

Auditors' Report

We have audited the consolidated balance sheets of Marauder Resources East Coast Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"signed KPMG LLP"
Chartered Accountants

Calgary, Canada
April 20, 2007

Marauder Resources East Coast Inc.

Consolidated Balance Sheets

December 31

	<u>2006</u>	<u>2005</u>
Assets		
Current		
Cash	\$ 606,506	\$ 3,916,927
Accounts receivable	347,679	547,307
Prepaid expenses and deposits	<u>36,363</u>	<u>35,135</u>
	990,548	4,499,369
Property and equipment (note 4)	<u>35,411,663</u>	<u>35,421,053</u>
	<u>\$ 36,402,211</u>	<u>\$ 39,920,422</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 544,755	\$ 1,428,923
Asset retirement obligation (note 5)	<u>—</u>	<u>16,000</u>
	<u>544,755</u>	<u>1,444,923</u>
Shareholders' Equity		
Share capital (note 6)	42,829,738	43,216,368
Warrants (note 7)	140,902	1,642,617
Contributed surplus (note 8)	6,561,987	5,060,272
Deficit	<u>(13,675,171)</u>	<u>(11,443,758)</u>
	<u>35,857,456</u>	<u>38,475,499</u>
	<u>\$ 36,402,211</u>	<u>\$ 39,920,422</u>

Future operations (note 1)

On behalf of the Board

"signed John Loewen" Director

"signed Robert Shields" Director

Marauder Resources East Coast Inc.
Consolidated Statements of Operations and Deficit
Years ended December 31

	<u>2006</u>	<u>2005</u>
Revenue		
Interest income	\$ <u>9,901</u>	\$ <u>169,985</u>
Expenses		
General and administrative	643,152	689,019
Production	–	18,484
Interest	–	671,618
Stock-based compensation <i>(note 6)</i>	–	2,379,040
Depletion and depreciation <i>(note 4)</i>	<u>1,984,792</u>	<u>5,281,240</u>
	<u>2,627,944</u>	<u>9,039,401</u>
Loss before income taxes	(2,618,043)	(8,869,416)
Future income tax reduction <i>(note 9)</i>	<u>386,630</u>	<u>5,589,325</u>
Net loss for the year	(2,231,413)	(3,280,091)
Deficit, beginning of year	<u>(11,443,758)</u>	<u>(8,163,667)</u>
Deficit, end of year	\$ <u>(13,675,171)</u>	\$ <u>(11,443,758)</u>
Net loss per share – basic and diluted <i>(note 6)</i>	\$ <u>(0.04)</u>	\$ <u>(0.07)</u>

Marauder Resources East Coast Inc.

Consolidated Statements of Cash Flows

Years ended December 31

	<u>2006</u>	<u>2005</u>
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (2,231,413)	\$ (3,280,091)
Add back non-cash items:		
Stock-based compensation	–	2,379,040
Depletion and depreciation	1,984,792	5,281,240
Future income tax reduction	(386,630)	(5,589,325)
Abandonment expenditures (note 5)	(46,937)	–
	<u>(680,188)</u>	<u>(1,209,136)</u>
Change in non-cash working capital (note 10)	79,793	(62,065)
	<u>(600,395)</u>	<u>(1,271,201)</u>
Financing activities		
Issue of shares, net of issue costs	–	6,127,719
Change in non-cash working capital (note 10)	(666,466)	666,466
	<u>(666,466)</u>	<u>6,794,185</u>
Investing activities		
Expenditures on property and equipment	(1,944,465)	(16,915,349)
Business acquisition (note 3)	–	250,035
Change in non-cash working capital (note 10)	(99,095)	120,719
	<u>(2,043,560)</u>	<u>(16,544,595)</u>
Decrease in cash	(3,310,421)	(11,021,611)
Cash, beginning of year	<u>3,916,927</u>	<u>14,938,538</u>
Cash, end of year	\$ <u>606,506</u>	\$ <u>3,916,927</u>
Supplemental cash flow information:		
Interest paid	\$ 666,466	\$ 5,152

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Marauder Resources East Coast Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta). The Company's principle business is the exploration for and the production of petroleum and natural gas reserves off the east coast of Canada and elsewhere.

1. Future operations

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As at December 31, 2006, the Company had an accumulated deficit of \$13,675,171 (2005 – \$11,443,758). Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom and to continue to obtain capital financing from investors sufficient to meet current and future obligations.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. Significant accounting policies

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada and include the accounts of the Company and its wholly owned subsidiaries.

a) Property and equipment

The Company follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized. Capitalized costs include land acquisition costs, cost of drilling both productive and non-productive wells, and geological and geophysical expenses and related overhead.

