup>	Nil	Nil	41,667 <sup>(5)</sup>	Nil	Nil	Nil
	Dec 31/2002	90,000 <sup>(3)</sup>	Nil	Nil	Nil	Nil	Nil	Nil
	Dec 31/2001	7,188	Nil	Nil	Nil	Nil	Nil	Nil
H. Barry Hemsworth, President, CEO, CFO and a director <sup>(6)</sup>	For the period from February 6, 2004 to October 31, 2004	45,000 <sup>(7)</sup>	Nil	Nil	100,000 <sup>(8)</sup>	Nil	Nil	Nil

**Notes:**

- (1) Accrued but not yet paid to a private company controlled by Mr. Standen. This amount will be paid once the Issuer has positive cash flow.

- (2) Represents the amount invoiced for management services by a private company controlled by Mr. Standen. Of this amount, \$53,500 was used to purchase Old Arapahoe Shares in its September 17, 2003 private placement and \$19,500 was paid in cash.
- (3) Paid to a private company controlled by Mr. Standen.
- (4) Incentive stock option exercisable at a price of \$0.55 per Common Share until February 6, 2009.
- (5) Effective July 2, 2003 Mr. Standen was granted an incentive stock option entitling him to purchase 125,000 Old Arapahoe Shares at a price of \$0.25 each. Pursuant to the terms of the Arrangement Agreement, on February 6, 2004 this stock option was exchanged, on a 3 for 1 basis (with corresponding adjustment of the exercise price), for an incentive stock option entitling him to purchase 41,667 Common Shares at a price of \$0.75 each until July 2, 2008.
- (6) On February 6, 2004, Mr. Hemsworth was appointed the President, CEO and a director of the Issuer. On November 9, 2004, Mr. Hemsworth was appointed the CFO of the Issuer.
- (7) Accrued but not yet paid to Mr. Hemsworth. This amount will be paid once the Issuer has positive cash flow.
- (8) Incentive stock option exercisable at a price of \$0.55 per Common Share until February 6, 2009.

### Long Term Incentive Plans and Stock Appreciation Rights

The Issuer has not had and does not currently have any LTIP's in place.

### Options and Stock Appreciation Rights

The following table sets forth individual grants of stock options to the Named Executive Officers. The Issuer has no plan for any of its employees involving stock appreciation rights.

#### OPTIONS/SAR GRANTS

NEO Name	Securities Under Options/ <sup>(1)</sup> SAR's Granted <sup>(1)(2)</sup> (#)	% of Total Options/ <sup>(1)</sup> SAR's Granted to Employees <sup>(1)(2)</sup>	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options/ <sup>(1)</sup> SAR's on the Date of Grant <sup>(3)</sup> (\$/Security)	Expiration Date
Jeffrey L. Standen	41,667 <sup>(4)</sup>	59.10%	\$ 0.75	\$ 0.60	July 2, 2008
	507,347		\$ 0.55	\$ 0.60	Feb. 6, 2009
H. Barry Hemsworth	100,000	10.76%	\$ 0.55	\$ 0.60	Feb. 6, 2009

#### Notes:

- (1) Since February 6, 2004, the Issuer has granted an aggregate of 929,014 stock options to directors, officers, employees and consultants.
- (2) All of these are stock options. The Issuer has not granted and does not currently have outstanding any SAR's.
- (3) Closing price of the Common Shares on February 24, 2004, the date on which the Issuer's Common Shares first traded on the Exchange after its February 6, 2004 listing date.
- (4) Effective July 2, 2003, Mr. Standen was granted an incentive stock option entitling him to purchase 125,000 Old Arapahoe Shares at a price of \$0.25 each. Pursuant to the terms of the Arrangement Agreement, on February 6, 2004 this stock option was exchanged, on a 3 for 1 basis (with corresponding

adjustment of the exercise price), for an incentive stock option entitling him to purchase 41,667 Common Shares at a price of \$0.75 each until July 2, 2008.

The Named Executive Officers have not exercised their stock options, in full or in part, and the Issuer has not repriced the exercise price of the Named Executive Officers' stock options. The following table sets out the value of the Named Executive Officers' unexercised stock options as at November 26, 2004:

NEO Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SAR's <sup>(1)</sup> at November 26, 2004 (#) Exercisable/ Unexercisable <sup>(2)</sup>	Value of Unexercised in-the-Money Options/SAR's at November 26, 2004 (\$) Exercisable/ Unexercisable <sup>(2)</sup>
Jeffrey L. Standen	Nil	Nil	549,014	out-of-the-money
H. Barry Hemsworth	Nil	Nil	100,000	out-of-the-money

**Notes:**

- (1) All of these are stock options. The Issuer does not have any SAR's outstanding.
- (2) None of the Named Executive Officers had any unexercisable options as at November 26, 2004.

**Termination of Employment, Change in Responsibilities and Employment Contracts**

Crazy Horse entered into a consulting agreement (the "Hemsworth Agreement") with H. Barry Hemsworth ("Hemsworth") as of September 1, 2003. Pursuant to the Hemsworth Agreement, Crazy Horse agreed to retain the services of Hemsworth for a minimum fee of \$5,000 plus GST per month, during the term of the Hemsworth Agreement, payable commencing September 1, 2003. The term of the Hemsworth Agreement is five years commencing September 1, 2003, and may be extended for an additional two-year period pursuant to various conditions set out in the Hemsworth Agreement. The Hemsworth Agreement provides that in the event it is terminated by Crazy Horse during the term or the renewal term, as the case may be, other than for bankruptcy, default of Hemsworth or a change of control, Crazy Horse will pay to Hemsworth the fees that Hemsworth would have earned during the balance of the term or the renewal term, as the case may be. The Hemsworth Agreement further provides that in the event of a "change of control" (as defined in the Hemsworth Agreement) resulting in the termination of the Hemsworth Agreement, Crazy Horse shall pay Hemsworth an amount equal to three times the annual consulting fee, and grant an extension of benefit coverage for Hemsworth and his dependents for three years following the effective date of termination. Hemsworth and Crazy Horse agreed that the completion of the business transactions contemplated by the Arrangement Agreement will not trigger the change of control clauses in the Hemsworth Agreement and accordingly the Issuer is bound by the Hemsworth Agreement and the Hemsworth Agreement is currently in full force and effect. Since February 6, 2004 to September 30, 2004, a total of \$40,000 has accrued and is payable to Hemsworth pursuant to the Hemsworth Agreement. The Issuer has agreed to pay this compensation to Hemsworth once it has positive cash flow.

Effective January 1, 2002, the board of directors of Old Arapahoe approved a consulting agreement between Old Arapahoe and Kinghorn Resources Ltd. ("Kinghorn"), a private company controlled by Jeffrey L. Standen, a director of the Issuer (the "Kinghorn Agreement"). Pursuant to the Kinghorn Agreement, Old Arapahoe agreed to retain the services of Kinghorn, for a minimum fee of \$5,000 plus GST per month, during the term of the Kinghorn Agreement, payable commencing April 1, 2002. The term of the Kinghorn Agreement is for a term of five years commencing April 1, 2002, and may be extended for an additional two-year period pursuant to various conditions set out in the Kinghorn Agreement. The Kinghorn Agreement also provides that in the event that Kinghorn is terminated by Old Arapahoe during the term or the renewal term, as the case may be, of the Kinghorn Agreement, other than

for bankruptcy, default of Kinghorn or a change of control, Old Arapahoe will pay to Kinghorn the fees that Kinghorn would have earned during the balance of the term or the renewal term, as the case may be. The Kinghorn Agreement further provides that in the event of a “change of control” (as defined in the Kinghorn Agreement) resulting in the termination of the Kinghorn Agreement, Old Arapahoe shall pay Kinghorn an amount equal to two times the annual consulting fee, and grant an extension of benefit coverage for Kinghorn and dependents for two years following the effective date of termination. Old Arapahoe and Kinghorn agreed that the completion of the business transactions contemplated by the Arrangement Agreement will not trigger the change of control clauses in the Kinghorn Agreement and accordingly the Issuer is bound by the Kinghorn Agreement and the Kinghorn Agreement is currently in full force and effect. Since February 6, 2004 to September 30, 2004, a total of \$40,000 is payable to Kinghorn pursuant to the Kinghorn Agreement. This amount has accrued but has not yet been paid to Kinghorn. The Issuer has agreed to pay this compensation to Kinghorn once it has positive cash flow.

There are no other compensatory plans, contracts or arrangements where either of the Named Executive Officer is entitled to receive more than \$100,000 from the Issuer or the Subsidiary, including periodic payments or instalments, in the event of (i) the resignation, retirement or any other termination of either of the Named Executive Officer’s employment with the Issuer and the Subsidiary; (ii) a change of control of the Issuer or the Subsidiary; or (iii) a change in either of the Named Executive Officer’s responsibilities following a change of control.

No pension or retirement benefits plans have been instituted by the Issuer and none are proposed at this time.

### **Compensation of Directors**

Since February 6, 2004, the remaining directors of the Issuer were not paid any cash compensation (including salaries, directors’ fees, commissions, or bonuses) for services rendered in their capacity as directors.

Executive officers of the Issuer who also act as directors of the Issuer do not receive any additional compensation for services rendered in such capacity, other than as paid by the Issuer to such executive officers in their capacity as executive officers. See “Summary Compensation Table” above.

### **Other Compensation**

Pursuant to a letter agreement with Extreme dated March 1, 2004, the Issuer pays an aggregate of \$4,500 each month to Extreme for the rental of office space (as to \$1,500 each month) and for accounting, general office administration services, supplies, etc. (as to \$3,000 each month). Jeffrey L. Standen, a director of the Issuer, is the President, Chief Executive Officer and a director of Extreme.

Pursuant the 710311 Agreement, the Issuer agreed to retain the services of 710311 Alberta Ltd., for a minimum fee of \$5,000 plus GST per month, during the term of the 710311 Agreement, payable commencing August 1, 2004. The term of the 710311 Agreement is two years commencing August 1, 2004, and may be extended for an additional one year period pursuant to various conditions set out in the 710311 Agreement. The principal of 710311 Alberta Ltd. is Ross E. Moulton, the Vice President, Exploration and a director of the Issuer and a former director of Old Arapahoe.

Other than as set forth herein, the Issuer did not pay any additional compensation to its executive officers or directors (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full time employees) during the last completed fiscal year.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

During the last completed fiscal year, being December 31, 2003 and as at the date of this Prospectus, no director or executive officer of the Issuer or any associate of such individual was indebted to the Issuer or its Subsidiary. Over a period of time, the Subsidiary loaned to Jeffrey L. Standen, a director of the Issuer, in the amount of \$6,357. The loan was non-interest bearing and had no specific terms of repayment. The loan was repaid in full on October 5, 2004.

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During Financial Year Ended December 31, 2003	Amount Outstanding as at October 31, 2004	Financially Assisted Securities Purchases During Financial Year Ended December 31, 2003	Security for Indebtedness	Nature of Transaction in which the Indebtedness was Incurred
Jeffrey L. Standen, Director	Lender	Nil	\$ 6,357	None	None	Personal Loan

## PLAN OF DISTRIBUTION

### Agency Agreement

Pursuant to the Agency Agreement, the Agent has agreed to distribute to the public under a prospectus in the Provinces of British Columbia, Alberta and Ontario, on a “commercially reasonable efforts” basis, subject to the issuance by the Issuer, in accordance with the terms and conditions of the Agency Agreement, up to ♦ FT Shares at a price of \$♦ each and up to ♦ Units at a price of \$♦ each for aggregate gross proceeds of \$3,500,000 provided that a maximum of ♦ Units (\$1,000,000) may be issued.

In accordance with regulatory requirements, subscription funds will be held by the Agent during the 90 day period after the date of the final MRRS Decision Document for the Prospectus. The Issuer will be paid the net proceeds from the Offering on or before the day which is 10 days following each Closing Date, subject to the terms of the Agency Agreement. The Offering will be discontinued if a closing in respect of the Offering has not occurred on or before the expiry of this 90 day period, unless each of the persons or companies that subscribed for Units and/or FT Shares during that period and the applicable regulatory authorities consent to a continuation of the Offering.

The Agent will receive a commission equal to 7.5% of the gross proceeds of the Offering. The Agent will reduce the Agent’s Commission to 5% of the gross proceeds from subscriptions received from insiders of the Issuer. The Agent will also be granted the Agent’s Option and the Issuer will pay the Agent’s reasonable expenses incurred in connection with the Offering. The Issuer has already paid the Agent a \$5,000 retainer in this regard.

The Issuer has granted the Over-Allotment Option to the Agent which is exercisable for a period of 60 days from the last Closing Date to cover the Agent’s over-allocation position. The Over-Allotment Option, the Agent’s Option and the distribution of the Units and/or the FT Shares on the exercise of the Over-Allotment Option are being qualified by this Prospectus.

The Agent has agreed to use its “commercially reasonable efforts” to secure subscriptions for the Units and the FT Shares offered hereunder on behalf of the Issuer, but is not obligated to buy any Units or FT Shares that are not sold. The obligations of the Agent under the Agency Agreement may be terminated at

any time at its discretion on the basis of its assessment of the state of the financial markets or upon the occurrence of certain events stated in the Agency Agreement. The Agent hereby conditionally offers, as agent, on behalf of the Issuer, the Units and the FT Shares on a “commercially reasonable efforts” basis, subject to prior sale if, as and when issued by the Issuer. Closing is conditional upon all conditions of closing specified in the Agency Agreement having been satisfied or waived.

The Agent reserves the right to offer selling group participation, in the normal course of the brokerage business, to selling groups of other licensed dealers, brokers and investment dealers, who may or may not be offered part of the commissions derived from the Offering.

No Units or FT Shares are being offered under this Prospectus for other than cash.

### **Other**

There are no payments in cash, securities or other consideration being made, or to be made, to a promoter, finder or any other person or company in connection with the Offering other than the payments to be made to the Agent in accordance with the terms of the Letter Agreement, which will be superceded by the Agency Agreement. See “Plan of Distribution – Agency Agreement” on page 65.

