

ARAPAHOE ENERGY CORPORATION

Interim Consolidated Financial Statements

**For the three-month period ended March 31, 2005 and 2004
(Unaudited)**

NOTICE TO READER: These unaudited interim financial statements have not been reviewed by the Company's auditors.

ARAPAHOE ENERGY CORPORATION
Consolidated Balance Sheet

	Mar 31	Dec 31
	2005	2004
	\$	\$
Assets		
Current assets		
Cash	129,341	12,035
Accounts receivable and accruals	156,342	51,055
Due from related parties (note 9)	-	6,357
Prepaid expenses	4,545	10,939
Deferred financing costs	292,767	-
	<u>582,995</u>	<u>80,386</u>
Property, plant and equipment (note 4)	4,282,120	2,185,559
	<u>4,865,115</u>	<u>2,265,945</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	544,029	574,924
Due to related parties (note 9)	91,973	86,130
Cash calls received	40,000	-
Operating loan payable (note 6)	2,495,850	-
	<u>3,171,852</u>	<u>661,054</u>
Asset retirement obligation (note 5)	14,224	14,224
	<u>3,186,076</u>	<u>675,278</u>
Shareholders' Equity		
Capital stock (note 7)	1,772,189	1,472,189
Deficit	(452,408)	(240,780)
Contributed surplus	359,258	359,258
	<u>1,679,039</u>	<u>1,590,667</u>
	<u>4,865,115</u>	<u>2,265,945</u>
Going concern (note 2)		

Approved by the Board of Directors

“Jeffrey L. Standen”

“Ross Moulton”

ARAPAHOE ENERGY CORPORATION
Consolidated Balance Sheet

	2005	2004
	\$	\$
Revenue		
Oil and gas	33,996	27,510
Royalties	(3,995)	(7,462)
	<u>30,001</u>	<u>20,048</u>
Expenses		
Operating costs	7,608	4,216
Depletion, depreciation and accretion	7,036	10,494
Stock based compensation	-	359,258
General and administrative	152,051	98,352
Interest expense	16,381	(1,127)
Financing costs	58,553	-
Accretion	-	585
	<u>241,629</u>	<u>471,778</u>
Loss for the period before taxes	(211,628)	(451,730)
Future income tax recovery (note 8)	-	494,578
	<u>(211,628)</u>	<u>42,848</u>
Loss for the period	(211,628)	42,848
Deficit – Beginning of period	(240,780)	-
Reverse takeover transaction costs (note 1)	-	(19,306)
	<u>(452,408)</u>	<u>23,542</u>
Retained Earnings Deficit – End of period	(452,408)	23,542
Basic and diluted loss per share	<u>(0.02)</u>	<u>(0.00)</u>

ARAPAHOE ENERGY CORPORATION
Consolidated Statement of Cash Flows
For three months ended March 31

	2005	2004
	\$	\$
Cash provided by (used in)		
Operating activities		
Loss for the period	(211,628)	42,848
Items not affecting cash		
Depletion, depreciation and accretion	7,036	10,494
Accretion	-	585
Stock-based compensation	-	359,258
Financing cost – non cash	50,000	-
Future tax recovery	-	(494,578)
	<hr/>	<hr/>
Cash flow used in operations	(154,592)	(81,393)
Change in non-cash working capital items	2,401,851	(244,780)
	<hr/>	<hr/>
	2,247,259	(326,173)
Financing activities		
Issuance of capital stock for cash	-	2,250,631
Change in non-cash working capital	(26,356)	-
	<hr/>	<hr/>
	(26,356)	2,250,631
Investing activities		
Acquisition of other petroleum and natural gas properties	(2,103,597)	(1,324,566)
Reverse takeover costs – cash portion	-	14,812
Net change in non-cash investing working capital	-	49,242
	<hr/>	<hr/>
	(2,103,597)	(1,260,512)
Increase in cash	117,306	663,946
Cash – Beginning of period	<hr/>	<hr/>
	12,035	3,767
Cash – End of period	<hr/>	<hr/>
	129,341	667,713

FORMATION OF THE BUSINESS

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 that traded on the TSX Venture Exchange under the symbol “APR”. The Company continues to operate under Arapahoe Energy Corporation (“Arapahoe”). 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.