Capitalized costs, excluding costs relating to unproved properties, are depleted using the unit-of-production method based on estimated proved reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content of six thousand cubic feet to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Proceeds from disposal of properties are deducted from the full cost pool without recognition of a gain or loss unless such a sale would alter the rate of depletion and depreciation by in excess of 20%.

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

2. Significant accounting policies (continued)

a) Property and equipment (continued)

Under the full cost method of accounting, oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying amount of the oil and gas assets. If the carrying amount of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using a risk-free rate.

Office furniture and equipment are recorded at cost and are depreciated on the declining balance basis using rates varying from 20% to 30%.

b) Asset retirement obligation

The Company records a liability for the fair value of legal obligation associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows.

c) Interest in joint operations

Certain of the Company's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

d) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

e) Flow-through shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liabilities are increased and share capital is reduced by the estimated tax cost when the expenditures are renounced.

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

2. Significant accounting policies (continued)

f) Stock-based compensation

Under the Company's stock option plan described in note 6, options to purchase common shares are granted to directors, officers, employees and consultants at current market prices or higher. Stock-based compensation expense is recorded in the statement of operations for all options granted with a corresponding amount recorded as contributed surplus. Compensation expense is based on the estimated fair values on the options at the time of the grant as determined using a Black Scholes option model. The expense is recognized on a straight-line basis over the vesting period of the option. Upon the exercise of the stock options, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed.

g) Per share amounts

Basic loss per share is calculated on the basis of the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method. Diluted calculations reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options and warrants assuming the proceeds would be used to repurchase shares at average market prices for the year. Anti-dilutive options and warrants are not included in the calculation.

h) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the ceiling test are based on estimates of gross reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of changes in such estimates in future periods could be material. Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment is made to the property and equipment balance.

3. Business acquisition

On September 30, 2005, the Company acquired Marauder Resources Corp. ("MRC"), a privately held company holding 19,211,510 shares (approximately 41%) of Marauder Resources East Coast, through a share exchange. All former shareholders of Marauder Resources Corp. exchanged their shares for shares of the Company. As this transaction was with a related party under common control, the assets acquired and liabilities assumed were recorded at their carrying amount, in addition to transaction costs of \$218,587. Upon completion of the share exchange and as a result of the share exchange ratio, 54,669 shares of the Company were returned to treasury.

The carrying value of the assets acquired and liabilities assumed by the Company are as follows:

Issuance of common shares	\$	55,545
Current assets (including cash of \$250,035)		271,036
Current liabilities		(79,679)
Asset retirement obligation		<u>(16,000)</u>
Net assets acquired	\$	<u>230,902</u>

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

4. Property and equipment

	December 31, 2006		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties	\$ 42,659,363	\$ 7,260,382	\$ 35,398,981
Office equipment	18,332	5,650	12,682
	<u>\$ 42,677,695</u>	<u>\$ 7,266,032</u>	<u>\$ 35,411,663</u>

	December 31, 2005		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties	\$ 40,678,181	\$ 5,279,200	\$ 35,398,981
Office equipment	24,112	2,040	22,072
	<u>\$ 40,702,293</u>	<u>\$ 5,281,240</u>	<u>\$ 35,421,053</u>

The Company did not capitalize any general and administrative costs in 2006 (2005 – \$151,298).

As the Company did not have any production in 2006, depletion and depreciation expense for the year ended December 31, 2006 includes \$1,981,182 related to the write-off of expenditures on impaired petroleum and natural gas properties.

The Company applied the ceiling test to its capitalized assets at December 31, 2006 and determined that there was no further impairment (2005 – \$5,263,200). The 2005 impairment amount has been included in the depletion and depreciation expense for the year ended December 31, 2005. For the purposes of the December 31, 2006 impairment test the following benchmark prices were used:

	WTI (US\$) Price \$/bbl	Company Average Oil Price \$/bbl
2009	59.00	66.60
2010	58.00	65.40
2011	57.00	64.30
2012	58.00	65.40

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

5. Asset retirement obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the retirement of the Company's property and equipment:

	2006	2005
Balance, beginning of year	\$ 16,000	\$ –
Liabilities incurred	30,937	–
Liabilities acquired (<i>note 3</i>)	–	16,000
Abandonment expenditures	(46,937)	–
Balance, end of year	\$ –	\$ 16,000

The following significant assumptions were used to estimate asset retirement obligations:

	2006	2005
Undiscounted cash flows	–	\$ 16,000
Credit adjusted discount rate	–	8.0%
Inflation rate	–	2.0%
Expected timing of cash flows	–	2 years

