Green Maple Energy Inc.
Consolidated Financial Statements
For the years ended
December 31, 1998 and 1997

Contents

Auditors’ Report

To the Shareholders of
Green Maple Energy Inc.

We have audited the consolidated balance sheets of Green Maple Energy Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position 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 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, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

BDO Dunwoody LLP (signed)

Chartered Accountants

Calgary, Alberta
April 15, 1999

Green Maple Energy Inc.
Consolidated Balance Sheets

As at December 31	1998	1997
Assets		
Current		
Cash and deposits	**$ 6,364**	$ 220,143
Accounts receivable	**363,719**	504,982
Prepaid expenses	**19,332**	16,990
	389,415	742,115
Property, plant, equipment and seismic rights (Note 3)	**5,357,909**	4,881,581
	$ 5,747,324	$ 5,623,696
Liabilities		
Current		
Accounts payable	**$ 281,364**	$ 692,582
Current portion of long term debt (Note 5)	**105,000**	-
	386,364	692,582
Long term debt (Note 5)	**1,020,000**	-
Site restoration costs	**60,188**	52,609
	1,466,552	745,191
Shareholders' Equity		
Share capital (Note 6)	**6,180,563**	6,267,410
Contributed surplus (Note 6 (e))	**24,367**	-
Deficit	**(1,924,158)**	(1,388,905)
	4,280,772	4,878,505
	$ 5,747,324	$ 5,623,696

Approved on behalf of the Board:

Varoujan Basmadjian (signed)

Director

R. David Kimmit (signed)

Director

The accompanying notes are an integral part of these financial statements

Green Maple Energy Inc.
Consolidated Statements of Operations and Deficit

For the years ended December 31	1998	1997
Revenue		
Oil and gas sales, net of royalties	**$ 1,648,510**	$ 889,525
Expenses		
Amortization of administrative assets	**13,612**	13,781
Amortization of seismic rights	**306,360**	280,829
Depletion and site restoration	**771,093**	754,800
General and administrative costs	**349,341**	387,321
Interest on long term debt	**41,978**	-
Operating	**704,632**	274,848
	2,187,016	1,711,579
Loss before other items	**(538,506)**	(822,054)
Other		
Interest	**3,253**	71,191
Loss before income taxes	**(535,253)**	(750,863)
Income taxes (recovery)		
Provision for deferred income taxes (Note 4)	**-**	(27,805)
Net loss for the year	**(535,253)**	(723,058)
Deficit, beginning of year	**(1,388,905)**	(182,485)
Excess of purchase price of oil and gas property acquired over carrying value (Note 7(c))	**-**	(483,362)
Deficit, end of year	**$ (1,924,158)**	$ (1,388,905)
Basic and fully diluted loss per share	**$ (0.019)**	$ (0.028)
Weighted average number of shares	**28,174,638**	25,330,264

The accompanying notes are an integral part of these financial statements

Green Maple Energy Inc.
Consolidated Statements of Changes in Financial Position

For the years ended December 31		1998		1997
Cash provided (used) by				
Operating activities				
Net loss for the year	**$**	**(535,253)**	$	(723,058)
Items not involving cash				
Amortization of administrative assets		**13,612**		13,781
Amortization of seismic rights		**306,360**		280,829
Depletion and site restoration		**771,093**		754,800
Deferred income taxes		**-**		(27,805)
Cash flow from operations		**555,812**		298,547
Changes in non-cash working capital balances				
Accounts receivable		**141,263**		(379,277)
Prepaid expenses		**(2,342)**		(5,687)
Accounts payable		**(411,218)**		572,828
		283,515		486,411
Investing activities				
Purchase of 682998 Alberta Ltd., net of cash (Note 2)		**-**		(1,991,332)
Acquisition and development of property, plant and equipment		**(2,156,139)**		(2,830,349)
Proceeds on disposal of property, plant and equipment		**596,325**		2,336
		(1,559,814)		(4,819,345)
Financing activities				
Proceeds from long term debt		**1,125,000**		-
Issue of share capital, net of share issue costs of $401,087		**-**		4,198,520
Repurchase of shares (Note 6(e))		**(62,480)**		-
		1,062,520		4,198,520
Decrease in cash and equivalents		**(213,779)**		(134,414)
Cash and equivalents, beginning of year		**220,143**		354,557
Cash and equivalents, end of year	**$**	**6,364**	$	220,143
Basic and fully diluted cash flow from operations per share	**$**	**0.020**	$	0.012
Weighted average number of shares		**28,174,638**		25,330,264