1. BASIS OF PRESENTATION

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

The application of reverse takeover accounting, that does not constitute a business combination, was accounted for in accordance with EIC10 and 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 passed 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 Arapahoe Energy Corporation as a continuation of the Company.
- c) All net assets have been included at their historical carrying value. The operations of Old Arapahoe are included from February 6, 2004.
- d) Transaction costs, to the extent of cash in Old Arapahoe as at February 6, 2004, have been charged to deficit as reverse takeover transaction costs.
- e) The deemed consideration of the net identifiable assets acquired and liabilities assumed is measured at the net book value of the Old Arapahoe Corporation and the purchase deficiency attributed to the reverse takeover are as follows:

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

Book Value	
Current Assets	\$ 91,386
Property, Plant and Equipment	37,068
Current Liabilities	(362,320)
Asset Retirement Obligation	<u>(5,948)</u>
	(239,814)
Fair Value	<u>(228,843)</u>
Deficiency of fair value over book value attributed to property	<u>\$ 10,971</u>

2. GOING CONCERN

The Company reported a loss of \$211,628 and cash used in operations of \$154,592 for three months ended March 31, 2005. The Company had working capital deficit of \$2,588,857 at March 31, 2005. The Company's ability to continue as a going concern is dependent upon the Company's ability to raise capital and the success of the drilling and exploration program.

These 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. 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 accompanying 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These Consolidated Financial Statements have been prepared for the Company, pursuant to the Arrangement (as detailed in note 1). They are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Measurement uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and the provision for asset retirement obligation costs are based on estimates. In addition, the ceiling test calculation 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 in such estimates in future periods could be material.

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

Joint interests

A portion of the Company's exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and investments in highly liquid money market instruments, which are convertible to known amounts of cash in less than three months.

Financial instruments

The fair market value of cash and cash equivalents, receivables, other current assets, payables and bank debt approximate their carrying value. From time to time, the Company may use derivative financial instruments to manage exposure to fluctuations in commodity prices and foreign currency exchange rates. All transactions of this nature entered into by the Company are related to an underlying financial position or to future petroleum and natural gas production. The Company does not use derivative financial instruments for speculative trading purposes.

Property, plant and equipment

The Company follows the full cost method of accounting whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition, geological and geophysical, drilling of productive and non-productive wells, production equipment and facilities, carrying costs directly related to unproved properties and costs related to acquisition of petroleum and natural gas assets directly or by means of a business combination. These capitalized costs along with estimated future capital expenditures to be incurred in order to develop proved reserves, are depleted and depreciated on a unit of production basis using estimated proved petroleum and natural gas reserves as evaluated by independent engineers. For the purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Gains or losses on the disposition of properties are not recognized unless the proceeds on disposition result in a change of 20 percent or more in the depletion rate.

Depreciation of furniture and office equipment is provided using the declining balance method at a rate of 20 percent.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount from undiscounted future net cash flows based on proved reserves, which are determined by using forecasted future prices, plus unproved properties. If the carrying amount exceeds the ultimate recoverable amount, an impairment loss is recognized in net earnings. The impairment loss is limited to the amount by which the carrying amount exceeds: (i) the sum of the fair value of proved and probable reserves; and (ii) the costs of unproved properties that have been subject to a separate impairment test and contained no probable reserves.

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

Asset retirement obligations

Estimated future costs relating to retirement obligations associated with oil and gas well sites and facilities are recognized as a liability, at fair value. The asset retirement cost, equal to the fair value of the retirement obligation, is capitalized as part of the cost of the related asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. The liability is adjusted at each reporting period to reflect the passage of time, with the accretion charged to earnings. Actual costs incurred upon settlement of the obligations are charged against the liability.

Future income taxes

The Company follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share issues are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders are recorded as a future income tax liability at the time of renunciation and a reduction in share capital.

Revenue recognition

Revenue from the sale of oil and natural gas is recorded when title passes to an external party.

Stock-based compensation

The Company has a stock-based compensation plan. Effective January 1, 2004, the Company adopted the fair-value method to record compensation expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option agreement. The consideration received by the Company on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation expense.

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Weighted average number of shares is determined by relating the portion of time within the reporting period that common shares have been outstanding to the total time in that period.

Diluted per share amounts are calculated using the treasury stock method, which assumes that any proceeds obtained on exercise of share options or other dilutive instruments would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

For the three month period ended March 31, 2005 the weighted average number of shares was 10,076,158. 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 period. The diluted weighted average number of shares for the three month period ended March 31, 2005 is 10,448,506.