The directors, officers and other insiders of the Issuer may purchase Units and FT Shares from the Offering.

The Offering Prices of the Units and FT Shares offered under this Prospectus were determined by negotiation between the Issuer and the Agent and bears no relationship to earnings, book value or other valuation criteria.

### **Method of Subscription for FT Shares**

Subscriptions for FT Shares will be made pursuant to one or more subscription agreements (“Subscription Agreements”) to be made between the Issuer and the Agent, or any sub-agent of the Agent, as agents for and on behalf of the subscribers of FT Shares. **SUBSCRIBERS WHO PLACE AN ORDER TO PURCHASE FT SHARES WILL BE DEEMED TO HAVE AUTHORIZED THE AGENT, OR ANY SUB-AGENT OF THE AGENT, TO EXECUTE, ON THEIR BEHALF, A SUBSCRIPTION AGREEMENT.** The execution and delivery of the Subscription Agreement by the Agent or sub-agent of the Agent on behalf of the subscriber will bind each subscriber to the terms thereof as if such subscriber had executed the Subscription Agreement personally.

Pursuant to the Subscription Agreements, the Issuer will covenant and agree (i) to incur, during the Expenditure Period, Qualifying Expenditures in such amounts as enables the Issuer to renounce to the subscribers of FT Shares in accordance the Tax Act, and the Subscription Agreements, Qualifying Expenditures equal to the Offering Price paid by each subscriber for the FT Shares and, for the purposes of such renunciation: (a) to make in a timely fashion all filings required in connection with the Subscription Agreements including, without limitation, the filings required by subsections 66(12.68) and 66(12.7) of the Tax Act; and (b) to mail to the subscribers, not later than March 31, 2005 a statement setting forth the aggregate amounts of Qualifying Expenditures renounced to the subscribers pursuant hereto; (ii) that all Qualifying Expenditures renounced to the subscribers pursuant to the Subscription Agreements will be Qualifying Expenditures incurred by the Issuer that, but for the renunciation to the subscribers, the Issuer would be entitled to deduct in computing its income for the purposes of Part I of the Tax Act; (iii) that the Issuer will not reduce the amount renounced to the subscribers pursuant to subsection 66(12.6) of the Tax Act or subsection 66(12.601) of the Tax Act and, in the event the Minister of Finance reduced the amount renounced to the subscribers pursuant to subsection 66(12.73) of the Tax Act, the Issuer will indemnify the subscribers for an amount equal to the amount of any increased tax payable under the Tax Act, or the laws of the province, by the subscribers as a consequence of such

reduction; (iv) that the Issuer is a “principal-business corporation” for the purposes of the Tax Act and that the Issuer will maintain its status as a “principal-business corporation” (as defined in the Tax Act) until at least January 1, 2006; (v) that the Issuer shall indemnify the subscribers for an amount equal to the amount of any increased tax payable under the Tax Act or the laws of a province by the subscribers as a consequence of the failure of the Issuer to incur and renounce to the subscribers Qualifying Expenditures in an amount equal to the aggregate purchase price paid by each subscriber; (vi) subject to any agreement to which the Issuer is not a party, that the FT Shares do not constitute “prescribed shares” for the purpose of section 6202.1 of the Regulations under the Tax Act and will be “flow-through shares” for the purposes of subsection 66(15) of the Tax Act; and (vii) that none of the Qualifying Expenditures will be renounced to a trust, corporation or partnership with whom the Issuer has a prohibited relationship as defined in subsection 66(12.671) of the Tax Act.

The Subscription Agreement contains the following representations and warranties made by the subscriber to the Issuer, namely, that:

- (a) the subscription by the subscriber is subject to the acceptance of the Issuer and is effective only upon such acceptance;
- (b) each subscriber has received and reviewed a copy of this Prospectus;
- (c) each subscriber waives any right he or she may have to any federal or provincial credits, grants or similar or like payments, other than as set out in this Prospectus arising or resulting from the incurring of Qualifying Expenditures and acknowledges that such credits, grants and similar or like payments shall belong to, be vested in and accrue solely to the benefit of the Issuer;
- (d) the obligation of the Issuer to renounce Qualifying Expenditures shall be limited to the extent specifically stated in this Prospectus;
- (e) each subscriber is not a non-resident of Canada for the purposes of the Tax Act;
- (f) each subscriber is of the full age of majority and has the legal capacity and competence to enter into and be bound by the Subscription Agreement; and
- (g) the subscribers presently deal, and will at all relevant times continue to deal, at arm's length with the Issuer for the purposes of the Tax Act.

The Subscription Agreements will contain additional representations, warranties, covenants and agreements by the Issuer in favour of the subscribers which are consistent with and supplement the Issuer's obligations as described in this Prospectus. The contract arising out of the Subscription Agreements and all documents relating thereto shall be governed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

Subscriptions for FT Shares will be received subject to rejection or allotment in whole or in part and the Issuer reserves the right to close the subscription books at any time. Certificates representing the securities acquired hereunder will be available at closing.

The securities offered hereunder have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the “U.S. Securities Act”), and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly within the United States of America, its territories or possessions or to or to the benefit of a U.S. Person, as such term is defined in the U.S. Securities Act.

## **RISK FACTORS**

### **General**

An investment in the securities offered hereby should be considered highly risky and highly speculative due to the nature of the Issuer's business and the present stage of development. An investment in the securities should only be made by knowledgeable and sophisticated investors who are willing to risk and can afford the loss of their entire investment. Prospective investors should consult with their professional advisors to assess an investment in the Issuer. In evaluating the Issuer and its business, investors should carefully consider, in addition to the other information contained in this Prospectus, the following risk factors. These risk factors are not a definitive list of all risk factors associated with an investment in the Issuer or in connection with the Issuer's operations.

### **Exploration and Development**

The net proceeds from the Offering will be expended on natural gas exploration, exploitation and development activities, which are high-risk ventures with uncertain prospects for success. No assurance can be given that commercial accumulations of natural gas will be discovered as a result of the efforts by the Issuer or, if discovered, will be profitably marketed. Subscribers must rely on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Issuer. If all of the proceeds of this issue are spent without making natural gas discoveries in commercial quantities, the Issuer may need additional financing to continue to operate its business, and there can be no assurance that such financing will be available or, if available, will be provided on reasonable terms. Future development of the Issuer's petroleum and natural gas properties may also require additional financing, which may not be available on reasonable terms. To the extent financing is not available, lease expiry dates, work commitments, rental payments and option payments may not be satisfied and could result in a loss of property ownership by the Issuer.

### **Reliance on Extreme**

The Issuer is completely reliant on its farm-out agreements with Extreme which cover the principal properties of the Issuer, the success of which cannot be assured. To the extent that Extreme and not the Issuer is the operator of the Issuer's properties, the Issuer will be dependent upon Extreme for the timing of activities related to such properties and will be largely unable to control the activities of Extreme.

### **Development Program**

The information contained in the Chapman Reports are estimated. The actual production, ultimate reserves and revenue from the Issuer's properties may be greater or less than the estimates prepared in such reports. Oil and natural gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Issuer or that the ongoing drilling activities on its properties will be successful.

### **Additional Financing**

The Issuer's business plan calls for ongoing expenses in connection with the proposed exploration and development of its properties. These expenses will be partially paid for by the proceeds from this Offering, however, the exploration and development of oil and gas properties includes a number of unforeseen risks which could require additional expenditures by the Issuer in order to complete its proposed programs. As well, if the net proceeds from the sale of the FT Shares under this Offering are less than \$2,000,000 additional financing may be required so that the Issuer can pay its share of the costs of drilling the Mississippian Test Well and thereby exercise its option on the Mississippian Block of

Lands under the Sarcee Farm-Out Agreement. There is no assurance that the Issuer will be able to obtain additional funding that may be necessary in order to exercise its option on the Mississippian Block of Lands, fund its exploration and development programs or to put its properties into commercial production. The Issuer does not have any arrangements for financing and can provide no assurance that it will be able to obtain the required financing when needed. There is no assurance that the Issuer's estimate of its reasonably anticipated liquidity needs is accurate or that new business developments or other unforeseen events will not occur that will result in the need to raise additional funds. In the event that the Issuer cannot raise needed capital, it will have a material adverse effect on the Issuer.

### **Competition**

The petroleum industry is competitive in all its phases. The Issuer will compete with numerous other participants in the search for and the acquisition of, oil and natural gas reserves and in the marketing of oil and natural gas. Competitors include oil companies which have greater financial resources, staff and facilities than those of the Issuer. The ability of the Issuer to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

The Issuer's ability to successfully bid on and acquire additional property or reserve rights and interests, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

### **Marketability**

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of the Issuer. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government which may be amended from time to time. See "Oil and Natural Gas Industry Conditions" on page 71. The oil and natural gas operations of the Issuer may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Although the Issuer believes that it is in material compliance with current applicable environmental regulations, changing government regulations may have a material adverse effect on the Issuer. See "Oil and Natural Gas Industry Conditions – Environmental Regulation" on page 74.

### **Production**

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of net production revenue and overall value of the Issuer and could result in ceiling test write-downs. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of reserves of the Issuer. The Issuer might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in net production revenue of the Issuer causing a reduction in its oil and gas acquisition and development activities. A decline in production rates or a sustained material decline in prices from historical average prices could further reduce the borrowing base of the Issuer and, as a result, reduce bank credit, if any, available to the Issuer.

## **Tax Liability**

As the Issuer will be engaged in the oil and natural gas business its operations are subject to certain unique provisions of the Tax Act and applicable provincial income tax legislation relating to characterization of costs incurred in their businesses which effects whether such costs are deductible and, if deductible, the rate at which they may be deducted for the purposes of calculating taxable income. Old Arapahoe may be re-assessed on tax returns previously filed. The Issuer may also be subject to a higher than expected past or future tax liability as well as interest and penalties in the event of a successful reassessment of the Issuer, and such amount could be material.

## **Fixed Oil and Natural Gas Prices**

From time to time the Issuer may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Issuer will not benefit from such increases. The Issuer may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements.

## **Exchange Rate**

From time to time the Issuer may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Issuer will not benefit from the fluctuating exchange rate.

## **Risks and Hazards Associated with Oil and Natural Gas Exploration Operations**

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fires, explosions, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, the Issuer will not be fully insured against all of these risks, nor are all such risks insurable. Although the Issuer maintains comprehensive general liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Issuer could incur significant costs that could have a materially adverse affect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations. As the Issuer currently has interests in a limited number of producing properties, such risks are concentrated in those properties. The Issuer intends to continue to explore for natural gas through internally generated prospects, to participate with other industry partners and to enter into joint ventures, the success of which cannot be assured.

## **Available Equipment**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment and may delay exploration and development activities. To the extent the Issuer is not the operator of its oil and gas properties, it will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

## **Title**

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Issuer which could result in a reduction of the revenue received by the Issuer.

No assurances can be given that title defects to the leases and claims giving rise to the Issuer's interest in its properties do not exist. The leases and claims may be subject to prior unregistered agreements, interests or native land claims and title may be affected by undetected defects. If title defects do exist, it is possible that the Issuer may lose all or a portion of its right, title, estate and interest in and to the properties to which the title defect relates.

There is no guarantee that title to the Issuer's properties will not be challenged or impugned. While, to the best of the Issuer's knowledge, title to the Issuer's properties is in good standing, this should not be construed as a guarantee of title.

## **Permits, Licenses and Approvals**

The activities of the Issuer require permits and licences issued by various government authorities. The Issuer believes it has obtained all of the permits and licences required for the activities which it currently pursues in compliance with the appropriate laws and regulations. Any changes made to the regulations could affect such licences and permits. There is no guarantee that the Issuer will obtain all of the licences and permits required in order to pursue its activities or that it will be able to comply with the requirements thereof.

## **Evaluations**

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Issuer. The reserve and cash flow information set forth herein represents estimates only. The reserves and estimated future net cash flow from the properties of the Issuer have been independently determined by Chapman. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Issuer. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

## **Oil and Natural Gas Industry Conditions**

### *General*

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada and Alberta, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these

controls or regulations will affect the operations of the Issuer in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Issuer is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

#### *Pricing and Marketing – Oil and Natural Gas*

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Such price depends in part on oil quality, prices of competing oils, distance to market, the value of refined products and the supply/demand balance. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the “NEB”). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issue of such licence requires the approval of the Governor in Council.

The price of natural gas sold in interprovincial and international trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m<sup>3</sup>/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issue of such licence requires the approval of the Governor in Council.

The governments of British Columbia and Alberta also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere based on such factors as reserve ability, transportation arrangements and market considerations.

The lack of firm pipeline capacity continues to limit the ability to produce and market natural gas production although pipeline expansions are ongoing. In addition, the prorationing of capacity on the interprovincial pipeline systems continues to limit oil exports.

#### *The North American Free Trade Agreement*

The North American Free Trade Agreement (“NAFTA”) among the governments of Canada, the United States and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada–U.S. Free Trade Agreement. Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36-month period); (ii) impose an export price higher than the domestic price; or (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

### *Provincial Royalties and Incentives*

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, NGL, sulphur and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The royalty rate payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time, the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry.

In the Province of Alberta, a producer of oil or natural gas is entitled to a credit against the royalties payable to the Crown by virtue of the Alberta royalty tax credit (“ARTC”) program. The ARTC program is based on a price sensitive formula and the ARTC rate varies between 75% at prices at and below \$100 per m<sup>3</sup> and 25% at prices at and above \$210 per m<sup>3</sup>. The ARTC rate is applied to a maximum of \$2,000,000 of Alberta Crown royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from a corporation claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate will be established quarterly based on the average “par price”, as determined by the Alberta Department of Energy for the previous quarterly period.

On March 3, 2003, the Federal Department of Finance issued a technical paper entitled “Improving the Income Taxation of the Resource Sector in Canada”. This paper was issued to follow up on the announcement in the federal budget delivered on February 18, 2003, of a five-year plan designed to address various issues relating to resource sector taxation. Although no details exist at present with respect to the possible effects of this initiative at the federal level on the provincially-administered ARTC program, the March 3, 2003 technical papers states that the federal government intends to issue transitional rules relating to the taxation of Alberta Royalty Tax Credits. The proposed taxation of ARTCs by the federal government is part of a more comprehensive set of proposals set out in the paper, one of which is to allow for the deduction of royalties against amounts of corporate tax payable by resource companies. The Issuer cannot be certain at this time as to whether the changes proposed by the Department of Finance will have a positive or negative effect on its net revenues.