The accompanying notes are an integral part of these financial statements

1. Significant Accounting Policies

Green Maple Energy Inc. (the "Company") is a public company incorporated under the Business Corporations Act (Alberta) engaged in production, development and exploration of oil and natural gas in Canada. The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

The recoverability of amounts shown for oil and gas properties is dependent upon the discovery of economically recoverable reserves and the ability of the Company to obtain the necessary financing to complete the development and future profitable production of oil and gas properties.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary from the date of acquisition.

(b) Property, plant 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 reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using 10 MCF of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from a sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion by more than 20%. Alberta Royalty Tax Credits are included in oil and gas sales.

In applying the full cost method, the Company performs a ceiling test on properties which restricts the capitalized costs less accumulated depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, as determined by independent engineers, based on sales prices achievable under existing contracts and posted average reference prices in effect at the end of the year and current costs, and after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes.

1. Significant Accounting Policies - Continued

(c) Site restoration costs

Site restoration costs are accrued based on management's best estimate of these future costs calculated on the unit of production basis, utilizing proved producing reserves.

(d) Joint venture accounting

A substantial part of the Company's operations are carried out through joint ventures. These financial statements reflect only the Company's proportionate interest in such activities.

(e) Rights to seismic data

Included in property, plant and equipment is the value of rights to the use of seismic data which is being amortized over 78 months in which the Company may use the data.

(f) Administration assets

Administration assets are recorded at cost. Amortization is provided on a declining balance basis at a rate of 20%.

(g) Financial instruments

The Company carries a number of financial instruments as detailed on the balance sheet. 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, unless otherwise noted.

(h) Measurement uncertainty

The amounts recorded for depletion of petroleum and natural gas properties and equipment and the provision for future site restoration and reclamation are based on estimates. The ceiling test is based on estimates of proved 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 effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

December 31, 1998 and 1997

2. Business Combination

Effective January 31,1997 the Company purchased all of the outstanding shares of 682998 Alberta Ltd. ("682998") in exchange for 9,200,000 shares of the Company. 682998's assets comprise of the right to use certain seismic data (the "Rights"). The carrying amount attributable to these Rights was approximately $57,000. Of the 9,200,000 common shares issued, 8,970,113 may not be traded, released, transferred or dealt with in any manner without the consent of the Alberta Stock Exchange. The escrowed securities are to be released at the rate of one share for every $0.435 of future expenditures incurred on the properties to which the seismic data relates. Any shares remaining in escrow on January 31, 2002 will be cancelled within six months.

The transaction included a guarantee by the original shareholders of 682998 Alberta Ltd. to raise a minimum of $1,000,000 through the completion of a private placement of 2.3 million treasury shares of the Company. This resulted in the Company issuing 2.3 million common shares for a net cash consideration of $1,329,000, including $609,000 relating to shares purchased under the guarantee.

This transaction, a related party transaction, has been recorded at the exchange amount, as determined by an independent geophysicist, at $2,000,000 ($3,076,000 value adjusted for $1,076,000 of lost tax shield). The parties are considered related as the companies have certain common shareholders, directors and management.

The consolidated financial statements include the accounts of 682998 Alberta Ltd. at their historical values from the date of the acquisition as follows:

Book value of assets acquired	$ 8,668
Purchase price settled via issue of shares	2,000,000
Purchase price discrepancy	$ (1,991,332)
The excess has been allocated as value of rights to usage of seismic data	$ 1,991,332

3. Property, Plant, Equipment and Seismic Rights

			1998	1997
	Cost	**Accumulated Amortization And Depletion**	**Net Book Value**	Net Book Value
Petroleum and natural gas properties	**$ 6,244,486**	**$ 2,345,167**	**$ 3,899,319**	$ 3,115,951
Rights to usage of seismic data	**1,991,332**	**587,189**	**1,404,143**	1,710,503
Total petroleum and natural gas and related assets	**8,235,818**	**2,932,356**	**5,303,462**	4,826,454
Administration assets	**90,198**	**35,751**	**54,447**	55,127
Total property, plant, equipment and seismic rights	**$ 8,326,016**	**$ 2,968,107**	**$ 5,357,909**	$ 4,881,581