Consolidation

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

Related party transactions

Related party transactions are conducted in the normal course of operations and are measured at fair market value.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Depreciation Depletion	Dec 31, 2005 Net Book Value	Dec 31, 2004 Net Book Value
P&NG Properties	4,307,858	37,994	4,269,864	2,181,009
Office assets	14,851	2,595	12,256	4,550
TOTAL	4,322,709	40,589	4,282,120	2,185,559

On March 16, 2005, Arapahoe entered into a Farmout Agreement with Tsuu T'ina Energy Corporation pursuant to which it has acquired a 100% working interest in certain petroleum and natural gas rights underlying approximately 21,000 acres (the "Sarcee Farmout Lands") located on the Tsuu T'ina First Nation west of Calgary, Alberta. The Company is obliged to drill at least two wells per year on the Sarcee Farmout Lands.

At March 31, 2005, the depletion calculation excluded unproved properties of \$4,200,282. The Company has not capitalized any general and administrative expenses for the three month period ended March 31, 2005.

The prices used in the ceiling test evaluation of the Company's natural gas, crude oil and natural gas liquids reserves at December 31, 2004 were:

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

	2005	2006	2007	2008	2009	% increase to 2015
Natural Gas (\$/mcf)	6.55	6.30	5.80	5.55	5.63	0.935%
Crude Oil (\$/Bbl)	50.22	49.00	47.72	45.15	43.87	0.911%
Natural Gas Liquids (\$/Bbl)	38.52	37.58	37.63	36.60	34.63	0.957%

5. ASSET RETIREMENT OBLIGATION

The future asset retirement obligations were estimated by management based on the Company's working interest in its wells, estimated costs to remediate, reclaim and abandon the wells and estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total asset retirement obligation to be \$14,224 at December 31, 2004 based on a total future liability of \$38,775. This estimate has not changed during the three month period ended March 31, 2005. These costs are expected to be incurred over the next three to fifteen years. The Company's risk free interest rate of 8.5% and an inflation rate of 1.8% were used to calculate the net present value of asset retirement obligation.

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

At December 31	2005	2004
Asset retirement obligation, beginning of period	14,224	-
Liabilities incurred and acquired	-	12,755
Accretion expense	-	1,469
Asset retirement obligation, end of period	14,224	14,224

6. OPERATING LOAN

On March 11, 2005 the Company entered into a Loan Agreement with Quest Capital Corp. ("Quest") wherein Quest provided the Company with a loan in the principal amount \$2,495,820 (the "Loan"). This money was used by the Company to acquire the Sarcee Farmout Lands and for working capital purposes. Interest accrues on the amount outstanding under the Loan at the amount of 12% per annum, calculated and compounded monthly, not in advance, and is payable to Quest on the last business day of every month commencing March 31, 2005. The outstanding balance of the Loan, including any accrued interest, is due September 30, 2005. The Company issued 1,181,000 Common Shares to Quest as additional consideration for the advance of the Loan. These shares were valued at \$300,000, which was set up as a deferred financing cost on the balance sheet along with legal fees, associated with this transaction, in the amount of \$51,320. This amount will be amortized over the life of the loan and expensed as financing costs on a monthly basis. In support of its obligation to repay the Loan, the Company provided Quest with a security interest in all of its assets, including its interest in the Sarcee Farmout Lands.

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

7. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

b) Issued and outstanding

	Number of Shares #	Amount \$
Issued as at December 31, 2004		
Arapahoe share capital prior to acquisition	3,958,691	10,918,692
Elimination of Arapahoe share capital	(3,958,691)	(10,918,692)
Shares issued to shareholders of Old Arapahoe – based on exchange ratio	1,319,563	-
Crazy Horse share capital	3,766,667	3,767
Elimination of Crazy Horse share capital	(3,766,667)	-
Shares issued to shareholders of Crazy Horse	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
Share issue costs	-	(286,048)
Tax effect	-	(620,834)
Issued during 2005		
Quest Capital Corp – financing costs	1,181,000	300,000
Balance – March 31, 2005	10,994,714	1,772,189

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, 2004. Each of the units consists of five Common Shares and five one-half common share purchase warrants. Each whole share purchase warrant entitles 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 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. All of these options expired without exercise during the three months ended March 31, 2005.