Crude oil and natural gas royalty holidays for specific wells and royalty reductions reduce the amount of Crown royalties paid by the Issuer to the provincial governments. In general, the ARTC program provides a rebate on Alberta Crown royalties paid in respect of eligible producing properties.

### *Land Tenure*

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

### *Environmental Regulation*

The oil and gas industry is currently subject to environmental regulation pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability for pollution damage and the imposition of material fines and penalties.

Environmental legislation in the Province of Alberta has been consolidated into the Environmental Protection and Enhancement Act (the “EPEA”), which came into force on September 1, 1993. The EPEA imposes stricter environmental standards, requires more stringent compliance, reporting and monitoring obligations and significantly increases penalties. The Issuer is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment and will be taking such steps as required to ensure compliance with the EPEA and similar legislation in other jurisdictions in which it operates. Old Arapahoe believes that it is in material compliance with applicable environmental laws and regulations. Old Arapahoe also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

### **Debt Levels**

From time to time, the Issuer may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase debt levels of the Issuer above industry standards. Depending on future exploration and development plans, The Issuer may require additional financing which may not be available or, if available, may not be available on favourable terms.

### **Conflicts of Interest**

Certain directors of the Issuer are or may become directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the corporation’s governing corporate law statute which requires a director of a corporation who is a party to, or is a director or an officer of, or has some material interest in any person who is a party to, a material contract or proposed material contract with the Issuer to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under such legislation. See “Conflicts of Interest” on page 60.

### **Qualified Personnel**

The competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Issuer will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Issuer, as the case may be. The success of the Issuer is largely dependent on the performance of its management. The Issuer could be adversely affected in the event such individuals do not remain with the Issuer. The Issuer does not have key person insurance in effect for management. See “Directors and Officers” on page 57 for further details.

### **Determination of Price**

The Offering Prices of the Units and the FT Shares was determined by negotiation between the Issuer and the Agent. There is no assurance that the Offering Prices will reflect the value of any securities the holder may obtain on exchange of the Units and the FT Shares.

### **Price Volatility of Publicly Traded Securities**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There is no guarantee that continuous fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Issuer in creating sales and revenues. The value of the Common Shares distributed hereunder will be affected by such volatility.

### **Dilution**

The purchase price allocated to the Common Shares forming in part the Units and the FT Shares exceeds the net tangible book value per Common Share and accordingly, investors will suffer immediate and substantial dilution to their investment.

### **Dividends**

The Issuer has no significant earnings or dividend record and since it intends to employ available funds for oil and natural gas exploration and development, it does not intend to pay any dividends in the immediate or foreseeable future. The future dividend policy of the Issuer will be determined by its board of directors.

### **FT Shares**

Although the Issuer has agreed to incur and renounce Qualifying Expenditures to purchasers of FT Shares for flow-through purposes so that renunciations of those expenditures can be made effective on or before December 31, 2004, the Issuer may be unsuccessful in incurring sufficient Qualifying Expenditures from the proceeds of the Offering. In such event, the Issuer will rely on its cash flow from operations to fund Qualifying Expenditures prior to the expiry of the Expenditure Period. There can be no assurance that the Issuer will have sufficient funds to incur such expenditures, in which case purchasers of FT Shares will not receive all of the benefits of their investment. Further, although the proceeds that are received by the Issuer may be expended by the Issuer on a combination of Qualifying Expenditures that are CEE and CDE, CCRA may not agree with the characterization of the various expenditures of the Issuer.

A holder who disposes of FT Shares will retain the entitlement to receive renunciations of CEE from the Issuer as well as the ability to deduct any CEE previously deemed to have been incurred by the holder, and a subsequent holder of such FT Shares will not be entitled to any renunciation of CEE. See "Canadian Federal Income Tax Consequences" on page 78.

The Canadian federal and provincial tax treatment of oil and gas activities has a material effect on the advisability of investing in the securities of the Issuer. There is no assurance that income tax legislation in Canada will not be amended so as to fundamentally alter the tax consequences of acquiring, holding or disposing of Common Shares issued on a flow-through basis. See "Canadian Federal Income Tax Consequences" on page 78.

## PROMOTERS

H. Barry Hemsworth, the former President and a director of Crazy Horse, and Jeffrey L. Standen, the former President, Chief Executive Officer and a director of Old Arapahoe, may be considered promoters of the Issuer within the meaning of securities legislation of Alberta, based on their instrumental roles in connection with the business transactions contemplated by the Arrangement Agreement and in initially founding and forming Crazy Horse and Old Arapahoe. See “Directors and Officers” on page 57 for the number and percentage of each class of securities of the Issuer beneficially owned, directly or indirectly, or over which control is exercised by each of the foregoing promoters. See also “Penalties or Sanctions” on page 60 for particulars on the Agreed Statement of Facts and Undertaking entered into with the Executive Director of the Alberta Securities Commission by Blackline Oil Corporation, of which Mr. Hemsworth is the President and a director.

No promoter of the Issuer has received or will receive anything of value, including money, property, contracts, options, warrants or rights of any kind from the Issuer in respect of acting as a promoter of the Issuer.

## LEGAL PROCEEDINGS

There are no legal proceedings to which the Issuer or the Subsidiary is a party or to which any of their respective properties or assets are subject nor, to the Issuer’s knowledge, are any such legal proceedings contemplated.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set forth below or as disclosed herein, the Issuer is not aware of any material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director or executive officer of the Issuer, or any shareholder holding more than 10% of the voting rights attached to the Common Shares or any associate or affiliate of any of the foregoing in any transaction in the preceding three year period or any proposed or ongoing transaction of the Issuer which has or will materially affect the Issuer:

1. Jeffrey L. Standen, a director of the Issuer, was the President, Chief Executive Officer and a director of Old Arapahoe, and is the President, Chief Executive Officer and a director of Extreme (the farmor for the Sarcee Farm-Out Agreement, the Grouard Farm-Out Agreement, and the Hotchkiss Farm-Out Agreement, all described under “General Development of the Business” on page 1). Mr. Standen currently holds 139,362 Common Shares, share purchase warrants to purchase 118,891 Common Shares at a price of \$0.60 each until March 17, 2005, and share purchase warrants to purchase 18,181 Common Shares at a price of \$0.70 each until February 6, 2005. He has been granted a stock option to acquire 41,667 Common Shares at a price of \$0.75 each until July 2, 2008 as well as a stock option to acquire 507,347 Common Shares at a price of \$0.55 each until February 6, 2009.
2. Jeffrey L. Standen, a director of the Issuer, was the President, Chief Executive Officer and a director of Old Arapahoe, and is the President, Chief Executive Officer and a director of Extreme, purchased an aggregate of 356,671 units (each unit consisting of one Old Arapahoe Share and one Old Arapahoe Warrant) at a price of \$0.15 per unit on September 17, 2003 pursuant to a private placement. In addition, H. Barry Hemsworth, a director and officer of both Crazy Horse and the Issuer, purchased 166,666 units pursuant to the same private placement. Pursuant to the terms of the Arrangement Agreement, the Old Arapahoe Shares and Old Arapahoe Share purchase warrants comprising these units were exchanged on a 3:1 basis for Common Shares and for share purchase warrants of the Issuer. See “Prior Sales” on page 53.

3. The Sarcee Project lands as defined and described under “General Development of the Business” on page 1 is subject to the applicable Alberta crown royalty payable thereon in accordance with the requirements of the *Alberta Corporate Tax Act*, a 3.5% GORR payable to Tsuu T’ina Energy Corporation and a 3% GORR payable to Owl Exploration Ltd. Ross Moulton, the Vice President, Exploration and a director of the Issuer and a former director of Old Arapahoe, owns a 32% interest in Owl Exploration Ltd. The GORR was negotiated between Extreme and Owl Exploration Ltd. in September 2002 prior to Mr. Moulton’s appointment as a director of Old Arapahoe.
4. Dwayne Tyrkalo, an engineering consultant to the Issuer, and the Vice President, Operations of Extreme, purchased 8,000 units (each unit consisting of one four Crazy Horse flow-through common shares, one Crazy Horse non flow-through common share, and five one-half common share purchase warrants) at a price of \$0.55 per unit on February 6, 2004 pursuant to a brokered private placement. See “Prior Sales” on page 53.

### **AUDITORS, TRANSFER AGENTS AND REGISTRARS**

The auditors of the Issuer are the firm of PricewaterhouseCoopers LLP, Chartered Accountants, of Suite 3100, 111 5<sup>th</sup> Avenue, Calgary, Alberta, T2P 5L3.

The registrar and transfer agent of the Issuer is Computershare Trust Company of Canada (“Computershare”), Suite 600, 530 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3G8.

The trustee, registrar and transfer agent for the Warrants is Computershare.

### **MATERIAL CONTRACTS**

Except for contracts made in the ordinary course of business, the following are the only material contracts entered into by the Issuer and the Subsidiary during the past two years. All material contracts of Old Arapahoe and Crazy Horse continued as material contracts of the Issuer upon completion of the business transactions contemplated by the Arrangement Agreement.

1. Sarcee Farm-Out Agreement dated October 20, 2003 as amended December 3, 2003, June 2, 2004, September 20, and October 15, 2004 with Extreme, the terms of which are discussed in "General Development of the Business" on page 1.
2. Arrangement Agreement dated November 13, 2003, as amended, between Old Arapahoe and Crazy Horse, the terms of which are discussed in “General Development of the Business” on page 1.
3. Form 5D – Value Security Escrow Agreement dated February 6, 2004 between Old Arapahoe, Computershare Trust Company of Canada and various securityholders, the terms of which agreement are discussed in “Escrowed Securities” on page 55.
4. Grouard Farm-Out Agreement dated July 1, 2004 with Extreme, the terms of which are discussed in "General Development of the Business" on page 1.
5. Hotchkiss Farm-Out Agreement dated July 1, 2004 with Extreme, the terms of which are discussed in "General Development of the Business" on page 1.

6. Agency Agreement, whereby the Issuer has appointed the Agent to offer the FT Shares and the Units for sale to the public, the terms of which are discussed in “Plan of Distribution – Agency Agreement” on page 65.
7. Warrant Indenture dated ◆, 2004 between the Issuer and the Trustee, the terms of which are discussed in “Description of the Securities Distributed” on page 48.

Copies of all material contracts may be inspected during distribution of the securities being offered under the Prospectus at the head office of the Issuer at 2730, 1100 – 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3T9, during normal business hours while primary distribution of the securities offered hereunder is in progress, and for a period of 30 days thereafter. The material contracts will also be available on the SEDAR website ([www.sedar.com](http://www.sedar.com)) upon the issuance of the final receipt for the Prospectus.

## EXPERTS

### Opinions and Interests of Experts

Thorsteinssons Tax Lawyers (“Thorsteinssons”) is responsible for the opinion referred to in “Canadian Federal Income Tax Consideration” below. Davis & Company is acting as legal counsel to the Agent in connection with the Offering. The partners and associates of Davis & Company have no direct or indirect interest in the property of the Issuer and beneficially own, directly or indirectly, no outstanding Common Shares.

The partners and associates of Chapman have no direct or indirect interest in the property of the Issuer and beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

Jay Sujir, a former director of the Issuer, is a partner with the firm of Anfield Sujir Kennedy & Durno who are acting as legal counsel to the Issuer in connection with the the Offering. Mr. Sujir has no direct or indirect interest in the property of the Issuer and beneficially owns, directly or indirectly, 745,455 or 7.59% of the outstanding Common Shares. He indirectly holds share purchase warrants to acquire 45,455 Common Shares at a price of \$0.70 until February 2, 2005. The Issuer granted Mr. Sujir a stock option entitling him to acquire up to 50,000 Common Shares at a price of \$0.55 each until December 16, 2004.

### Canadian Federal Income Tax Consequences

#### *Income Tax Consequences*

Income tax consequences are a material aspect of the securities being offered.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor of Units or FT Shares. Accordingly, each investor should obtain independent advice regarding the legal and tax consequences of investing in the securities offered hereunder with reference to the investors own particular circumstances.**

In the opinion of Thorsteinssons, the following is, as of the date hereof, a fair and reasonable summary of the principal Canadian federal income tax consequences generally applicable to a holder of FT Shares or a holder of Units who acquires Common Shares and Warrants pursuant to this Offering. This summary is applicable only to holders who, for the purposes of the Tax Act and at all relevant times, are resident in Canada, hold their FT Shares, Common Shares, Warrants and Warrant Shares as capital property and deal at arm’s length with the Issuer (“holders”). The FT Shares, Common Shares, Warrants and Warrant Shares will generally be considered capital property to the holder thereof unless either the holder holds the FT Shares, Common Shares, Warrants and Warrant Shares in the course of carrying on a business or

the holder has acquired the FT Shares, Common Shares, Warrants and Warrant Shares in a transaction or transactions considered to be an adventure in the nature of trade. **All Purchasers are advised to consult their own tax advisors.**

This summary is based upon the current provisions of the Tax Act, the regulations promulgated thereunder (the “Regulations”), the proposed amendments to the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Proposals”) and the current published administrative practices of the CCRA. This summary assumes that the Proposals will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax considerations. No assurances can be given that the Proposals will be enacted as proposed, if at all.

This summary does not apply to holders: (i) which are “principal-business corporations” within the meaning of the Tax Act; (ii) whose business includes trading or dealing in rights, licenses or privileges to explore for, drill for or take minerals, oil, natural gas or other related hydrocarbons; (iii) which are “financial institutions” within the meaning of the “mark-to-market” rules contained in the Tax Act; (iv) who, at any time, have an “at-risk” adjustment as defined in the Tax Act, or (v) who are trusts or partnerships.