6. Share capital

a) Authorized

Unlimited number of common voting shares

Unlimited number of preferred shares, issued in series, of which none have been issued

b) Common shares issued

	Number of Shares	Amount
Balance – December 31, 2004	45,723,744	\$ 43,592,272
Returned to treasury on business acquisition (<i>note 3</i>)	(54,669)	12,315
Exercise of broker warrants (<i>i</i>)	–	898
Exercise of options (<i>ii</i>)	550,000	410,029
Private placements (<i>iii</i>)	4,349,760	3,847,086
Flow-through common shares (<i>iii</i>)	1,000,000	1,150,000
Tax effect of flow-through shares (<i>iv</i>)	–	(5,589,325)
Share issue costs	–	(206,907)
Balance – December 31, 2005	51,568,835	43,216,368
Tax effect of flow-through shares (<i>iii</i>)	–	(386,630)
Balance – December 31, 2006	51,568,835	\$ 42,829,738

(i) In September 2005, the Company received \$898 related to the exercise of broker warrants for MRC common shares exercised prior to the business acquisition disclosed in note 3.

(ii) During 2005, 550,000 common shares were issued on the exercise of the same number of options with a weighted average share price of \$0.40 per share for total cash proceeds of \$217,502. In addition, the pro-rata share of the options' fair value of \$192,527 has been reclassified to share capital.

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

6. Share capital (continued)

b) Common shares issued (continued)

- (iii) In November and December 2005, the Company issued 4,349,760 units comprised of one common share and one-half common share purchase warrant priced at \$1.15 per unit, and 1,000,000 flow-through shares at \$1.15 per share for total gross proceeds of \$6.08 million. Each whole warrant was exercisable into one common share at a price of \$1.50 per common share and expire in November and December 2006. A finder's fee of 6.5% cash and 6.5% warrants was paid on a portion of the private placement. The warrants were exercisable at \$1.15 per common share and expired in December 2006. The \$386,630 future tax effect of the flow-through proceeds was recorded in February 2006 when the related renunciation documents were filed with the tax authorities. As at December 31, 2006, all qualifying expenditures had been incurred.
- (iv) The \$5,589,325 future tax effect of \$16,625,000 flow-through proceeds raised by the Company in 2004 was recorded in February 2005 when the related renunciation documents were filed with the tax authorities.

c) Stock options

The Company has a stock option plan which allows for the issuance of options to purchase shares at specific prices for a specific period of time. The maximum number of shares issuable pursuant to options granted under the plan are limited to 10% of the total issued and outstanding common shares subject to shareholder approval. All directors, officers and certain employees and consultants are eligible to participate in the plan. All options under the plan vest immediately. The option price under the plan will not be less than the market price of the common shares on the date of grant. The expiry date for each option will be set by the Board of Directors at the time of issue of the option but in any event will not be more than five years after the date of grant.

Shares have been reserved for the following outstanding stock options:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	5,090,000	\$ 1.34	3,990,000	\$ 1.26
Exercised	–	–	(550,000)	(0.40)
Expired or forfeited	(1,690,000)	(1.33)	(600,000)	(1.50)
Granted	–	–	2,250,000	1.30
Balance, end of year	3,400,000	\$ 1.35	5,090,000	\$ 1.34

In December 2005, the Company granted 2,250,000 stock options to employees, consultants and directors. The options have an exercise price of \$1.30 per share, expire in December 2010 and vest immediately. The fair value of these options was estimated to be \$2,379,040 using the Black-Scholes pricing model, all of which was recorded as stock-based compensation expense in 2005.

The Black-Scholes pricing model was based on the following assumptions for options granted in 2005:

Volatility	113%
Risk-free interest rate	3.89%
Dividend yield	nil
Expected life of options	5 years

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

6. Share capital (continued)

c) Stock options (continued)

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

Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
200,000	2.0	\$ 0.65	200,000
1,700,000	3.9	1.30	1,700,000
1,500,000	2.7	1.50	1,500,000
3,400,000	3.3	\$ 1.35	3,400,000

d) Per share amounts

The basic and diluted weighted average number of common shares outstanding during the year ended December 31, 2006 was 51,568,835 (2005 – 46,623,236). In computing diluted per share amounts, all of the Company's outstanding options and warrants have been excluded as they are anti-dilutive.

7. Warrants

	Number of Warrants	Amount
Balance, December 31, 2004	612,500	\$ 344,434
Agent warrants (<i>note 6(b)(iii)</i>)	204,770	143,045
Unit private placement warrants (<i>note 6(b)(iii)</i>)	2,174,879	1,155,138
Balance, December 31, 2005	2,992,149	1,642,617
Expired	(2,791,279)	(1,501,715)
Balance, December 31, 2006	200,870	\$ 140,902

The following table is a continuity of warrants:

	December 31, 2006		December 31, 2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	2,992,149	\$ 1.56	612,500	\$ 1.90
Issued	–	–	2,379,649	1.47
Expired	(2,791,279)	1.59	–	–
Balance, end of year	200,870	\$ 1.15	2,992,149	\$ 1.56

Warrants outstanding at December 31, 2006 have a weighted average remaining life of 0.25 years and expired, unexercised, subsequent to December 31, 2006.