A summary of the status of the Company's stock option plan as at March 31, 2005 and changes during the period ended on that date:

	Three months ended March 31, 2005 # Shares	Three months ended March 31, 2005 Weighted average exercise price \$
Outstanding – beginning of period	872,348	.58
Granted	-	-
Expired during period	-	-
Outstanding – end of period	872,348	.58

The following table summarizes information about stock options outstanding at March 31, 2005:

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

Exercise price	Options outstanding	Options outstanding		Options exercisable	Options exercisable
	# Outstanding Mar 31, 2005	Weighted average remaining contractual life in years	Weighted average exercise price at Dec 31, 2005	Number exercisable	Weighted average exercise price
\$0.55 - \$0.75	872,348	3.79	\$0.58	872,348	\$0.58
	872,348			872,348	

Compensation cost of \$359,258 has been recognized in 2004 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	140%
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

- (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 Company at an exercise price of \$0.60 for a period of one year from the date of issuance. TSX Venture Exchange has approved the extension of the expiry date of 333,333 warrants from September 17, 2004 to March 17, 2005. All of these warrants expired during the three month period ending March 31, 2005.
- (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 Company at an exercise price of \$0.80 for a period of one year from the date of issuance. All of these warrants expired during the three month period ending March 31, 2005.
- (iii) The Company, as a result of another private placement which also closed on February 6, 2004 issued warrants. Each whole warrant entitled the holder to purchase one common share of the Company at an exercise price of \$0.70 for a period of one year from the date of issuance. All of these warrants expired during the three month period ended March 31, 2005.

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements

8. INCOME TAX

	2005
Loss before income taxes	(211,628)
Combined federal and provincial income tax rate	38.87%
Crown charges	1,165
Resource allowance	(13,005)
Future income taxes recovery	(96,429)

The components of the net future income tax asset as at March 31, 2005 were as follows:

	Mar 31 2005	Dec 31 2004
Future income tax assets:		
Asset retirement obligation	4,782	4,782
Share issue costs	96,169	96,169
Non-capital losses carried forward	757,740	811,701
	858,692	912,653
Future income tax liabilities:		
Property, plant and equipment	580,079	580,079
Net future income asset before valuation allowance	278,612	332,574
Valuation allowance	(278,612)	(332,574)
Net future income tax asset	-	-

The Company's non-capital losses expire between 2005 and 2011. Given the uncertainty of realization, no future tax asset has been recognized in these financial statements. The Company's tax pools associated with its property, plant and equipment expenditures consist of approximately \$2,167,000 Canadian Oil and Gas Property Expenditures (COGPE), \$13,000 of Canadian Development Expenditures (CDE), \$373,000 of Canadian Exploration Expenditures (CEE) and \$12,000 of Undepreciated Capital Costs (UCC).

9. RELATED PARTY TRANSACTIONS

The amount due from and payable to related parties as at March 31, 2005 consists primarily of the following:

- a) The Company has accrued \$91,973 payable to three directors for services provided to the corporation. Payment for the services provided by all parties will be withheld until such time as and when the Company has revenues to sustain the same.
- b) A loan to a director for \$6,357, from a prior period was recorded in accounts receivable as at December 31, 2004. The loan was non-interest bearing with no fixed repayment terms. This amount was netted with the payable to this director during the three month period ending March 31, 2005.

10. SUBSEQUENT EVENTS

On March 17, 2005, Arapahoe entered into an engagement letter with Dominick & Dominick Securities Inc. for the private placement of 11,111,111 Common Shares of the Corporation, to be issued as "flow-through shares" within the meaning of the *Income Tax Act*, at the price of \$0.45 per share (\$5,000,000) and 5,000,000 Common Shares of the Company at the price of \$0.40 per share (\$2,000,000) for aggregate gross proceeds of \$7,000,000. The Company agreed to pay to the Agent at the Closing Time a fee in cash, equal to 7% of the gross proceeds from the sale of the Offered Securities, as well as Broker Warrants to purchase that number of Common Shares equal to 10% of the total number of Flow-Through Shares and Common Shares sold in the Offering which Broker Warrants are exercisable for a period of 12 months from the closing time at an exercise price of \$0.40 per share. On April 22, 2005 Arapahoe issued 1,263,100 common shares at \$0.40 and 7,512,113 flow-through shares at \$0.45 resulting in a total of \$3,885,691 raised. On April 28, 2005 Arapahoe issued 986,900 common shares at \$0.40 and 100,000 flow-through shares at \$0.45 resulting in a total of \$439,760 raised. On May 5, 2005 Arapahoe issued 250,000 common shares at \$0.40 and 1,211,112 flow-through shares at \$0.45 resulting in a total of \$645,000 raised. The proceeds of the private placement will be used for further drilling, exploration and development on the Tsuu T'ina First Nation Lands as well as general and administrative purposes.