This summary assumes that the Issuer will make all tax filings in respect of the FT Shares and the renunciation of qualifying expenditures in the manner and within the time required by the Tax Act and that all renunciations will be validly made. In addition, while the Issuer will furnish each holder of FT Shares with information relevant to the holder’s Canadian federal and provincial income tax returns, the preparation and filing of those returns will remain the responsibility of each holder. This summary further assumes that the Issuer will incur (or will be deemed to have incurred) sufficient qualifying expenditures to enable it to renounce to holders of FT Shares all of the expenses covenanted to be renounced by the Issuer. This summary is based on the Issuer being and maintaining its status as a “principal-business corporation” within the meaning of subsection 66(15) of the Tax Act and assumes that any FT Shares will not be prescribed shares within the meaning of Section 6202.1 of the Regulations.

The Canadian federal income tax consequences to a particular holder will vary depending on a number of factors, including the residence of a particular holder and the amount that would be the holder’s taxable income but for the purchase of FT Shares. **The following discussion of the income tax consequences is, therefore, of a general nature only and is not exhaustive of all the income tax consequences and is not intended to constitute income tax advice to any particular holder. Accordingly, holders should consult their own income tax advisors with respect to the Canadian federal income tax consequences which will result from holding and disposing of FT Shares, Common Shares and Warrants.**

#### *Allocation of Purchase Price*

Holders of Units will be required to allocate the cost of each Unit among the Common Share component and the Warrant component on a reasonable basis in order to determine the respective cost for purposes of the Tax Act. It is understood that it is the CCRA’s administrative position that the allocations made by the Issuer and the holders must be the same. The Issuer proposes to allocate \$♦ of the Offering Price of each Unit for each Common Share and proposes to allocate \$♦ of the Offering Price of each Unit for each half Warrant. The Issuer believes that such allocation is reasonable, although such allocation will not be binding on the CCRA.

### *Renunciation of Qualifying Expenditures in Respect of FT Shares*

Subject to certain limitations and restrictions, a principal-business corporation that incurs CEE (other than certain “off the shelf” seismic data or expenses related thereto) and eligible CDE pursuant to an agreement for the issue of Common Shares (other than prescribed shares) will be entitled to renounce the CEE and CDE to such holder and the CEE and CDE so renounced will be deemed to have been CEE and CDE incurred by such holder on the effective date of renunciation.

Subject to certain qualifications and conditions, the Issuer may designate up to \$1,000,000 of CDE, incurred by it in any given calendar year to be CEE upon renunciation to a holder of FT Shares (“Eligible CDE”). The ability to reclassify CDE into CEE is restricted to corporations which, together with any associated corporations, have in aggregate less than \$15,000,000 of “taxable capital employed in Canada” (as that term is defined in the Tax Act) at the time a holder gives consideration for flow-through shares. The Eligible CDE so renounced by the Issuer will be deemed to have been CEE incurred by such holders on the effective date of the renunciation. For the remainder of this summary any reference to CEE includes Eligible CDE.

The Issuer is entitled to renounce to holders of FT Shares CEE incurred by it during the period beginning on the Closing Date and ending 24 months after the end of the month in which the closing occurs less: (i) any previous renunciations with respect to such CEE; (ii) any portion of such CEE which is prescribed under the Tax Act as relating to overhead expenses; (iii) any assistance that the Issuer has received, is entitled to receive, or may reasonably be expected to receive at any time which is reasonably related to such CEE; and (iv) certain “off the shelf” seismic data and expenses related thereto.

CEE incurred within a particular calendar year and renounced to holders effective on or before December 31 of that calendar year will be deemed to have been CEE incurred by such holders on the effective date in that particular calendar year. Certain CEE which the Issuer plans to incur in the year following a particular calendar year may be renounced effective December 31 of the particular calendar year, provided that: (i) the FT Shares are purchased in the particular calendar year; (ii) the proceeds from the FT Share purchase are received by the Issuer before the end of the particular calendar year; (iii) such expenses are renounced on or before March 31 of the following year; and (iv) the holder to which such CEE is renounced deals at arm’s length with the Issuer throughout the following year (the “12 month look-back rule”).

If CEE renounced pursuant to the 12-month look-back rule are not actually incurred by the Issuer by the end of the year following the particular calendar year, the amount of CEE renounced to holders must be reduced by the amount not actually incurred by the Issuer. A holder will not be liable for any penalty and will not be required to pay interest on any resulting increase in income tax payable in a particular calendar year as a result of such a reduction in CEE until after the month of April in the second calendar year following the particular calendar year. Where the Issuer renounces CEE pursuant to the 12 month look-back rule, the Issuer will be liable to pay a deductible charge each month (other than January) in the year during which the CEE must be incurred equal to the amount of renounced expenses which have not been incurred by the end of the particular month multiplied by 1/12 of the prescribed interest rate at that time for refund interest purposes under the Tax Act. In addition, the Issuer must pay a charge under the Tax Act of 10% of the balance of any renounced but unexpended CEE not incurred by the end of the year following the particular year.

CEE deemed to have been incurred by a holder will be added to the cumulative CEE account of such holder. A holder may deduct in computing income from all sources for a taxation year such amount as may be claimed not exceeding 100% of the holder’s cumulative CEE account at the end of a taxation year. To the extent that a holder does not deduct the balance of the holder’s cumulative CEE account at the end of a taxation year, the balance will be carried forward and the holder will be entitled to claim

deductions in respect thereof in subsequent taxation years, subject to the rules regarding an acquisition of control of a corporate holder. A holder who disposes of FT Shares will retain the entitlement to receive renunciations of CEE from the Issuer as described above as well as the ability to deduct any CEE previously deemed to have been incurred by the holder, and a subsequent purchaser of such FT Shares will not be entitled to any renunciation of CEE.

#### *Disposition of Common Shares (including FT Shares)*

The cost of a FT Share for the purposes of the Tax Act is deemed to be nil. In computing the adjusted cost base of a holder's Common Shares (including FT Shares) acquired, the cost of such Common Shares (including FT Shares) must be averaged with the cost of any other Common Shares (including FT Shares) of the Issuer held as capital property at that time.

Any disposition or deemed disposition (other than to the Issuer) of Common Shares (including FT Shares) will result in the realization of a capital gain (or capital loss) in the taxation year of the disposition to the extent the proceeds of disposition, net of any reasonable disposition costs, exceed (or are exceeded by) the adjusted cost base of such Common Shares (including FT Shares).

A holder will generally be required to include one-half of the amount of any capital gain (a "taxable capital gain") in income and will be required to deduct one-half of the amount of any resulting capital loss (an "allowable capital loss") against taxable capital gains. Allowable capital losses not deducted in the taxation year in which they are realized may ordinarily be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following taxation year against taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act.

A holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year, which is defined to include an amount in respect of taxable capital gains.

#### *Exercise or Expiry of Warrants*

No gain or loss will be realized by a holder by the exercise of a Warrant. When a Warrant is exercised, the holder's cost of the Common Shares acquired thereby would be the aggregate of the holder's adjusted cost base of the Warrant and the exercise price paid for the Common Share. The cost of any Common Shares acquired on an exercise of Warrants must be averaged with the adjusted cost base of the other Common Shares held by the holder as capital property for purposes of calculating the adjusted cost base of such Common Share.

On the expiry of an unexercised Warrant, the holder will generally realize a capital loss equal to the adjusted cost base to the holder of the Warrant, being \$◆.

#### *Alternative Minimum Tax*

Under the Tax Act, taxes payable by an individual and by most trusts will be the greater of the taxes otherwise determined and an alternative minimum tax computed by reference to such individual's adjusted taxable income for the taxation year in excess of a \$40,000 exemption and reduced by certain tax credits. In calculating adjusted taxable income for the purpose of computing the minimum tax, certain deductions and credits otherwise available are disallowed and certain amounts not otherwise included in income are included. The disallowed items include deductions claimed by the individual in respect of CEE and CDE in a particular taxation year to the extent such deductions exceed the individual's resource income (including income attributable to a disposition of Canadian resource properties) in that year. Eighty percent (80%) of any capital gain realized by the individual is included in calculating the individual's adjusted taxable income. The federal rate of minimum tax is sixteen percent (16%).

Whether and to what extent the tax liability of a particular holder will be increased by the alternative minimum tax will depend on the amount of such holder's income, the sources from which it is derived, and the nature and amounts of any deductions such holder claims.

Any additional tax payable by an individual for the taxation year resulting from the application of the alternative minimum tax will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the alternative minimum tax, be such individual's tax otherwise payable for any such year to the extent that such tax payable exceeds the individual's minimum tax calculation for that particular year.

#### *Cumulative Net Investment Loss*

One-half of the amount of the CEE and Eligible CDE renounced to a holder will be added to the holder's cumulative net investment loss ("CNIL") account, within the meaning of the Tax Act. A holder's CNIL account may impact a holder's ability to access the \$500,000 lifetime capital gains exemption available on the disposition of certain qualified small business issuer shares and qualified farm property.

**EACH PROPOSED PURCHASER OF UNITS UNDER THIS OFFERING IS URGED TO CONSULT YOUR OWN PROFESSIONAL TAX ADVISER TO OBTAIN ADVICE ON THE TAX CONSEQUENCES THAT APPLY TO YOU.**

#### **OTHER MATERIAL FACTS**

There are no material facts which are not disclosed in this Prospectus.

#### **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in the provinces of British Columbia, Alberta and Ontario provide purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages, if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

#### **FINANCIAL STATEMENTS**

The audited consolidated financial statements of Old Arapahoe as at December 31, 2003 and 2002 together with the auditors' report thereon, and the unaudited comparative consolidated financial statements of the Issuer for the interim period ended June 30, 2004 and 2003 are found on F1 and F2 respectively of this Prospectus.

## REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR

### FORM 51-101F2

To the board of directors of Arapahoe Energy Corporation (the "Issuer"):

1. We have evaluated the Issuer's reserves data as at December 31, 2003. The reserves data consist of the following:
  - (a)
    - (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2003 using forecast prices and costs; and
    - (ii) the related estimated future net revenue; and
  - (b)
    - (i) proved oil and gas reserves estimated at December 31, 2003 using constant prices and costs; and
    - (ii) the related estimated future net revenues.
2. The reserves data are the responsibility of the Issuer's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount of 10 percent, included in the reserves data of the Issuer evaluated by us for the year ended December 31, 2003, and identifies the respective portions thereof that we have evaluated and reported on to the Issuer's management and board of directors.

Independent Qualified Reserves Evaluator	Description & Preparation	Location of Reserves	Net Present Value of Future Revenue (before income taxes, 10% discount rate) – M\$			
			Audited	Evaluated	Reviewed	Total
Chapman	Jan. 1, 2004	Canada	---	88	---	88
Totals			---	88	---	88

1. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Chapman Petroleum Engineering Ltd.  
445, 708 – 11<sup>th</sup> Avenue S.W.  
Calgary, Alberta, T2R 0E4

Signed by: "C.W. Chapman"  
C.W. Chapman, P.Eng., President

Dated: November 29, 2004

## REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

### FORM 51-101F3

Management of Arapahoe Energy Corporation (the "Issuer") are responsible for the preparation and disclosure of information with respect to the Issuer's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2003 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2003 using constant prices and costs; and
- (ii) the related estimated future net revenue.

Chapman Petroleum Consultants Ltd., an independent qualified reserves evaluator, has evaluated and reviewed the Issuer's reserves data. The report of Chapman Petroleum Consultants Ltd. will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Issuer has:

- (a) reviewed the Issuer's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Issuer's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has on the recommendation of the Reserves Committee approved:

- (a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (b) the filing of the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

*"Yvonne A. Petkovic"*

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Yvonne A. Petkovic,  
Director

*"Jeffrey L. Standen"*

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Jeffrey L. Standen,  
Director

*"Ross E. Moulton"*

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Ross E. Moulton,  
Vice-President, Exploration and a Director

Dated: November 29, 2004.

## **AUDITORS' CONSENT**

We have read the prospectus of Arapahoe Energy Corporation (the "Issuer") dated ♦, 2004 relating to the offering of Units at a price of \$♦ each and flow-through common shares of the Issuer at a price of \$♦ each for aggregate gross proceeds of \$3,500,000. We have complied with Canadian generally accepted standards for auditors' involvement with offering documents.

We consent to the inclusion in the above-mentioned prospectus of our report to the directors of the Issuer relating to the consolidated balance sheet of the Issuer as at December 31, 2003 and 2002, and relating to the consolidated statements of loss and deficit and cash flows for the years then ended. Our report is dated ♦, 2004..