3. Property, Plant, Equipment and Seismic Rights - Continued

Petroleum and natural gas properties include cumulative capitalized general and administrative costs of approximately $127,500 (1997-$32,000). Costs associated with unproved properties excluded from costs subject to depletion for the year amounted to $429,000 (1997 - $372,500). Depletion of petroleum and natural gas properties includes a write down of $Nil (1997 - $412,115) for properties where the value is considered to be impaired.

4. Income Taxes

The income tax provision on the income statement differs from the expected income tax provision as follows:

	1998	1997
Expected income taxes at an effective rate of 44.5%	**$ (238,188)**	$ (334,134)
Add (deduct) effects of:		
Amortization of Rights (Note 2)	**135,791**	125,510
Non-deductible crown royalties	**64,945**	75,412
Resource allowance	**(68,310)**	(43,859)
Unrecognized benefits of loss carryovers	**(16,350)**	(11,986)
Unrecognized deferred tax assets	**120,794**	158,519
Other	**1,318**	2,733
	$ -	$ (27,805)

At December 31, 1998, the Company had approximately $234,000 (1997 - $253,000) of loss carryover balances which commence expiring in 2003. In addition, the Company has capital cost pools, oil and gas pools and deferred financing cost pools approximating $5,120,000 (1997 - $4,100,000) to deduct against future taxable income.

5. Long Term Debt

	1998	1997
Direct revolving reducing bank loan	**$ 1,125,000**	$ -
Less : Current portion	**(105,000)**	-
	$ 1,020,000	$ -

During the year the Company has obtained a revolving reducing credit facility of $1.5 million from a Canadian Chartered bank. Interest is charged at the bank's prime rate plus ¼% per annum. The facility is supported by a general security agreement and a hypothecation of a $2 million demand debenture, creating a first floating charge on all the assets and with a fixed charge on Battrum, Saskatchewan properties. As at the year end, the bank, while reserving its right to demand, does not intend to require repayment of any amount outstanding within the next fiscal year.

5. Long Term Debt - Continued

As per the agreement, the facility is to reduce by $160,000 per quarter, commencing April 30, 1999. The scheduled debt repayment is as follows:

1999	**$ 105,000**
2000	**480,000**
2001	**480,000**
2002	**60,000**
	$ 1,125,000

6. Share Capital

(a) Authorized
Unlimited number of Common voting shares

(b) Issued
Common shares

	1998		1997	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**28,211,283**	**$ 6,777,507**	14,492,141	$ 2,177,900
Issued for cash	**-**	**-**	3,731,642	2,402,732
Upon exercise of share purchase warrants	**-**	**-**	787,500	196,875
In exchange for the outstanding shares of 682998 Alberta Ltd. (Note 2)	**-**	**-**	9,200,000	2,000,000
Shares redeemed as part of Normal Course Issue Bid	**(361,500)**	**(86,847)**	-	-
	27,849,783	**$ 6,690,660**	28,211,283	$ 6,777,507
Less: share issue costs		**(510,097)**		(510,097)
Balance, end of year		**$ 6,180,563**		$ 6,267,410

There are 8,970,113 (1997 – 8,970,113) shares held in escrow. The escrow agreement resulting from the business combination disclosed in Note 2 provides for the release of one share for every $0.435 of future expenditures incurred on the properties to which the seismic data acquired relates. Any shares remaining in escrow on the fifth anniversary of the escrow agreement (January 31, 2002) will be cancelled within six months. As at December 31, 1998 – 183,454 (1997 – Nil) shares qualify from the above for release as the expenditure conditions were met.

6. Share Capital - Continued

(c) Options

Pursuant to a stock option plan for directors, officers and key employees, the following options are outstanding:

1998 Number	**Exercise Price**	**Date of Expiry**	1997 Number
200,000	**0.30**	September 13, 1999	400,000
165,000	**0.40**	March 20, 2001	375,000
1,675,000	**0.20**	April 20, 2003	-

No options were exercised in the year (1997 – Nil). During 1998, 200,000 of the $0.30 per share options and 210,000 (1997 – 100,000) of the $0.40 per share options were cancelled.

