

Arbour Energy Inc.
Consolidated Financial Statements
June 30, 2005
(unaudited)

Arbour Energy Inc.
Consolidated Balance Sheet

	<i>June 30,</i>	<i>December 31,</i>
	<i>2005</i>	<i>2004</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Current		
Cash and cash equivalents	3,309,331	1,435,878
Share subscriptions receivable	3,369,959	1,941,926
Notes receivable	-	800,000
Prepaid expenses and deposits	108,654	411,322
Accounts receivable	490,455	249,706
	7,278,399	4,838,832
Petroleum and natural gas properties and equipment	2,311,345	1,830,633
Investments	2,618,053	-
Loan receivable	18,973,900	10,000,000
Intangible asset (net of amortization of \$350,920)	10,176,673	-
Goodwill	186,525	-
	41,895,813	16,669,465
Liabilities		
Current		
Accrued interest payable <i>(Note 3)</i>	619,342	98,389
Accounts payable and accruals	122,208	81,644
Deposit	600,000	-
Share subscription deposit <i>(Note 3)</i>	39,285	39,285
Current portion of long term debt	1,440,000	-
	2,820,835	219,318
Redeemable preferred shares <i>(Note 3)</i>	28,123,989	12,595,561
Long term debt <i>(Note 2(a))</i>	1,700,000	-
Due to third party	324,676	-
Asset retirement obligations	265,137	260,643
	33,234,636	13,075,522
Subsequent events <i>(Note 7)</i>		
Shareholders' Equity (Deficit)		
Share capital <i>(Note 4)</i>	9,759,596	4,759,713
Contributed surplus	1,908,448	944,906
Deficit	(3,006,866)	(2,110,676)
	8,661,177	3,593,943
	41,895,814	16,669,465

The accompanying notes are an integral part of these financial statements

Arbour Energy Inc.
Consolidated Statement of Loss and Deficit
For the six months ended June 30
(unaudited)

	<i>Three months ended June 30,</i>		<i>Six months ended June 30,</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
Revenue				
Oil and gas sales	193,8905	15,871	371,670	29,587
Interest	163,752	-	280,351	-
	357,657	15,871	652,021	29,587
Expenses				
General and administrative	338,887	43,788	574,843	72,885
Interest on preferred shares	170,899	-	564,388	-
Production expenses	151,449	4,547	248,273	17,690
Depletion and depreciation	86,817	1,508	171,900	3,004
Accretion of asset retirement obligations	2,247	500	4,494	1,000
Interest and bank charges	753	-	1,003	-
	751,052	50,343	1,564,901	94,579
Loss before other income (loss)	(393,396)	(34,472)	(912,881)	(64,992)
Other income (loss)				
Unrealized foreign exchange gain	2,086	-	16,690	-
Net loss	(391,309)	(34,472)	(896,190)	(64,992)
Deficit, beginning of period	(2,615,557)	(1,539,959)	(2,110,676)	(1,509,439)
Deficit, end of period	(3,006,866)	(1,574,431)	(3,006,866)	(1,574,431)
Earnings (loss) per share				
Basic <i>(Note5)</i>	(0.021)	(0.003)	(0.05)	(0.006)

The accompanying notes are an integral part of these financial statements

Arbour Energy Inc.
Statement of Cash Flows
For the six months ended June 30, 2005
(unaudited)

	<i>Three months ended June 30,</i>		<i>Six months ended June 30,</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
Cash provided by (used for) the following activities:				
Operating				
Net loss	(391,309)	(34,472)	(896,190)	(64,992)
Depletion and amortization	86,817	1,508	171,900	3,004
Non-cash interest charges	43,435	-	43,435	-
Accretion of asset retirement obligations	2,247	-	4,494	-
	(258,811)	(32,964)	(676,362)	(61,988)
Changes in working capital accounts				
Accounts receivable	(129,240)	(24,713)	(88,331)	(16,862)
Accrued interest receivable	(41,940)	-	(140,570)	-
Prepaid expenses and deposits	(347)	(482)	2,668	(482)
Accounts payable and accruals	25,516	19,408	37,877	(2,225)
Accrued interest payable	127,464	-	520,953	-
Deposit	300,000	-	600,000	-
	281,454	(5,787)	932,598	(19,569)
Financing				
Issue of redeemable preferred shares	8,954,019	-	15,020,285	-
Proceeds from share subscriptions	-	70,000	-	300,000
Debt on acquisition of subsidiary	-	-	5,000,000	-
Repayment of long term debt	(360,000)	-	(1,860,000)	-
Repayment to third party	48	-	(9,953)	-
Advances of short-term note due to shareholder	20,000	-	20,000	-
Funds held in trust	-	-	-	(175,000)
	8,614,066	70,000	18,170,332	125,000
Investing				
Purchase of petroleum and natural gas properties	(234,110)	-	(428,412)	-
Purchase of property and equipment	(137,807)	-	(148,928)	-
Purchase of COREL	-	-	(5,000,000)	-
Loan receivable	(8,973,900)	-	(8,973,900)	-
Investments	1,809,635	-	(2,618,052)	-
Purchase of Arbour Energy US, Inc.	-	-	(186,525)	-
Advances of notes receivable	-	-	800,000	-
	(7,536,182)	-	(16,555,817)	-
Increase (decrease) in cash resources	1,100,527	31,249	1,870,751	43,443
Cash resources, beginning of period	2,208,804	19,211	1,438,580	7,017
Cash resources, end of period	3,309,331	50,460	3,309,331	50,460