ARAPAHOE ENERGY CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

For three months ended March 31, 2005

1.1 Date:

May 27, 2005

1.2 Overall Performance:

The management's discussion and analysis ("MD&A") regarding Arapahoe Energy Corporation. (the "Company") covers the period from January 1, 2005 to March 31, 2005.

Pursuant to a Plan of Arrangement (the "Arrangement") Crazy Horse Energy Inc. 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 ("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 accompanying notes therein for three months ended March 31, 2005. 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 and incorporates all relevant considerations to that date.

Forward-looking statements are based on current expectations that involve a number of risks and uncertainties. These risks and uncertainties, many of which are beyond Arapahoe's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits Arapahoe can derive there from.

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.

The term "cash flow" or "cash flow used in operations", which is expressed before changes in non-cash working capital, is used by the Company to analyze operating performance and liquidity. This term does not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and therefore might not be comparable with the calculation of a similar measure for other companies.

The Company reported a loss of \$211,628 and cash used in operations of \$154,592 for three months ended March 31, 2005. The Company had working capital deficit of \$2,588,857 at March 31, 2005.

Arapahoe recorded stock based compensation expense of \$359,258 for the year ended December 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. All options granted to date vested immediately and therefore the compensation expense is recorded at the time of the grant. To date in 2005 no additional options have been issued and therefore no stock based compensation expense has been incurred.

General and administrative expenses for the three month period ended March 31, 2005 were \$152,051. Administration costs include the costs associated with maintaining a public company as well as general administrative functions related to carrying out the exploration and development activities.

Arapahoe raised debt financing in the amount of \$2,495,820 during the current period. The Company issued 1,181,000 Common Shares to Quest as consideration for the advance of the Loan. These shares were valued at \$300,000, which was set up as a deferred financing cost on the balance sheet along with legal fees, associated with this transaction, in the amount of \$51,320. The total amount will be amortized over the life of the loan and expensed as financing costs on a monthly basis. \$58,553 was expenses during the month of March, representing a one month portion of the deferred financing cost.

OPERATION HIGHLIGHTS	For three months ended March 31 2005	For three months ended March 31 2004
REVENUE		
P&NG revenue	33,996	27,510
Royalty expense	(3,995)	(7,462)
	(30,001)	20,048
EXPENSES		
Production expense	7,608	4,216
Depletion & amortization	7,036	10,494
Stock based compensation	-	359,258
General & administrative	152,051	98,352
Interest expense	16,381	(1,127)
Financing costs	58,553	-
Accretion expense	-	585
	241,629	471,778
	(211,628)	(451,730)
OTHER ITEMS		
Future income tax recovery	-	494,578

INCOME (LOSS) FOR THE PERIOD**(211,628)****42,848**

Depletion, depreciation and accretion expenses, for three months ended March 31, 2005 were \$7,036.

1.3 Selected Annual Information

The results presented herein cover the period from January 1 to March 31.

FINANCIAL HIGHLIGHTS	For three months ended March 31 2005	For three months ended March 31 2004
Oil and Gas Revenue	33,996	\$ 27,510
Cash flow used in Operations	(154,592)	(81,393)
Per share – basic and diluted	(0.02)	(0.01)
Net income (loss)	(211,628)	42,848
Per share – basic and diluted	(0.02)	\$ 0.00
Capital Expenditures	(2,103,597)	(1,324,566)
Number of Shares Outstanding	10,994,714	9,813,714
Flow Through Shares Obligations	-	-

1.4 Results of Operations

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 Group Coals. These Coals 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 substantially exceeded the original cost estimates. 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 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 September 15, 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 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 following charts represents production & operation highlights for the three month period ended March 31, 2005.