**"DRAFT"**

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

# **Arapahoe Energy Corporation**

Consolidated Financial Statements  
**December 31, 2003 and 2002**

May 10, 2004

## **Auditors' Report**

### **To the Shareholders of Arapahoe Energy Corporation**

We have audited the consolidated balance sheets of **Arapahoe Energy Corporation** as at December 31, 2003 and 2002 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

Calgary, Alberta

# Arapahoe Energy Corporation

## Consolidated Balance Sheets

As at December 31, 2003 and 2002

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	2003 \$	2002 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	1,378	10,807
Accounts receivable and accruals	56,423	54,653
Prepaid expenses	27,570	2,570
	<hr/>	<hr/>
	85,371	68,030
<b>Capital assets</b> (note 4)	25,325	13,591
	<hr/>	<hr/>
	110,696	81,621
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	248,312	154,438
Due to related parties (note 7)	80,096	47,834
	<hr/>	<hr/>
	328,408	202,272
<b>Site restoration provision</b>	52,126	25,311
	<hr/>	<hr/>
	380,534	227,583
	<hr/>	<hr/>
<b>Shareholders' Deficiency</b>		
<b>Capital stock</b> (note 5)	10,918,692	10,768,692
<b>Deficit</b>	(11,246,530)	(10,914,654)
<b>Contributed surplus</b> (note 5)	58,000	-
	<hr/>	<hr/>
	(269,838)	(145,962)
	<hr/>	<hr/>
	110,696	81,621
	<hr/>	<hr/>
<b>Going concern</b> (note 2)		

**Approved by the Board of Directors**

(Signed) "H. Barry Hemsworth"

Director (Signed) "Jeffrey L. Standen"

Director

**Arapahoe Energy Corporation**  
Consolidated Statements of Loss and Deficit  
For the years ended December 31, 2003 and 2002

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	2003 \$	2002 \$
<b>Revenue</b>		
Oil and gas	92,040	50,150
Royalties	(21,015)	(8,015)
	<u>71,025</u>	<u>42,135</u>
<b>Expenses</b>		
Operating costs	22,104	13,052
Depletion and amortization	15,855	9,540
Stock based compensation (notes 3 and 5)	58,000	-
General and administrative	280,127	299,289
Site restoration provision	26,815	12,371
	<u>402,901</u>	<u>334,252</u>
<b>Loss for the year before other items</b>	(331,876)	(292,117)
<b>Other item</b>		
Gain on disposal of Canadian petroleum and natural gas properties (note 4)	-	68,302
<b>Loss for the year</b>	(331,876)	(223,815)
<b>Deficit – Beginning of year</b>	<u>(10,914,654)</u>	<u>(10,690,839)</u>
<b>Deficit – End of year</b>	<u>(11,246,530)</u>	<u>(10,914,654)</u>
<b>Basic and diluted loss per share</b>	<u>(0.10)</u>	<u>(0.08)</u>

**Arapahoe Energy Corporation**  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2003 and 2002

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	2003 \$	2002 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the year	(331,876)	(223,815)
Items not affecting cash		
Depletion and amortization	15,855	9,540
Provision for site restoration	26,815	12,371
Gain on disposal of Canadian petroleum and natural gas properties	-	(68,302)
Stock based compensation	58,000	-
	(231,206)	(270,206)
Change in non-cash working capital items	99,366	100,046
	(131,840)	(170,160)
<b>Financing activities</b>		
Issuance of capital stock for cash	150,000	-
<b>Investing activities</b>		
Petroleum and natural gas property expenditures	(27,589)	-
Proceeds on disposal of petroleum and natural gas properties	-	75,356
Proceeds from disposal of marketable securities	-	102,088
	(27,589)	177,444
<b>(Decrease) increase in cash</b>	(9,429)	7,284
<b>Cash – Beginning of year</b>	10,807	3,523
<b>Cash – End of year</b>	1,378	10,807

# **Arapahoe Energy Corporation**

Notes to Consolidated Financial Statements

**December 31, 2003 and 2002**

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## **1 Operations**

The Company was incorporated under the Business Corporation Act (Alberta) on January 14, 1997 as 723765 Alberta Ltd. and commenced operations on April 14, 1997. The Company changed its name to Charger Petroleums Inc. effective February 5, 1998, to Charger Energy Inc. effective July 23, 1999 and to Arapahoe Energy Corporation effective April 11, 2003.

## **2 Going concern**

These financial statements have been prepared on the going concern basis which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The Company receives limited production revenue from various non-operated properties in Canada and in prior years has incurred significant losses due to unsuccessful projects in the United States. As at December 31, 2003 the Company had a working capital deficiency of \$243,037 (2002 – \$134,242) and an accumulated deficit of \$11,246,530 (2002 – \$10,914,654).

The ability of the Company to continue as a going concern has been addressed through a plan of arrangement which closed in February 2004 (note 9).

## **3 Summary of accounting policies**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of the consolidated financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

### **Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Torrence Resources Inc. ("Torrence") and Charger Energy (U.S.) Inc., which is inactive.

### **Petroleum and natural gas operations**

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized into country-by-country cost centres. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells and related overhead charges. The capitalized costs, less undeveloped land costs, are depleted using the unit-of-production method based upon estimated proved reserves before royalties. In calculating depletion, petroleum and natural gas reserves are converted to a common unit of measure based on the relative energy content of each product.

# **Arapahoe Energy Corporation**

## Notes to Consolidated Financial Statements

**December 31, 2003 and 2002**

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The capitalized costs less accumulated depletion and depreciation and deferred taxes and the provision for future site restoration costs are limited to an amount equal to the estimated future net revenues from proved reserves based on current prices and costs, plus the lower of cost and estimated fair value of unproved properties, less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes. Capitalized costs related to the acquisition of proved petroleum and natural gas reserves are not required to be written down within two years of the acquisition, unless it is determined that there is a permanent impairment in value.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and amortization.

### **Future site restoration costs**

Estimated future removal and site restoration costs are provided for on the unit-of-production method. Costs are based on estimates in accordance with current legislation and industry practices. Actual removal and site restoration expenditures are charged to the accumulated provision account as incurred.

### **Office equipment and related amortization**

Office equipment is recorded at cost. The Company provides for amortization on the assets using the declining balance method at annual rates of 20% to 30%.

### **Joint ventures**

Substantially all of the Company's oil and gas exploration, development and production activities are conducted jointly with others. The financial statements reflect only the Company's proportionate interest in such activities.

### **Revenue recognition**

Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized when title passes from the Company to the purchaser.

### **Net income (loss) per share**

The Company has applied the treasury stock method to determine the dilutive effective of stock options. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

Income per share is calculated using the weighted average number of shares outstanding for the year. The weighted average number of common shares was 3,243,623 (2002 – 2,894,301). The 2002 number is restated to reflect the April 11, 2003 one share for ten share consolidation. The dilutive per share calculations were based on additional incremental shares of 14,502 in 2003 (2002 – nil).

# Arapahoe Energy Corporation

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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### Financial instruments

The Company's financial instruments consist of current assets and current liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, due to the short-term maturity of these instruments.

### Stock based compensation

Effective January 1, 2003, the Company prospectively adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to stock-based compensation. The recommendation requires that the fair value method of accounting be applied for stock options awarded to directors, officers and employees after January 1, 2003. Compensation is recorded based on the estimated fair value of the option on the grant date. Consideration paid by directors, officers or employees on the exercise of stock options is recorded as share capital.

Stock options are granted to non-employees of the Company in exchange for the receipt of services. The Company follows the fair value method of accounting for the stock options under which compensation cost is recorded based on the estimated fair value of the options on the grant date.

## 4 Capital assets

			<u>2003</u>	<u>2002</u>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>	<b>Net</b>
	\$	amortization	\$	\$
		\$		
Canadian petroleum and natural gas properties	87,224	61,899	25,325	13,591

No interest or general and administrative expenses were capitalized during the year.

The ceiling test calculation used the Company's December year end realized price of \$32.89 per bbl for oil and \$6.89 per mcf for gas.

The Company disposed of a Canadian property in September 2002 for cash consideration of \$75,000. A gain of \$68,302 has been recorded on this disposal.

# Arapahoe Energy Corporation

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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## 5 Capital stock

### a) Authorized

Unlimited number of common shares of no par value  
Unlimited number of non-voting shares of no par value  
Unlimited number of preferred shares, issuable in series

### b) Issued

	Number of common shares	Stated value \$
Balance – December 31, 2001	28,657,977	10,629,354
Issued on settlement of trade accounts payable	928,916	139,338
	<hr/>	<hr/>
Balance – December 31, 2002	29,586,893	10,768,692
Share consolidation (d)	(26,628,202)	-
Issue of common shares pursuant to a private offering	1,000,000	150,000
	<hr/>	<hr/>
Balance – December 31, 2003	3,958,691	10,918,692
	<hr/>	<hr/>

### c) Stock option plan

The Company has a fixed stock option plan under which the Company may grant options to its employees, directors and consultants for up to 290,000 shares of common stock. The exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is five years. Vesting periods are determined at the discretion of the Board of Directors. On July 2, 2003, unexercised options totalling 42,982 were cancelled and 290,000 stock options were granted.

**Arapahoe Energy Corporation**  
Notes to Consolidated Financial Statements  
December 31, 2003 and 2002

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A summary of the status of the Company's fixed stock option plan as of December 31, 2003 and 2002 and changes during the year is presented below:

Fixed options	2003		2002	
	Shares	Weighted-average exercise price \$	Shares	Weighted-average exercise price \$
Outstanding – Beginning of year	429,825	0.36	429,825	0.36
Share and option consolidation (d)	(386,843)	-	-	-
Granted	290,000	0.25	-	-
Cancelled	(42,982)	3.60	-	-
Outstanding – End of year	290,000	0.25	429,825	0.36

The following table summarizes information about fixed stock options outstanding at December 31, 2003:

Options outstanding and exercisable			
Range of exercise prices \$	Number outstanding at December 31, 2003	Weighted-average remaining contractual life	Weighted-average exercise price \$
0.25	290,000	4.50 years	0.25

Compensation cost of \$58,000 has been recognized for stock options granted after January 1, 2003.

The fair value for options granted to employees and directors was estimated at the date of grant using a Black-Scholes option policy model with the following assumptions:

- Volatility factor of expected market price 1.4
- Weighted average risk-free interest rate 3.5%
- Weighted average expected life in years 3
- Weighted average expected dividends per share -

**d) Share consolidation**

On April 11, 2003, the Company's issued and outstanding common shares and stock options were consolidated on a one for ten basis.

# Arapahoe Energy Corporation

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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**e) Share purchase warrants**

In conjunction with a private placement of common shares on September 19, 2003, the Company issued 1,000,000 share purchase warrants with each warrant entitling the holder to purchase an additional share of the Company at a price of \$0.20 per share on or before September 19, 2004.

**f) Contributed surplus**

	\$
Balance – December 31, 2001 and 2002	-
Stock options granted	<u>58,000</u>
Balance – December 31, 2003	<u>58,000</u>

## 6 Income taxes

The provision for income taxes reflects an effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

	2003	2002
	\$	\$
Loss before income taxes	(331,876)	(223,815)
Corporate tax rate	40.62%	42.12%
Calculated income tax recovery	(134,808)	(94,271)
Increase (decrease) in taxes resulting from		
Crown royalties and crown lease rentals	8,150	4,219
Alberta royalty tax credits	(2,037)	(1,054)
Stock based compensation	23,560	-
Tax benefit of loss not recognized	105,135	91,106
	<u>-</u>	<u>-</u>

# Arapahoe Energy Corporation

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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The Company has incurred non-capital losses for Canadian income tax purposes, the related benefit of which has not been recorded in the financial statements. Unless sufficient taxable income is earned, these losses will expire as follows:

	\$
2005	82,000
2006	368,000
2007	779,000
2009	235,000
2010	216,000

As at December 31, 2003, the Company has Canadian tax pools of approximately \$98,000 (2002 – \$72,000) available for deduction against future taxable income.

### 7 Related party transactions

Certain consulting services were provided to the Company by directors of the Company. The cost of such services was \$121,000 (2002 – \$47,384) and are included in general and administrative expenses. At December 31, 2003, \$80,096 (2002 – \$47,384) was payable to directors and a company related by virtue of common officers and a director.

### 8 Commitments

The Company has estimated future site restoration liabilities of \$61,495, of which \$52,126 (2002 – \$25,311) has been accrued. The balance will be accrued over the remaining production life of the Canadian assets.

### 9 Subsequent Events

On February 6, 2004, articles of arrangement were filed to effect a plan of arrangement (the “Arrangement”) between the Company and Crazy Horse Energy Ltd. (“Crazy Horse”). The combined entity resulting from the Arrangement will continue as Arapahoe Energy Corporation, with the transaction accounted for as a reverse takeover of the Company by Crazy Horse.

Immediately prior to the closing of the Arrangement, two private placements were completed in Crazy Horse raising a total of \$2,555,776 in gross proceeds. Arapahoe Energy Corporation intends to use the net funds from the Crazy Horse private placements on oil and gas drilling and recompletion activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**for the year ended December 31, 2003, Amended on November 24, 2004**

This management's discussion and analysis ("MD&A") regarding Arapahoe Energy Corporation ("Arapahoe" or the "Company") should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended December 31, 2003 and December 31, 2002. The results reported therein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars unless otherwise stated. The information in this management discussion and analysis was approved by the Company's Board of Directors on November 24, 2004 and incorporates all relevant considerations to that date. The Board of Directors has amended this MD&A from the original MD&A approved on May 12, 2004.

Forward-looking statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Arapahoe's management at the time the statements were made. Per barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil ("6:1"). The 6:1 conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe disclosure may be misleading, particularly if used in isolation.

## **RESULTS OF OPERATIONS**

Arapahoe Energy Corporation is publicly traded junior oil and natural gas exploration Company with shares listed on the TSX Venture Exchange under the trading symbols "AAO" ("APR" prior to February 6, 2004).

### **2003 Overview**

During 2003, management of Arapahoe had numerous discussions with Crazy Horse Energy Ltd. ("Crazy Horse") and Extreme Energy Corporation ("Extreme") for the purpose of entering into a business transaction, which would benefit the shareholders of all companies involved. Arapahoe was suggested as the vehicle for a plan of arrangement and a business combination with Crazy Horse, and a Farm-In Property was considered with Extreme Energy Corporation who had completed the required negotiations to secure the Farm-In Property. Arm's length and independent due diligence process was completed in September 2003, for the potential project and to raise the required equity funding.

On October 20, 2003, Crazy Horse entered into the Farm-Out Agreement with Extreme whereby Crazy Horse acquired the right to farm-in to certain oil and gas properties owned by Extreme by drilling and completing up to four wells on the subject properties on the Tsuu T'ina First Nations ("Sarcee" or "First Nations") land located west of Calgary, Alberta, Canada.

On February 6, 2004, the plan of arrangement and the business combination with Crazy Horse was concluded resulting in the reverse takeover of Arapahoe. The combined entity was continued as Arapahoe Energy Corporation with gross equity funding of \$2,555,775 to be used on oil and gas exploration and re-completion activities. The details of the exploration and development program can be found in the management information circular of Arapahoe dated November 13, 2003 and the Company's news release dated October 23, 2003 and January 26, 2004.

The Company had insignificant revenues for the fiscal year ending December 31, 2003 and therefore, the Company's figures cannot be compared to industry standards.

### Share Consolidation

On April 11, 2003, the Company's issued and outstanding common shares and stock options were consolidated on the basis of one post-consolidated share for each 10 pre-consolidated common shares. Once the business transaction with Crazy Horse was concluded on February 6, 2004, a further effective share consolidation resulted in one post-consolidated share for each 3 pre-consolidated common shares.