During the year 1,675,000 options expiring April 20, 2003 at $0.20 were granted.

(d) Warrants

No warrants to purchase common shares were exercised during the year (1997 – 787,500 common shares at $0.25 per share). There were 1,431,642 (1997 – 1,431,642) warrants to acquire common shares at $1.45 per share attached to the 1997 public offering, all of which are outstanding. These warrants have expired subsequent to the year end in January 1999.

(e) Normal Course Issuer Bid

During the year the Company filed a Normal Course Issuer Bid with the Alberta Stock Exchange to acquire up to 1,400,000 of its outstanding shares until June 8, 1999. As at December 31, 1998 a total of 361,500 common shares were repurchased and cancelled for $62,480. Share capital was reduced by $86,847 for the average carrying value of the common shares and the difference of $24,367 was recorded as contributed surplus. Subsequent to year end an additional 151,000 common shares have been repurchased for cancellation for $21,140.

7. Related Party Transactions

(a) Consulting fees of $Nil (1997 - $18,900) were paid to a company controlled by a director of the Company. The director had resigned in 1997.

(b) Companies controlled by former directors of the Company are participants in various oil and gas joint ventures with the Company. These directors had resigned in 1997.

(c) In 1996, the Company signed a joint venture agreement with Pegaz Energy Inc. (“Pegaz”) a public company of which a Director of the Company was a significant shareholder, officer and Director. Pursuant to the agreement, Pegaz was to fund the Company with no less than $3,000,000 for exploration and development on Company lands during the initial term (ended December 31, 1997) of the joint venture program. In October 1997, it was determined that the Company was not able to utilize the committed amount during the initial term. The excess funds of $1,405,000 were returned to Pegaz.

7. Related Party Transactions - Continued

For the $1,595,000 utilized in joint venture activities, the Company will earn a 15% gross overriding royalty at the current market value of the gross product, on a monthly basis for natural gas and other petroleum substances and on an annual basis for crude oil. The Company will hold a 60% working interest once Pegaz recovers its investment.

Pursuant to a purchase and sale agreement effective November 1, 1997, the Company also acquired a 50% working interest in petroleum and natural gas rights, tangibles and other interests owned by Pegaz for cash consideration of $2,000,000. The transaction has been recorded in these financial statements at the carrying amount of $1,516,638, as recorded in Pegaz's accounts.

During the year under two separate purchase and sale agreements effective April 1, 1998 and December 1, 1998, the Company acquired 50% and 100% working interests respectively in certain petroleum and natural gas rights, tangibles and other interests owned by Pegaz for cash consideration of $1,600,000 and sold 50% working interests in certain petroleum and natural gas rights, tangibles and other interest to Pegaz for cash consideration of $109,897. All these transactions have been recorded in these financial statements at the exchange amounts, as it represents the fair market value of these properties as evaluated by independent engineers.

(d) Included in trade accounts payable is $Nil (1997 - $59,000) for net joint venture accounts payable to a company controlled by a director. Included in accounts receivable is a net amount of $92,000 (1997 - $199,900) receivable from Pegaz. This balance is comprised of $15,000 (1997 - $245,600) for net joint venture accounts receivable, $77,000 (1997 - $15,300) for administrative expenses paid by the Company on Pegaz's behalf, and $Nil (1997 - $61,000) payable to Pegaz for share issue costs incurred on behalf of the Company.

8. Financial Instruments

As disclosed in Note 1(g), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, fair value and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Interest rate risk management
The Company's short and long-term borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

As at December 31, 1998, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $11,250 per annum. The related disclosure regarding this debt instrument is included in Note 5 of these financial statements.

8. Financial Instruments - Continued

(b) Credit risk
A significant portion of the Company's trade accounts receivable are from working interest partners in the oil and gas industry and, as such the Company is exposed to all the risks associated with that industry.

9. Commitments

The Company is committed to leased office premises with future base rent payments as follows:

1999	$	27,816
2000		6,954
	$	34,770

The Company is also required to pay their proportionate share of operating costs and tax costs for the premises. The lease expires March 31, 2000.

10. The Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.