PRODUCTION HIGHLIGHTS	For three months ended March 31 2005	For three months ended March 31 2004
<u>AVERAGE PRODUCTION</u>		
Oil – Barrels	287	345
Barrels per day	3.20	3.8
Gas – mcf	2,038	2,306
Mcf per day	22.6	25.6
NGL – Barrels	61	54
Barrels per day	.68	.60
BOE (6:1) per day	7.64	8.67
BOE totals	688	780
<u>Price (\$)</u>		
Oil price/bbl	47.81	34.40
Gas price per mcf	8.73	6.16
NGL price/bbl	40.25	24.05
Average price per BOE	49.41	\$ 35.07

OPERATION HIGHLIGHTS	For three months ended March 31 2005	For three months ended March 31 2004
<u>REVENUE (\$)</u>		
Oil revenue	\$13,748	\$11,860
Gas revenue	17,790	14,359
NGL revenue	2,458	1,291
	33,996	27,354
Revenue per BOE	49.41	35.07
<u>ROYALTIES</u>		
Oil royalties	(335)	(840)
Gas royalties	(3,035)	(5,885)
NGL royalties	(625)	(737)
	3,995	(7,462)
Royalty per BOE	5.81	9.57
<u>OPERATIONS</u>		
Operating expenses	7,608	4,216
Operating expense per BOE	11.06	5.41
Operations Netbacks (\$/BOE)	32.54	20.10
<u>GENERAL & ADMINISTRATION</u>		
G & A Expense	152,051	98,352
G & A per BOE	221.00	126.09
Depletion & Depreciation	7,036	10,494
Depletion & Depreciation per BOE	10.23	13.45

1.5 Summary of Quarterly Results

The following table summarizes the results of the operations from January 1, 2005 to March 31, 2005.

The revenue in Arapahoe is generated from two producing properties both of which are approaching the end of their productive life. These properties were periodically reworked with the intent of extending their life which caused fluctuations in both revenues and expenses.

	Quarter 1 March 31, 2005	Total for the year to date 2005
2005 QUARTERLY HIGHLIGHTS		
REVENUE		
P&NG revenue	33,996	33,996
Royalty expense	(3,995)	(3,995)
	30,001	30,001
EXPENSES		
Production expense	7,608	7,608
Depletion, amortization, accretion	7,036	7,036
Stock based compensation	-	-
General & administrative	152,051	152,051
Interest expense	16,381	16,381
Financing costs	58,553	58,553
	241,629	241,629
INCOME (LOSS) FOR THE PERIOD	(211,628)	(211,628)

1.6 Liquidity

The ability to continue as a going concern is dependent upon the Company's ability to raise financing and the success of the drilling and exploration program.

The 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. 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 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.

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.

1.7 Capital Resources

Capital spending was \$2,103,597 for the three month period ended March 31, 2005 as detailed in the following table.

Net Capital Expenditures (\$)	For three months ended March 31 2005	For three months ended March 31 2004
Lease Acquisitions	2,093,850	(2,000)
Geological and geophysical	-	16,500
Drilling and completion	-	1,332,636
Facilities and equipment	-	1,580
Other	9,747	-
Net Capital Expenditures	2,103,597	1,348,716

As per independent engineering reports prepared by Chapman Petroleum Consultants Ltd., Arapahoe reports both proven and probable reserves. Of the proven reserves, a small portion are developed but the majority are, as yet, undeveloped. The following table represents the nature of the reserves as well as the estimated cost to develop them for commercial production.

2004 RESERVES (reported in BOE's)	Proven - Developed	Proven - Undeveloped	Probable	Total BOE's	Cost of Development
RUNDLE					
Gas	-	137,000	653,167	790,167	
NGL	-	15,000	66,000	81,000	
	-	152,000	719,167	871,167	\$2,800,000
BLAIRMORE					
Gas	-	-	359,000	359,000	
NGL	-	-	55,000	55,000	
	-	-	414,000	414,000	\$325,000
OTHER PROPERTIES					
Oil	2,000	-	-	2,000	
Gas	500	-	-	500	
	2,500	-	-	2,500	
TOTAL	2,500	152,000	1,133,167	1,287,667	\$3,125,000

1.8 Financing Activity

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.

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 could 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 could 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 entitled 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. Old Arapahoe stock options and warrants were exchanged for New Arapahoe stock options and warrants on 3:1 basis. During the three month period ending March 31, 2005 all of these warrants expired without being exercised.