### Annual Results

The following table summarizes the annual results for the year ended December 31, 2003 compared with the year ended December 31, 2002.

Sales Volumes	Year Ended December 31	
	2003	2002
Crude Oil-barrels per day	3.76	2.7
Natural gas volumes – mcf/day	18.53	11.81
Liquids volumes – barrels per day	0.18	0
BOE per day (6:1)	7	5
<b>Financial Results (\$)</b>		
Oil and gas gross revenues	92,040	50,150
Cash Flow from Operations	(231,206)	(270,206)
Net (loss)	(331,876)	(223,815)
Basic & diluted loss per share	(0.10)	(0.08)
Capital (Expenditures) disposal	(27,589)	75,356
Other Disposal	-	102,088
Total assets	110,696	81,621
Working capital (deficit)	(243,037)	(134,242)
Shareholder's deficiency	(269,838)	(145,962)

### Revenues and Royalties:

Since the Company has insignificant revenues, the figures presented herein cannot be compared to industry standards. Total revenue increased 83% for the 12 months ended December 31, 2003 to \$92,040 as compared to \$50,150 for the twelve months ended December 31, 2002. This increase was a result of the higher production rates.

Production for the 2003 year increased marginally to a rate of 7 BOE per day from 5 BOE per day in 2002. The total royalties deducted from petroleum and natural gas sales revenue in 2003 were \$21,015 or 23% of revenue as compared to \$8,015 or 16% of revenue for 2002.

The average price per barrel of oil increased 3% to \$32.58 in 2003, compared to \$31.50 in 2002 and the average price of natural gas for 2003 was \$6.69 per mcf compared to \$10.00 per mcf in 2002 a decrease of 33%.

### **Operating costs:**

Operating expenses were \$22,104 in 2003 compared to \$13,052 in 2002 reflecting an increase of 69% due to higher production costs. The operating netbacks of \$19.23 per boe in 2003 compared to \$17.16 in 2002.

### **General, Administrative and Interest costs:**

General and administrative expenses for year 2003 was \$338,127 (\$131.56 per BOE) as compared to \$299,289 (\$176.50 per BOE) in 2002. The figures per BOE are irrelevant due to the very low production volumes. The general and administrative expenses for 2003 include \$58,000 stock based compensation that the Company recorded as a result of adopting the fair value method of accounting for stock options granted to employees and directors. Stock based compensation is credited to contributed surplus and does not affect cash flow.

Most of the administration costs included the costs associated with maintaining a public company, the costs associated with discontinuing operations in the U.S., and consulting fees for the management of Arapahoe. Additional expenses were incurred in 2003 as new oil and gas and corporate opportunities for Arapahoe were sourced and evaluated.

### **Depletion and Depreciation:**

Depreciation and depletion expenses, including provision for site restoration expenses, for 2003 was \$16.70 per BOE compared to \$12.92 per BOE in 2002. Depreciation and depletion expenses, including provision for site restoration expenses, for 2003 were \$42,670 compared to \$21,911 in 2002. Reduced proved reserves, 2003 compared to 2002, plus additional capital cost in 2003 resulted in an increase in the depletion rate per BOE.

### **Income Taxes:**

Income taxes were not recovered in 2003 or 2002.

## Net Income or Loss:

Activities resulted in a net loss of \$(331,876) or \$(0.10) per share for the year ended December 31, 2003 compared to a net loss of \$(223,815) or \$(0.08) per share for the year ended December 31, 2002.

## Summary of Quarterly Results:

The following is selected data for the years ending December 31, 2003 and 2002.

Financial Data (\$)	2003					2002				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Revenue	92,040	32,282	47,980	(573)	12,351	50,150	419	23,408	426	25,897
Royalties	(21,015)	(13,184)	(36,682)	29,421	(570)	(8,015)	(1,924)	(3,013)	213	(3,291)
Net Revenue	71,025	19,098	11,298	28,848	11,781	42,135	(1,505)	20,395	639	22,606
Expenses										
Operating	22,104	15,321	4,035	(740)	3,488	13,052	2,177	7,085	(1,321)	5,111
G&A	338,127	114,398	79,965	108,650	35,114	299,289	165,869	3,098	111,333	18,988
Depletion and Site Restoration	42,670	8,170	34,500	0	0	21,911	14,461	0	3,068	4,382
	402,901	137,889	118,500	107,909	38,602	334,252	182,507	10,184	113,080	28,481
Operating loss	(331,876)	(118,791)	(107,202)	(79,061)	(26,821)	(292,117)	(184,012)	10,211	(112,441)	(5,875)
Gain on disposal of assets	0	0	0	0	0	68,302	68,302	0	0	0
Net loss	(331,876)	(118,881)	(107,202)	(79,061)	(26,821)	(223,815)	(115,710)	10,211	(112,441)	(5,875)
EPS basic and diluted	(0.103)	(0.030)	(0.036)	(0.03)	(0.009)	(0.078)	(0.040)	0.004	(0.039)	(0.002)
No. of shares outstanding ('000s)	3959	3959	2959	2959	2959	2959	2866	2866	2866	2866

## Fourth Quarter:

Major activity for this period was the signing of the business combination agreement and the farm-in property agreements as described at the outset of this document. Once the agreements were in place the management approached various financial institutions in order to raise the capital through private placements in order to proceed with the exploration and development program.

<b>Annual Production &amp; Netback Summary</b>	<b>2003</b>	<b>2002</b>
<b>Production Volumes</b>		
Oil and NGL (bbl)	1,436	977
Gas (mcf)	6,764	4,312
BOE (6:1) per day	7	5
<b>Product Prices</b>		
Oil price per barrel	\$32.58	\$31.50
Gas price per mcf	\$6.69	\$10.00
NGL price per barrel	\$32.99	\$26.24
<b>Netbacks (\$/BOE)</b>		
Revenue	\$35.91	\$29.59
Royalties	\$8.18	\$4.73
Operating expenses	\$8.50	\$7.70
Operating Netbacks (\$/BOE)	\$19.23	\$17.16
G & A (\$/BOE)	\$131.56	\$176.50

### **Liquidity and Capital Resources:**

The company had insignificant revenues in the past resulting in working capital deficiency of \$(243,037) at December 31, 2003, compared to a deficiency of \$(134,242) at December 31, 2002. Capital expenditures in 2003 amounted to \$27,589 compared to proceeds received from the sale of capital assets of \$75,356 and marketable securities of \$102,088 in 2002.

<b>Capital Expenditures &amp; Funding (\$)</b>	<b>2003</b>	<b>2002</b>
Petroleum & natural gas property expenditures	(27,589)	-
Proceeds on disposal of petroleum and natural gas properties	-	75,356
Proceeds from disposal of marketable securities	-	102,088
Net Capital Expenditures	(27,589)	177,444
Adjusted Cash flow from operations	(231,206)	(270,206)
Change in cash balance	(9,429)	7,284
Issue of capital stock for cash	150,000	-
Change in working capital	99,366	100,046
Total Investing Activities	(27,589)	177,444

### **Financing Activities:**

During 2003 Arapahoe raised \$150,000 of equity through the issuance of 1,000,000 common shares priced at \$0.15 per share. The funding was primarily used for fees associated with the plan of arrangement as described in the overview section. As part of the business transaction, on February 6, 2004 a total of \$2,555,775 in gross proceeds (\$1,846,620 being for flow through shares and

\$709,155 for common shares) was raised resulting in the issuance of 3,357,492 flow through shares and 1,289,373 common shares both priced at \$0.55 each. A total of 2,098,432 warrants were issued entitling the holder to acquire one additional common share at a price of \$0.80 each for a period of one year.

### **Investing Activities:**

Capital spending was \$27,589 for 2003, compared to the disposal and gain on sale of assets of \$75,356 in 2002.

### **Related Parties Transactions:**

The directors of the Company provided certain consulting services. The cost of such services was \$121,000 (2002 \$47,384) and is included in general and administrative expenses. The Company rents office space at the going rate from a Company related by a common officer and a director. Rental of the office space is on a month-to-month basis. At December 31, 2003 \$80,096 (2002-\$47,384) was payable to directors and companies related by virtue of common officers and a director. All charges are in the normal course of conducting business. For 2004, senior management personnel have agreed to defer receiving payment for their services until such time as the Company has revenues to sustain the same.

### **Changes in Accounting Policy**

#### **Stock based compensation**

Effective January 1, 2003, Arapahoe chose to prospectively adopt the fair value method of accounting for employee and directors stock options. The fair value of options granted is determined using an option pricing model and the resulting value is recognized over the vesting period of the options. Compensation cost of \$58,000 was recorded in 2003 as a result of this accounting change.

#### **Asset Retirement Obligations**

Effective January 1, 2004, Arapahoe is required to retroactively adopt a new Canadian accounting standard for asset retirement obligations. The standard requires that the fair value of an asset retirement obligation be recognized when a reasonable estimate of the fair value can be made. The present value of the obligation is capitalized as part of the carrying amount of the related asset. This change in accounting is not expected to have a material effect on Arapahoe's financial statements.

#### **Full Cost Accounting**

Effective January 1, 2004, Arapahoe is required to adopt the new Canadian Accounting Guideline #16, "Oil and Gas Accounting Full Cost". The guideline modifies how the ceiling test is performed by requiring that a cost center be tested for recoverability using undiscounted future cash flows

determined using expected prices applied to proved reserves. When the carrying amount of a cost center is not recoverable, the cost center is written down to the fair value of proved and probable reserves plus the unimpaired cost of unproved property that does not contain probable reserves. This revised ceiling test would not have resulted in an impairment write-down as at December 31, 2003.

### **Business Risks**

Arapahoe is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services.

### **Subsequent events:**

At the date of this report, the Company is pursuing its drilling program as originally planned. The initial well in the proposed drilling program was drilled in 4-30-23-3 W5M. The 4-30 well has been cased as a potential Edmonton Sand and Cardium gas/oil well. The 4-30 well has not yet been tested and is currently waiting on testing and completion.

### **Outlook:**

Arapahoe Energy Corporation will initially focus on exploring and developing oil and natural gas reserves on the Tsuu T'ina First Nations Land located immediately west of the City of Calgary, Alberta, Canada.

Arapahoe has assembled an experienced technical advisory board consisting of senior technical personnel and representatives of First Nations in Alberta and the North West Territories.

Through contacts made with dealing with the Tsuu T'ina First Nations and from our technical advisory board members, it is Arapahoe's intention to pursue additional exploratory and development agreements with the First Nations in Alberta and the North West Territories.

### **Additional Information:**

Further information on the Company can be found on SEDAR's website at [www.sedar.com](http://www.sedar.com) and Company's website at [www.arapahoe-energy.com](http://www.arapahoe-energy.com)

## **ARAPAHOE ENERGY CORPORATION**

Interim Consolidated Financial Statements (Amended)

**For the three-month and six-month periods ended June 30, 2004 and 2003**  
(Unaudited)

### **National Instrument 51-102 Notice**

The accompanying unaudited interim consolidated financial statements of Arapahoe Energy Corporation for the second quarter ended June 30, 2004 and the accompanying notes have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation. These statements have been reviewed by Arapahoe Energy Corporation's external auditors, PricewaterhouseCoopers LLP

**ARAPAHOE ENERGY CORPORATION**  
**Unaudited Consolidated Balance Sheet as at**

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalent	150,396	3,767
Accounts receivable and accruals	74,046	-
Deposits and prepaids	2,570	-
Due from related parties (note 6)	6,357	-
	<u>233,369</u>	<u>3,767</u>
<b>Property, plant and equipment</b>	<u>2,233,880</u>	-
	<u>2,467,249</u>	<u>3,767</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 6)	<u>515,361</u>	-
	515,361	-
<b>Future Income Taxes</b>	494,578	-
<b>Asset Retirement Obligation</b> (note 4 (b) )	<u>43,043</u>	-
	<u>1,052,982</u>	-
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 5)	1,598,655	3,767
<b>Contributed Surplus</b>	359,258	-
<b>Deficit</b>	<u>(543,646)</u>	-
	<u>1,414,267</u>	<u>3,767</u>
	<u>2,467,249</u>	<u>3,767</u>

**Basis of Presentation** (note 1)

**Going Concern** (note 2)

**Approved by the Board of Directors**

**Signed "H. Barry Hemsworth" Director**

**Signed "Yvonne A. Petkovic" Director**

**ARAPAHOE ENERGY CORPORATION**  
**Consolidated Statements of Loss and Retained Earnings (Unaudited)**

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
<b>Revenue</b>				
Oil and gas	29,390	-	56,900	-
Royalties	(3,679)	-	(11,141)	-
	25,711	-	45,759	-
<b>Expenses</b>				
General and administrative	82,669	-	181,021	-
Stock based compensation	-	-	359,258	-
Operating costs	6,110	-	10,327	-
Interest income	(875)	-	(2,002)	-
Depletion, amortization and accretion	10,417	-	21,495	-
	98,321	-	570,099	-
<b>Net loss for the period</b>	<b>(72,610)</b>	<b>-</b>	<b>(524,340)</b>	<b>-</b>
<b>Retained Earnings, beginning of period</b>	<b>23,542</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Reverse takeover transaction costs</b>	<b>-</b>	<b>-</b>	<b>(19,306)</b>	<b>-</b>
<b>Deficit, end of period</b>	<b>\$ (49,068)</b>	<b>-</b>	<b>(543,646)</b>	<b>-</b>
<b>Net loss per share</b>				
<b>Basic and Diluted</b>	<b>\$ (0.01)</b>	<b>-</b>	<b>(0.07)</b>	<b>-</b>

**ARAPAHOE ENERGY CORPORATION**  
**Consolidated Statement of Cash Flows (Unaudited)**

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	\$ (72,610)	\$ -	\$ (524,340)	\$ -
Items not affecting cash				
Depletion, amortization and accretion	10,417	-	21,495	-
Stock based compensation	-	-	359,258	-
Cash flow from operations	(62,193)	-	(143,587)	-
Net changes in non-cash operating working capital	84,425	-	(160,354)	-
	22,232	-	(303,941)	-
<b>Financing activities</b>				
Issuance of capital stock for cash - net	-	-	2,250,631	-
Net change in non-cash financing activities working capital			-	-
	-	-	2,250,631	-
<b>Investing activities</b>				
Acquisition of other petroleum and natural gas properties	(845,676)	-	(2,170,241)	-
Reverse takeover - cash portion			14,812	
Net change in non-cash investing working capital	306,127	-	355,368	-
	(539,549)	-	(1,800,061)	-
<b>Increase (decrease) in Cash and cash equivalent</b>	(517,317)	-	146,629	-
<b>Cash and cash equivalent, beginning of period</b>	667,713	-	3,767	-
<b>Cash and cash equivalent, end of period</b>	\$ 150,396	\$ -	\$ 150,396	\$ -

**ARAPAHOE ENERGY CORPORATION**  
**Notes to Unaudited Consolidated Financial Statements**  
**For six month period ended June 30, 2004 and 2003**

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**1. Basis of Presentation**

Crazy Horse Energy Inc. (“Crazy Horse” or the “Company”) was incorporated under the Business Corporations Act (Alberta) on April 23, 2001 as 930639 Alberta Ltd. The Company’s name was changed to Crazy Horse Energy Inc. on September 17, 2003. The Company had no previous operations.