The accompanying notes are an integral part of these financial statements

1. Basis of presentation

The interim financial statements of Arbour Energy Inc. ("the Corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal year ended December 31, 2004, except as disclosed. The disclosure which follows is incremental to the disclosure included with the annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporation's annual report for the year ended December 31, 2004.

These financial statements have not been reviewed by any auditor.

These financial statements have been prepared on a consolidated basis which include the accounts of Arbour Energy Inc., Canadian Oilsands Recovery Enterprise Ltd. ("COREL"), Arbour Energy US, Inc. and Arbour Energy Carribean Ltd.

2. Acquisitions

a) During the quarter, the Corporation acquired all of the issued and outstanding shares of Canadian Oilsands Recovery Enterprise Ltd. ("COREL"), a private Alberta corporation, for \$5,300,000 plus 5,000,000 common shares at \$1.00 each of the Corporation. Of the \$5,300,000 purchase price, the Company has paid \$2,160,000 to the end of June 30. The remaining \$3,140,000 is to be paid at a monthly rate of \$120,000 until September 1, 2007 with a final payment of \$20,000. The excess of the purchase price of \$10,300,000 over the book value of COREL has been shown as intangible assets in the amount of \$10,527,593.

b) The Corporation also incorporated a private Barbados corporation, Arbour Energy Caribbean Ltd. The Corporation is the sole shareholder holding 100 shares of common stock with no par value.

c) The Corporation also purchased a subsidiary, Arbour Energy US, Inc. which in turn merged with Biltmore Enterprises Inc., a Nevada Corporation in the United States. Biltmore Enterprises Inc. changed its name to Arbour Energy U.S. Inc. As a result of these transactions the Corporation is the majority shareholder of a subsidiary listed in the United States. The excess of the purchase price of \$186,525 over the book value of Arbour US has been shown as goodwill in the amount of \$186,525.

3 Redeemable preferred shares

During the quarter, the Corporation issued 8,814,367 redeemable preferred shares for proceeds of \$11,899,396.

The redeemable preferred shares pay a 5.75% cumulative annual dividend rate and are redeemable at the option of the holder ten years from the issue date at the issue price of \$1.35. At the option of the holder, the preferred shares are convertible to common shares on a one for one basis. There is a two year hold period on the trading of the preferred shares which expires during 2006 and 2007.

The preferred shares were initially recorded at fair value of the obligation without the conversion feature. The fair value to make future payments of principal and interest was determined to be \$15,484,992 (\$12,577,197 December 31, 2004). The difference between the principal amount of \$16,448,533 (\$13,480,715 December 31, 2004) and the fair value of the obligation is \$963,541 (\$903,518 December 31, 2004) and has been recorded in contributed surplus as the fair value of the conversion feature of the preferred shares.

At June 30, 2005 there was \$3,369,959 in share subscriptions receivable and \$39,285 in a share subscription deposit relating to the series one preferred shares.

Interest of \$619,342 has been accrued at June 30, 2005.

4. Share capital

Authorized

An unlimited number of common voting shares without par value

An unlimited number of preferred shares without par value, issuable in series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Issued

Preferred shares (Note 3)

Common shares

	Number of shares	Amount
Balance at December 31, 2003	4,875,002	\$ 1,352,139
Issued on conversion of short-term note due to shareholder	6,000,000	300,000
Issued for cash	2,150,735	2,150,735
Issued in exchange for interest in petroleum and natural gas properties	957,500	957,500
Share issuance costs	-	(661)
Balance at December 31, 2004	13,983,237	4,759,713
Issued on acquisition of COREL Note 2 (a)	5,000,000	5,000,000
Balance June 30, 2005	18,983,237	\$ 9,759,713

5. Per share amounts

The weighted average number of common shares outstanding as at June 30, 2005 is 18,983,237 (2004 - 4,875,002). Diluted loss per common share has not been disclosed as the effect of common shares issuable upon the exercise of stock options would be anti-dilutive.

6. Related party transactions

During the second quarter of 2005, \$51,500 (2004 - NIL) in fees and salaries and \$3,000 (2004 - NIL) relating to a vehicle allowance were paid to directors and companies controlled by directors of the Corporation.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.