On March 11, 2005 the Company entered into a Loan Agreement with Quest Capital Corp. ("Quest") wherein Quest provided the Company with a loan in the principal amount \$2,495,820 (the "Loan"). This money was used by the Company on to acquire the Sarcee Farmout Lands and for working capital purposes. Interest accrues on the amount outstanding under the Loan at the amount of 12% per annum, calculated and compounded monthly, not in advance, and is payable to Quest on the last business day of every month commencing March 31, 2005. The outstanding balance of the Loan, including any accrued interest, is due September 30, 2005. The Company issued 1,181,000 Common Shares to Quest as additional consideration for the advance of the Loan. These shares were valued at \$300,000, which was set up as a deferred financing cost on the balance sheet along with legal fees, associated with this transaction, in the amount of \$51,320. This amount will be amortized over the life of the loan and expensed as financing costs on a monthly basis. In support of its obligation to repay the Loan, the Company provided Quest with a security interest in all of its assets, including its interest in the Sarcee Farmout Lands.

On March 17, 2005, Arapahoe entered into an engagement letter with Dominick & Dominick Securities Inc. for the private placement of 11,111,111 Common Shares of the Company, to be issued as "flow-through shares" within the meaning of the *Income Tax Act*, at the price of \$0.45 per share (\$5,000,000) and 5,000,000 Common Shares of the Company at the price of \$0.40 per share (\$2,000,000) for aggregate gross proceeds of \$7,000,000. The Company agreed to pay to the Agent at the Closing Time a fee in cash, equal to 7% of the gross proceeds from the sale of the Offered Securities, as well as Broker's Warrants to purchase that number of Common Shares equal to 10% of the total number of Flow-Through Shares and Common Shares sold in the Offering which Broker Warrants are exercisable for a period of 12 months from the closing time at an exercise price of \$0.40 per share. On April 22, 2005 Arapahoe issued 1,263,100 common shares at \$0.40 and 7,512,113 flow-through shares at \$0.45 resulting in a total of \$3,885,691 raised. On April 28, 2005 Arapahoe issued 986,900 common shares at \$0.40 and 100,000 flow-through shares at \$0.45 resulting in a total of \$439,760 raised. On May 5, 2005 Arapahoe issued 250,000 common shares at \$0.40 and 1,211,112 flow-through shares at \$0.45 resulting in a total of \$645,000 raised. The proceeds of the private placement will be used for further drilling,

exploration and development on the Tsuu T'ina First Nation Lands as well as general and administrative purposes. As a result of this financing, Arapahoe will issue to Dominick & Dominick 1,132,322 Broker Warrants exercisable for a period of 12 months from the closing time at an exercise price of \$0.40 per share.

1.9 Transactions with Related Parties

The amount due from and payable to related parties at March 31, 2005 consists of the following:

- a) The Company has accrued \$91,973 payable to three directors for services provided to the Company. Payment for the services provided by all parties will be withheld until such time as and when the Company has revenues to sustain the same.
- b) A loan to a director for \$6,357, from a prior period was recorded in accounts receivable as at December 31, 2004. The loan was non-interest bearing with no fixed repayment terms. This amount was netted with the payable to this director during the three month period ending March 31, 2005.

1.10 Subsequent Transactions

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 located on lease # OL-6068. The 4-30 well has been cased as a potential Edmonton Group Coal and Cardium gas/oil well. The 4-30 well has been tested and is currently waiting on further testing and completion operations to resume. Recompletion operations have commenced on the Blairmore 13-29 well located on lease # OL-6068. Operations are currently underway for site and lease preparation on the Mississippian 12-13 well located on permit #OP-3248.

1.11 Proposed Transactions

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.

The exploration and development program is anticipated to unfold between May 2005 and December 2006. The following is an outline of the intended program;

2005 Program

Re-completion of Blairmore 13-29-23-3 W5M
Drill Belly River 11-33-23-3 W5M – a belly river test well
Complete Sarcee 4-30-23-3 W5M – a cardium well
Drill 3 to 5 Horseshoe Canyon Cold Bed Methane (CBM) wells
Drill 1 Mississippian test well
Drill 1 Ellerslie test well (Ferrier)

2006 Program

Tie-in successful wells from 2005 program
Drill development wells to expand production from successful 2005 drilling discoveries.

1.12 Significant Accounting Policies

Risk Factors

Arapahoe is engaged in the exploration, development and production of crude oil and natural gas. There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector. Operationally, the Company faces risks that are associated with finding, developing and producing oil and gas reserves. These include risks associated with drilling and completion, reservoir performance uncertainties, access to processing facilities, 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, access to capital markets and the cost of goods and services.

Basis of presentation

These Consolidated Financial Statements have been prepared for the Company, pursuant to the Arrangement (as detailed in note 1). They are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Measurement uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and the provision for asset retirement obligation costs are based on estimates. In addition, the ceiling test calculation 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 in such estimates in future periods could be material.