Pursuant to a Plan of Arrangement (the “Arrangement”) on February 6, 2004, the Company entered into a reverse takeover of Arapahoe Energy Corporation (“Old Arapahoe”), a public company which traded on the TSX Venture Exchange under the symbol “APR”. The Company continues to operate under Arapahoe Energy Corporation (“New Arapahoe”). New Arapahoe, a public company, trades on the TSX Venture Exchange under the symbol “AAO”. Upon completion of the Arrangement, the shareholders of the Old Arapahoe held approximately 13% of the common shares of the Company.

The Company’s intended primary business activity remains unchanged from the Old Arapahoe. The Company is engaged in the exploration, development and production of oil and natural gas in Canada.

Under the Arrangement, Old Arapahoe transferred all its assets and liabilities to the Company. Old Arapahoe shareholders exchanged all their shares for shares in the Company on a basis of one common share for every six Old Arapahoe shares held.

The application of reverse takeover accounting results in the following:

- a) The financial statements are prepared as a reverse takeover transaction that is not a business combination. As a result of the transaction, control of Old Arapahoe will pass to the shareholders of the Company and as such the Company is deemed to be the acquirer and the continuity entity.
- b) The consolidated financial statements are issued under the name of New Arapahoe Energy Corporation as a continuation of the post consolidation financial statements of the Company.
- c) As the Company is deemed to be the acquirer for accounting purposes, its net assets, since incorporation are included in these financial statements at their historical carrying value. The operations of the New Arapahoe Energy Corporation are included from February 6, 2004.
- d) The deemed consideration of the net identifiable assets acquired, liabilities assumed is measured at the net book value of the Old Arapahoe Corporation and the purchase deficiency attributed to the reverse takeover are follows:

**Book Value**

Current Assets	\$ 91,386
Property, Plant and Equipment	37,068
Current Liabilities	(362,320)
Asset Retirement Obligation	<u>(35,863)</u>
	(269,729)

**Fair Value**

Excess of fair value over book. Value attributed to property	<u><u>\$ 40,886</u></u>
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**ARAPAHOE ENERGY CORPORATION**  
**Notes to Unaudited Consolidated Financial Statements**  
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The purchase deficiency represents the Company's cost of the reverse takeover and is allocated to deficit as a cost of acquisition.

## **2 Going Concern**

The Company reported a loss of \$29,762 and negative cash flow from operations of \$143,587 for the six month period ended June 30, 2004. The Company had working capital deficit of \$281,992 at June 30, 2004. The Company's ability to continue as a going concern is dependent upon success of the drilling and exploration program.

## **3 Summary of Accounting Policies**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of the consolidated financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgement. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

The interim consolidated financial statements of Araphoe Energy Corporation have been prepared following the same accounting policies and methods of computation as the financial statements of the Old Arapahoe as at December 31, 2003 with the exception of accounting policy changes described in note 4. The disclosure provided is incremental to that included in the annual financial statements. These interim financial statements do not conform in all respects with the requirements of generally accepted accounting principles for annual financial statements and should be used in conjunction with the Old Arapahoe's financial statements and notes thereto for the year ended December 31, 2003.

### **Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Torrence Resources Inc. ("Torrence").

### **Earnings per share**

Earnings per share and cash flow per share is calculated based on the weighted average number of shares outstanding for the six months ended June 30, 2004 which was 6,982,773 for the six months ended June 30, 2003 (3,766,667). Diluted earnings per share and cash flow per share reflect the exercise of options as if issued at the later of the date of grant or the beginning of the year.

The diluted weighted average number of shares for the six months ended June 30, 2004 is 6,982,773 (for the six months ended June 30, 2003 - 3,766,667). Under the treasury stock method, only "in the money" dilutive shares are included in the weighted average number of shares. It is assumed the proceeds are used to buy back shares at the weighted average market price experienced during the reporting period. The weighted average number of shares is then reduced by the number of shares acquired.

ARAPAHOE ENERGY CORPORATION  
**Notes to Unaudited Consolidated Financial Statements**  
**For six month period ended June 30, 2004 and 2003**

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#### **4 Change in accounting policy**

##### **a) Stock Based Compensation**

Effective January 1, 2003, the Company elected to prospectively adopt the fair value method of accounting for options granted subsequent to January 1, 2003 under its stock-based compensation plan as recommended by the Canadian Institute of Chartered Accountants. The fair value calculated related to stock options granted on or after January 1, 2003 is deferred and charged against earnings, as compensation expense, over the vesting period of the stock options with a corresponding increase in contributed surplus.

The related compensation expense is included in general and administrative expense. Consideration paid to the Company upon the exercise of the stock options is recorded as an increase to share capital, and an adjustment is made to transfer to share capital the compensation expense previously recognized in contributed surplus for the specific stock options exercised. The Company has not incorporated an estimated forfeiture rate for stock options in determining the stock option fair value in order to calculate its compensation expense, as the Company has assumed that all stock options granted will vest. Accordingly, forfeitures are accounted for as they occur and are treated as a change in estimate. The cumulative effect of the change on current and prior periods is recognized in the period of the change in estimate. In the event that vested options expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

##### **b) Asset Retirement Obligations**

Effective January 1, 2004 the Company adopted CICA Handbook section 3110 "Asset Retirement Obligations". This change in accounting policy has been applied retroactively with restatement of prior periods presented for comparative purposes. Previously, the Company recognized the provision for future site restoration and abandonment costs over the life of the Company's oil and gas properties using the unit-of-production method.

The Company now recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which the obligation is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period.

Revisions to the estimated timing of cash flows or to the original estimated fair value would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs.

ARAPAHOE ENERGY CORPORATION  
**Notes to Unaudited Consolidated Financial Statements**  
**For six month period ended June 30, 2004 and 2003**

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## 5 Capital Stock

### a) Authorized

Unlimited number of common voting shares of no par value  
 Unlimited number of preferred shares of no par value

### b) Issued

	<b>Number of Shares #</b>	<b>Amount \$</b>
<b>Issued as at December 31, 2003</b>		
Arapahoe share capital prior to acquisition	3,958,691	10,918,692
Elimination of Arapahoe share capital amount	-	(10,918,692)
Elimination of Arapahoe share based on exchange ratio	(2,639,128)	-
Crazy Horse share capital	-	3,767
Shares issued for acquisition	3,766,667	(228,843)
Debt settlement	80,619	48,371
Private placement	450,000	247,500
Common Share issued as part of offering units	839,373	461,655
Flow Through share issued as part of offering units	3,357,492	1,846,621
Tax effect on flow through share	-	(494,368)
Share issue costs	-	(286,048)
<b>Balance – June 30, 2004</b>	<b>9,813,714</b>	<b>1,598,655</b>

### c) Stock Option Plan

The Company has a stock option plan, under which the Company may grant options to its employees, directors and consultants for up to 10% of the total shares of common stock issued and outstanding at time of option grant. The number of options and the exercise price thereof is set by the Board of Directors at the time of grant, provided that the exercise price shall not be less than the market price of the common shares on the stock exchange on which such shares are then traded. The options granted may be exercisable for a period and may vest at such times as the Board of Directors may determine at the time of grant.

#### Agent's Option

The Agent's Option entitles the Agent to acquire 125,906 units of the Issuer at a price of \$2.75 each until February 6, 2005 under the private placement offering, which closed on February 6<sup>th</sup>, 2004. Each of the units will consist of five Common Shares and five one-half common share purchase warrants. Each whole share purchase warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.80 each until February 6, 2005. In the event the Common Shares trade for 20 consecutive trading

**ARAPAHOE ENERGY CORPORATION**  
**Notes to Unaudited Consolidated Financial Statements**  
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days at a price of not less than \$1.20 each, the Issuer may accelerate the exercise period of the share purchase warrants to not less than 30 days by providing the share purchase warrant holders with written notice of such reduction in the exercise period.

A summary of the status of the Company's stock option plan as at June 30, 2004 and December 31, 2003 and changes during the period ended on those dates:

	Six Months ended June 30, 2004		Year ended December 31, 2003	
	Shares	Weighted average exercise price \$	Shares	Weighted average exercise price \$
<b>Outstanding – Beginning of period</b>	-	-	-	-
<b>Granted</b>	929,014	0.58	-	-
<b>Outstanding – End of period</b>	929,014	0.58	-	-

The following table summarizes information about stock options outstanding at June 30, 2004:

Exercise price	Options outstanding			Options exercisable	
	Options outstanding June 30, 2004	Weighted average remaining contractual life in years	Weighted average exercise price June 30, 2004	Number exercisable	Weighted average exercise price
\$0.55 – 0.75	929,014	4.57	\$0.58	929,014	\$0.58
	<u>929,014</u>			<u>929,014</u>	

Compensation cost of \$359,258 has been recognized for stock options granted. The fair value for options granted to employees and directors was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions:

Volatility factor of expected market price	1.40
Weighted average risk-free interest rate	3.10%
Weighted average expected life in years	3
Weighted average expected annual dividends per share	Nil

**d) Warrants**

**ARAPAHOE ENERGY CORPORATION**  
**Notes to Unaudited Consolidated Financial Statements**  
**For six month period ended June 30, 2004 and 2003**

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- (i) Old Arapahoe issued warrants in connection with a private placement, which closed on September 18, 2003. Each whole warrant entitles the holder to purchase one common share of the corporation at an exercise price of \$0.60 for a period of one year from the date of issuance.
- (ii) The Company issued warrants in connection with a private placement, which closed on February 6, 2004. Each whole warrant entitles the holder to purchase one common share of the corporation at an exercise price of \$0.80 for a period of one year from the date of issuance.
- (iii) The Corporation as a result of another private placement which also closed on February 6, 2004 issued warrants. Each whole warrant entitles the holder to purchase one common share of the corporation at an exercise price of \$0.70 for a period of one year from the date of issuance.

	Number of Shares	Weighted average exercise price \$
<b>Outstanding – December 31, 2003</b>		
Issue of warrants pursuant to private placement (i)	333,334	0.60
Issue of warrants pursuant to private placement (ii)	2,098,433	0.80
Issue of Agents warrants pursuant to private placement (note 5c)	314,764	0.80
Issue of warrants pursuant to private placement (iii)	450,000	0.70
<b>Outstanding – June 30, 2004</b>	<b>3,196,531</b>	<b>0.77</b>
<b>Warrants Exercisable</b>	<b>3,196,531</b>	<b>0.77</b>

## **6 Related Party Transactions**

The amount due from and payable to related parties at June 30, 2004 consists primarily of the following:

- a) On October 20, 2003, the Company entered into an arms-length farm-out agreement (the “Farm-Out Agreement”) with Extreme Energy Corporation (“Extreme”) as a part of the Plan of Arrangement (Note 1), whereby the Company acquired the right to farm-in to certain oil and gas properties owned by Extreme by drilling and completing up to four wells on the properties. After the reverse takeover of Old Arapahoe Energy Corporation on February 6, 2004, the Company and Extreme are related whereby a director of the Company is an officer of Extreme. Old Arapahoe Energy Corporation and Extreme were related by virtue of having a common officer. Drilling costs associated with the Farm-out agreement with Extreme amounted to \$2,078,407 as at June 30, 2004 and has a net outstanding amount of \$305,368 due to Extreme.
- b) The Company has accrued \$25,000 each payable to an officer and a director for services provided to the corporation. Payment for the services provided by both parties will be withheld until such time as and when the Company has revenues to sustain the same.
- c) General administration charges of \$4,500 per month are paid to a Company related by virtue of a common director and an officer.

ARAPAHOE ENERGY CORPORATION  
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d) A loan to a director for \$6,357. The loan is non-interest bearing and has no fixed repayment terms.

**7 Subsequent Events:**

TSX Venture Exchange has approved the extension of the expiry date of 333,333 warrants from September 17, 2004 to March 17, 2005.

**ARAPAHOE ENERGY CORPORATION**  
SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the three-month and the six-month periods ended June 30, 2004 (Amended)**

The management's discussion and analysis ("MD&A") regarding Crazy Horse Energy Inc. ("Crazy Horse" or the "Company") covers the period from February 6, 2004 to June 30, 2004 prior to which the Company had no operations and has insignificant revenues at the present time. Pursuant to a Plan of Arrangement (the "Arrangement") the Company entered into an agreement with Arapahoe Energy Corporation ("Old Arapahoe"), a public company which traded on the TSX Venture Exchange under the symbol "APR" and now continues business under Arapahoe Energy Corporation ("New Arapahoe" hereafter also the "Company"), is a publicly traded junior oil and natural gas exploration company with shares listed on the TSX Venture Exchange under the trading symbols "AAO".