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

8. Contributed surplus

	2006	2005
Balance, beginning of year	\$ 5,060,272	\$ 2,873,759
Exercise of stock options <i>(note 6(b)(ii))</i>	–	(192,527)
Stock-based compensation <i>(note 6(c))</i>	–	2,379,040
Expiry of warrants <i>(note 7)</i>	1,501,715	–
Balance, end of year	\$ <u>6,561,987</u>	\$ <u>5,060,272</u>

9. Income taxes

The future income tax reduction reported in the consolidated statements of operations and deficit differs from the amount computed by applying the combined federal and provincial tax rates to the net loss before taxes. The difference results from the following:

	2006	2005
Expected income tax recovery at 34.50% (2005 – 37.62%)	\$ (903,094)	\$ (3,336,674)
Resource allowance	20,841	42,004
Non-deductible items	–	894,995
Rate adjustment	2,997,874	3,144,207
Other	(446,551)	721
Change in valuation allowance	(2,055,700)	(6,334,578)
	\$ <u>(386,630)</u>	\$ <u>(5,589,325)</u>

The components of the net future income tax asset (liability) at December 31 are:

	2006	2005
Non-capital losses	\$ 27,468,612	\$ 31,021,006
Share issue costs	192,508	376,612
Capital losses	214,850	258,221
Eligible capital expenditures	63,912	74,137
Asset retirement obligations	–	5,379
Property and equipment	(8,816,143)	(10,536,725)
Valuation allowance	(19,123,739)	(21,198,630)
	\$ <u>–</u>	\$ <u>–</u>

As at December 31, 2006, the Company has approximately \$5.9 million of tax pools and \$94.7 million of non-capital losses available for deduction against future taxable income. Non-capital losses expire between 2007 and 2026.

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

10. Change in non-cash working capital

	2006	2005
Accounts receivable	\$ 199,628	\$ (444,709)
Prepaid expenses and deposits	(1,228)	(1,328)
Accounts payable and accrued liabilities	(884,168)	1,171,157
	<u>\$ (685,768)</u>	<u>\$ 725,120</u>

The change in non-cash working capital has been allocated to the following activities:

	2006	2005
Operations	\$ 79,793	\$ (62,065)
Financing	(666,466)	666,466
Investing	(99,095)	120,719
	<u>\$ (685,768)</u>	<u>\$ 725,120</u>

11. Related party transactions

The Company had the following related party transactions during the year ended December 31, 2006:

- a) The Company was charged \$45,917 (2005 – \$219,393) by a legal firm in which a director of the Company is a partner.
- b) The Company was charged \$122,321 (2005 – \$41,184) for office rent by a corporation controlled by an officer and director of the Company.
- c) The Company was charged \$17,100 (2005 – \$66,663) for consulting services provided by a corporation controlled by an officer of the Company.
- d) The Company has accrued a liability in the amount of \$338,968 for the indemnification of investors subject to reassessment as a result of an audit by the Canada Revenue Agency for unexpended renounced flow through share expenditures. An officer of the Company has indemnified the Company for these costs; as such, an equal amount receivable has been accrued.

Included in accounts payable at December 31, 2006 is \$391,076 (2005 – \$505,809) in respect of these amounts. Included in accounts receivable at December 31, 2006 is \$338,968 (2005 – \$523,514 including \$21,000 due from an officer and director of the Company for legal fees related to the acquisition of his holdings in MRC (note 3) paid by the Company.)

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

12. Financial instruments

a) Fair values of financial assets and liabilities

Financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. At December 31, 2006 and 2005 there were no significant differences between the carrying amounts reported on the balance sheet and estimated fair values. The Company is exposed to fluctuations in commodity prices, interest rates and exchanges rates. The Company has not entered into any hedging contracts.

Marauder Resources East Coast Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

12. Financial instruments (continued)

b) Credit risk

The majority of the accounts receivable are in respect of a flow-through audit adjustment for expenditures not incurred. The monies are due from an individual from one of the previously acquired corporations with a corresponding accrued liability owing to investors (see note 11).

13. Subsequent event

In April 2007, the Company granted 1,175,000 stock options to directors and a consultant. The options were granted at an exercise price of \$0.25 per option, vest immediately and expire five years from date of grant. In addition, the Company plans to seek shareholder approval to cancel 1,500,000 stock options at \$1.50, 1,700,000 at \$1.30 and 200,000 at \$0.65 and reissue the total options of 3,400,000 at current market prices.