Joint interests

A portion of the Company’s exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Company’s proportionate interest in such activities.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and investments in highly liquid money market instruments, which are convertible to known amounts of cash in less than three months.

Financial instruments

The fair market value of cash and cash equivalents, receivables, other current assets, payables and bank debt approximate their carrying value. From time to time, the Company may use derivative financial instruments to manage exposure to fluctuations in commodity prices and foreign currency exchange rates. All transactions of this nature entered into by the Company are related to an underlying financial position or to future petroleum and natural gas production. The Company does not use derivative financial instruments for speculative trading purposes.

Property, plant and equipment

The Company follows the full cost method of accounting whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition, geological and geophysical, drilling of productive and non-productive wells, production equipment and facilities, carrying costs directly related to unproved properties and costs related to acquisition of petroleum and natural gas assets directly or by means of a business combination. These capitalized costs along with estimated future capital expenditures to be incurred in order to develop proved reserves, are depleted and depreciated on a unit of production basis using estimated proved petroleum and natural gas reserves as evaluated by independent engineers. For the purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Gains or losses on the disposition of properties are not recognized unless the proceeds on disposition result in a change of 20 percent or more in the depletion rate.

Depreciation of furniture and office equipment is provided using the declining balance method at a rate of 20 percent.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the “ceiling test”). Under this test, an estimate is made of the ultimate recoverable amount from undiscounted future net cash flows based on proved reserves, which are determined by using forecasted future prices, plus unproved properties. If the carrying amount exceeds the ultimate recoverable amount, an impairment loss is recognized in net earnings. The impairment loss is limited to the amount by which the carrying amount exceeds: (i) the sum of the fair value of proved and probable reserves; and (ii) the costs of unproved properties that have been subject to a separate impairment test and contained no probable reserves.

Asset retirement obligations

Estimated future costs relating to retirement obligations associated with oil and gas well sites and facilities are recognized as a liability, at fair value. The asset retirement cost, equal to the fair value of the retirement obligation, is capitalized as part of the cost of the related asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. The liability is adjusted at each reporting period to reflect the passage of time, with the accretion charged to earnings. Actual costs incurred upon settlement of the obligations are charged against the liability.

Future income taxes

The Company follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share issues are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders are recorded as a future income tax liability at the time of renunciation and a reduction in share capital.

Revenue recognition

Revenue from the sale of oil and natural gas is recorded when title passes to an external party.

Stock-based compensation

The Company has a stock-based compensation plan. Effective January 1, 2004, the Company adopted the fair-value method to record compensation expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option agreement. The consideration received by the Company on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation expense.

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Weighted average number of shares is determined by relating the portion of time within the reporting period that common shares have been outstanding to the total time in that period.

Diluted per share amounts are calculated using the treasury stock method, which assumes that any proceeds obtained on exercise of share options or other dilutive instruments would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

For the three month period ended March 31, 2005 the weighted average number of shares was 10,076,158. 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 period. The diluted weighted average number of shares for the three month period ended March 31, 2005 is 10,948,506.

Consolidation

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

Related party transactions

Related party transactions are conducted in the normal course of operations and are measured at fair market value.

1.13 Additional Information:

Further information on the Company can be found on SEDAR's website at www.sedar.com and Company's website at www.arapahoe-energy.com

CORPORATE DIRECTORY

OFFICERS, DIRECTORS & KEY CONSULTANTS:

H. Barry Hemsworth, B.Comm, LLB
Director

Jeffery L. Standen, B.A.
President, CEO & Director

Michael Atkinson
Director

Ross Moulton, P. Geol.
Director, V.P. Exploration

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LEGAL ADVISORS:

Davis & Company
Calgary, Alberta

AUDITORS:

PricewaterhouseCoopers LLP
Calgary, Alberta

ENGINEERS:

Chapman Petroleum Consultants Ltd.
Calgary, Alberta

BANKER:

ATB Financial
Calgary, Alberta

REGISTRAR & TRANSFER AGENT:

Computershare Canada
Calgary, Alberta

STOCK EXCHANGE LISTING:

TSX Venture Exchange: Symbol “AAO”

SHARES OUTSTANDING (COMMON):

22,316,939

SHARES OUTSTANDING (COMMON):

(Fully diluted if all stock options and warrants
are exercised as of the date of this report)

24,078,792