

Arbour Energy Inc.
Financial Statements

March 31, 2005

(unaudited)

Arbour Energy Inc.**Balance Sheet**

As at March 31, 2005

	March 31, 2005 (unaudited)	December 31, 2004 (unaudited)
Assets		
Current		
Cash and cash equivalents	2,208,804	1,435,878
Share subscriptions receivable	400,785	1,941,926
Notes receivable	-	800,000
Prepaid expenses and deposits	108,307	411,322
Accounts receivable	319,273	249,706
	3,037,169	4,838,832
Petroleum and natural gas properties and equipment	2,026,255	1,830,633
Investments	4,427,687	-
Loan receivable	10,000,000	10,000,000
Goodwill	10,714,118	-
	30,205,229	16,669,465
Liabilities		
Current		
Accrued interest payable (Note 3)	491,878	98,389
Accounts payable and accruals	96,716	81,644
Deposit	300,000	-
Share subscription deposit (Note 3)	39,285	39,285
Current portion of long term debt	1,440,000	-
	2,367,879	219,318
Redeemable preferred shares (Note 3)	17,120,686	12,595,561
Long term debt (Note 2(a))	2,060,000	-
Due to third party	304,712	-
Asset retirement obligations	262,890	260,643
	22,116,167	13,075,522
Subsequent events (Note 7)		
Shareholders' Equity (Deficit)		
Share capital (Note 4)	9,759,713	4,759,713
Contributed surplus	944,906	944,906
Deficit	(2,615,557)	(2,110,676)
	8,089,062	3,593,943
	30,205,229	16,669,465

The accompanying notes are an integral part of these financial statements

Arbour Energy Inc.
Statement of Loss and Deficit
For the three months ended March 31
(unaudited)

	2005	2004
Revenue		
Oil and gas sales	184,132	13,715
Interest	116,599	1
	300,731	13,716
Expenses		
General and administrative	290,282	29,597
Interest on preferred shares	393,489	-
Depletion and depreciation	85,083	1,497
Production expenses	48,865	13,141
Accretion of asset retirement obligations	2,247	500
Interest and bank charges	250	-
	820,216	44,735
Loss before other income (loss)	(519,485)	(31,019)
Other income (loss)		
Unrealized foreign exchange gain	14,604	-
Net loss	(504,881)	(31,019)
Deficit, beginning of year	(2,110,676)	(1,509,439)
Deficit, end of year	(2,615,557)	(1,540,458)
Earnings (loss) per share		
Basic <i>(Note5)</i>	(0.027)	(0.01)

The accompanying notes are an integral part of these financial statements

Arbour Energy Inc.
Statement of Cash Flows
For the three months ended March 31, 2005
(unaudited)

	2004	2003
Cash provided by (used for) the following activities:		
Operating		
Net loss	(504,881)	(31,019)
Depletion and amortization	85,083	1,497
Accretion of asset retirement obligations	2,247	500
	(417,551)	(29,022)
Changes in working capital accounts		
Accounts receivable	40,909	7,851
Accrued interest receivable	(98,630)	-
Prepaid expenses and deposits	303,015	-
Accounts payable and accruals	12,361	(21,635)
Accrued interest payable	393,489	-
Deposit	300,000	-
	951,144	(42,806)
Financing		
Issue of redeemable preferred shares	4,525,125	-
Proceeds from share subscriptions	1,541,141	-
Debt on acquisition of subsidiary	3,500,000	-
Repayment to third party	(10,000)	-
Advances of short-term note due to shareholder	-	230,000
Funds held in trust	-	(175,000)
	9,556,266	55,000
Investing		
Purchase of petroleum and natural gas properties	(194,302)	-
Purchase of property and equipment	(11,121)	-
Purchase of COREL	(5,300,000)	-
Investments	(4,427,687)	-
Purchase of Arbour Energy US, Inc.	(186,525)	-
Advances of notes receivable	800,000	-
	(9,319,635)	-
Increase (decrease) in cash resources	770,224	12,194
Cash resources, beginning of year	1,438,580	7,017
Cash resources, end of year	2,208,804	19,211

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 Caribbean 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 \$1,800,000 to the end of March 31. The remaining \$3,500,000 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 goodwill 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 3,351,944 redeemable preferred shares for proceeds of \$4,525,124.

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.

At March 31, 2005 there was \$400,785 in share subscriptions receivable and \$39,285 in a share subscription deposit relating to the series one preferred shares.

Interest of \$491,878 has been accrued at March 31, 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 2)

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 March 31, 2005	18,983,237	\$ 9,759,713

5. Per share amounts

The weighted average number of common shares outstanding as at March 31, 2005 is 13,983,237 (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 first quarter of 2005, \$39,016 (2004 - NIL) in fees and salaries and \$2,000 (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.