This MD&A should be read in conjunction with the unaudited consolidated financial statements and the selected accompanying notes therein for the six month period ended June 30, 2004. The results reported therein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars unless otherwise stated. The information in this management discussion and analysis was approved by the Company's Board of Directors on November 29, 2004 and incorporates all relevant considerations to that date.

Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Arapahoe's management at the time the statements were made. Per barrel of oil equivalent ("BOE") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil ("6:1"). The 6:1 conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. BOE disclosure may be misleading, particularly if used in isolation.

## **RESULTS OF OPERATIONS**

The results presented herein cover the period from February 6, 2004 to June 30 2004. The Company had insignificant revenues for the six month period ended June 30, 2004. The Company had no operations prior to the reverse takeover of Old Arapahoe and therefore data does not exist for comparison purposes.

### **2004 Overview**

The New Arapahoe began operations as a result of the combination of Arapahoe Energy Corporation and Crazy Horse Energy Corporation with gross equity funding of \$2,555,775 (net \$2,250,631). The flow through portion of the funding was utilized in drilling and completion operations on the Tsuu T'ina First Nation located west of the City of Calgary in the Alberta Foothills and the balance of the funding was utilized for general corporate purposes.

Arapahoe has a joint farmout agreement with Extreme Energy Corporation ("Extreme") on a portion of the Tsuu T'ina First Nation. To date one (1) well has been drilled, cased and completed as a potential tight Cardium formation oil well (Extreme et al Sarcee 4-30-23-3 W5M). Well logs from the 4-30 well indicated potential gas play in two uphole Edmonton formation sands. These sands have not been tested and probably will not be tested until the Cardium formation in the 4-30 well is fully evaluated for commerciality. The total well costs for the 4-30 well exceeded the original cost estimates substantially. The increased costs were due to common foothills drilling difficulties and an early spring breakup. These drilling difficulties resulted in an increased number to total drilling days and the early spring breakup added to the increased completion costs.

Due to the increased costs encountered in the 4-30 well Arapahoe has renegotiated the terms of its farmout arrangement with Extreme Energy Corporation. Instead of Arapahoe having to drill two (2) test wells and perform

one (1) re-completion to earn an interest, Extreme, a related party, has agreed that by drilling and completing the 4-30 well Arapahoe has satisfied all of its farmout obligations and has earned a 50% interest in the farmout lands (3,840 acres). Arapahoe has the option until November 15, 2004 in which to commence the drilling of the option well to evaluate the Mississippian formation underlying the option lands (2,500 acres).

The details of the original exploration and development farmout program can be found in the management information circular dated November 13, 2003 and news releases dated October 23, 2003 and January 26, 2004.

The Company's intended primary business activity remains unchanged from the Old Arapahoe. The Company is engaged in the exploration, development and production of oil and natural gas in Western Canada.

The Company had insignificant revenues for the six month period ending June 30, 2004. The Company had no operations prior to the reverse takeover of Old Arapahoe and therefore data is unavailable for comparison purposes.

### Share Consolidation

On February 6, 2004, the business transaction with Crazy Horse was concluded. Old Arapahoe shareholders exchanged all their shares for shares in the Company on a basis of one common share of the Company for every three Old Arapahoe shares held.

### Quarterly Results

The following table summarizes the results of the insignificant operations from February 6, 2004 to June 30, 2004. Prior to February 6, 2004, the Company did not have any operations.

After the external auditor's reviewed the interim consolidated financial statements for the three and six month periods ended March 31, 2004 and June 30, 2004, amendments to previously reported amounts were required and these have been incorporated herein.

In addition, the company recorded stock based compensation expense of \$359,258 for the three month period ended March 31, 2004 as a result of adopting the fair value method of accounting for stock options granted to employees and directors. Stock based compensation is credited to contributed surplus and does not affect cash flow. For the three month period ended June 30, 2004, the Company did not record any additional stock based compensation expense as all previously granted stock options vested on the grant date.

PRODUCTION HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
<b><u>AVERAGE PRODUCTION</u></b>				
<b>Oil - Barrels</b>	<b>379</b>		<b>787</b>	
Barrels per day	4		4	
<b>Gas - mcf</b>	<b>1,868</b>		<b>3,766</b>	
Mcf per day	21		21	
<b>NGL - Barrels</b>	<b>31</b>		<b>58</b>	
Barrels per day	0		0	
<b>BOE (6:1) per day</b>	<b>8</b>		<b>8</b>	
<b>BOE totals</b>	<b>721</b>		<b>1,473</b>	
<b><u>Price (\$)</u></b>				
Oil price/bbl	37.51		35.18	
Gas price per mcf	7.61		7.30	
NGL price/bbl	32.02		29.78	
<b>Average price per BOE</b>	<b>\$ 40.78</b>		<b>\$ 38.63</b>	

**General, Administrative and Interest costs:**

General and administrative expenses for three month and six month period ended June 30, 2004 were \$82,669 and \$181,021 respectively. Most of the administration costs included the costs associated with maintaining a public Company. Additional expenses were incurred as drilling and exploration program commenced in March 2004.

**Depletion and Depreciation:**

Depletion, depreciation and accretion expenses, for the three month and six month period ended June 30, 2004 were \$10,417 and \$21,495 respectively.

OPERATION HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
<b><u>REVENUE (\$)</u></b>				
Oil revenue	\$14,202		27,704	
Gas revenue	14,201		27,473	
NGL revenue	987		1,723	
	<b>29,390</b>	<b>-</b>	<b>56,900</b>	<b>-</b>
<b><u>ROYALTIES</u></b>				
Oil royalties	629		1,902	
Gas royalties	2,522		8,147	
NGL royalties	528		1,092	
	<b>3,679</b>	<b>-</b>	<b>11,141</b>	<b>-</b>
Royalty per BOE	<b>5.10</b>		<b>7.56</b>	
<b><u>OPERATIONS</u></b>				
Operating expenses	<b>6,110</b>		<b>10,327</b>	
Operating expense per BOE	<b>8.47</b>		<b>7.01</b>	
Operations Netbacks (\$/BOE)	<b>27.21</b>		<b>24.06</b>	

HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
<b><u>General &amp; Administration</u></b>				
G & A Expense	<b>82,669</b>		<b>181,021</b>	
G & A per BOE	<b>114.66</b>		<b>122.89</b>	
Depletion & Depreciation	<b>10,417</b>		<b>21,495</b>	
Depletion & Depreciation per BOE	<b>\$ 14.45</b>		<b>\$ 14.59</b>	

**Net Income or Loss:**

Operating activities resulted in a net loss of \$(72,610) for the three month period ended June 30 2004.

FINANCIAL HIGHLIGHTS	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
<b>Oil and Gas Revenue</b>	\$ 29,390		56,900	
<b>Cash Flow from Operations</b>	(62,193)		(143,587)	
Per share – basic and diluted	(0.01)		\$ (0.02)	
<b>Net Income (loss)</b>	(72,610)		(524,340)	
Per share – basic and diluted	\$ (0.01)		\$ (0.07)	
<b>Capital Expenditures</b>	(845,676)		(2,170,241)	
<b>Number of Shares Outstanding</b>	9,813,714		9,813,714	
<b>Flow Through Shares</b>				
<b>Obligations</b>	-		-	

### Liquidity and Capital Resources:

The Company has insignificant revenues as it continues with the business opportunities outlined earlier. Capital expenditures for the three month period ended June 30, 2004 amounted to \$845,676 as shown in the table.

Net Capital Expenditures (\$)	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
Lease Acquisitions	10,928		10,928	
Geological and geophysical	0		0	
Drilling and completion	834,748		2,157,265	
Facilities and equipment	0		0	
Other	0		2,048	
<b>Net Capital Expenditures</b>	<b>845,676</b>		<b>2,170,241</b>	

### Financing Activities:

As part of the business transaction, on February 6, 2004 a total of \$2,555,776 (\$1,846,621 being for flow through shares and \$709,155 for shares of common stock) in gross proceeds was raised resulting in the issuance of 3,357,492 flow through shares and 1,289,373 common shares both priced at \$0.55 each. On February 6, 2004, a total of 2,548,433 warrants were issued of which the holders of 2,098,433 warrants may acquire one additional common share at a price of \$0.80 each for a period of one year from the date of issue and the holders of 450,000 warrants may acquire one additional common share at price of \$0.70 each for a period of one year from the date of issue. At the same time, Agents' warrants totaling 314,764 were issued. Each whole share purchase warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.80 each for a period of one year from the date of issue. In the event the Common Shares trade for 20 consecutive trading days at a price of not less than \$1.20 each, the Issuer may accelerate the exercise period of the share purchase warrants to not less than 30 days by providing the share purchase warrant holders with written notice of such reduction in the exercise period. Old Arapahoe stock options and warrants were exchanged for New Arapahoe stock options and warrants on 3:1 basis.

There are commitments under the Farm-out Agreement signed with Extreme and at present time efforts are under way to obtain further funding in order to continue with the drilling program and have sufficient funds for working capital. Please see Outlook Section (page 6) for further details.

**Investing Activities:**

Capital spending was \$845,676 for the three month period ended June 30, 2004 which includes \$10,928 in petroleum and natural gas properties purchases; \$834,749 in drilling and completion.

**Related Party Transactions:**

The amount due to related parties at June 30, 2004 consists primarily of the following:

- a) On October 20, 2003, the Company entered into an arms-length farm-out agreement (the "Farm-Out Agreement") with Extreme Energy Corporation ("Extreme") as a part of the Plan of Arrangement (Note 1), whereby the Company acquired the right to farm-in to certain oil and gas properties owned by Extreme by drilling and completing up to four wells on the properties. After the reverse takeover of old Arapahoe Energy Corporation on February 6, 2004, the Company and Extreme are related by virtue of a common director. Old Arapahoe Energy Corporation and Extreme were related by virtue of having a common director and an officer. Drilling costs associated with the aforementioned renegotiated Farm-out agreement with Extreme amounted to \$2,078,407 as at June 30, 2004 and has a net outstanding amount of \$305,368 due to Extreme.
- b) The Company has accrued \$25,000 each payable to an officer and a director for services provided to the corporation. Payment for the services provided by both parties will be withheld until such time as and when the Company has revenues to sustain the same.
- c) General administration charges of \$4,500 per month are paid to a Company related by virtue of a common director and an officer.
- d) A loan to a director for \$6,357. The loan is non-interest bearing and has no fixed repayment terms.

**Changes in Accounting Policy****Stock Based Compensation**

Effective January 1, 2003, the Company chose to prospectively adopt the fair value method of accounting for employee stock options. The fair value of options granted is determined using an option pricing model and the resulting value is recognized over the vesting period of the options.

**Asset Retirement Obligations**

Effective January 1, 2004, the Company is required to retroactively adopt a new Canadian accounting standard for asset retirement obligations. The standard requires that the fair value of an asset retirement obligation be recognized when a reasonable estimate of the fair value can be made. The present value of the obligation is capitalized as part of the carrying amount of the related asset. This change did not have a material effect on Arapahoe's financial statements.

**Full Cost Accounting**

Effective January 1, 2004, the Company is required to adopt the new Canadian Accounting Guideline # 16, "Oil and Gas Accounting – Full Cost". The guideline modifies how the ceiling test is performed by requiring that a cost centre be tested for recoverability using undiscounted future cash flows determined using expected prices applied to proved reserves. When the carrying amount of a cost centre is not recoverable, the cost centre is written down to the fair value of proved and probable reserves plus the unimpaired cost of unproved property that does not contain probable reserves. This revised ceiling test would not have resulted in an impairment write-down as at January 1, 2004.

**Business Risks**

The Company is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services.

**Going Concern**

The Company reported a loss of \$(524,340) and negative cash flow from operations of \$143,587 for the six month period ended June 30, 2004. The Company had working capital deficit of \$281,992 at June 30, 2004. The Company's ability to continue as a going concern is dependent upon success of the drilling and exploration program.

**Subsequent Events:**

At the date of this report, the Company is pursuing its drilling program as originally planned. The initial well in the proposed drilling program was drilled in 4-30-23-3 W5M. The 4-30 well has been cased as a potential Edmonton Sand and Cardium gas/oil well. The 4-30 well has not yet been tested and is currently waiting on testing and completion. Testing and Completion operations are scheduled to commence in few weeks from the date of this report.

**Outlook:**

The company has entered into an Agreement with Woodstone Capital Inc. ("Woodstone") whereby Woodstone will, on a best efforts basis, raise Arapahoe \$2.4 million minimum and \$6.0 million maximum for further drilling, exploration and development on the Tsuu T'ina First Nation and exploration and development in the Hotchkiss and Grouard Areas of Alberta.

Arapahoe Energy Corporation will initially focus on exploring and developing oil and natural gas reserves on the Tsuu T'ina First Nations Land located immediately west of the City of Calgary, Alberta, Canada.

Arapahoe has assembled an experienced technical advisory board consisting of senior technical personnel and representatives of First Nations in Alberta and the North West Territories.

Through contacts made with dealing with the Tsuu T'ina First Nations and from our technical advisory board members, it is the Company's intention to pursue additional exploratory and development agreements with the First Nations in Alberta and the North West Territories.

**Additional Information:**

Further information on the Company can be found on SEDAR's website at [www.sedar.com](http://www.sedar.com) and Company's website at [www.arapahoe-energy.com](http://www.arapahoe-energy.com)

**CERTIFICATE OF THE ISSUER**

Dated: November 29, 2004

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the *Securities Act* (Alberta), by Part 9 of the *Securities Act* (British Columbia), and Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

*"H. Barry Hemsworth"*

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H. Barry Hemsworth,  
President, Chief Executive Officer,  
Chief Financial Officer and Promoter

ON BEHALF OF THE BOARD OF DIRECTORS

*"Ross E. Moulton"*

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Ross E. Moulton,  
Director

*"Jeffrey L. Standen"*

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Jeffrey L. Standen,  
Director and Promoter

**CERTIFICATE OF THE AGENT**

Dated: November 29, 2004

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the *Securities Act* (Alberta), by Part 9 of the *Securities Act* (British Columbia), and Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

WOODSTONE CAPITAL INC.

Per: "Al Emes"

Name: Al Emes

Position: Vice-President, Corporate Finance