

ARAPAHOE ENERGY CORPORATION

Interim Consolidated Financial Statements

**For the six-month period ended June 30, 2005 and 2004
(Unaudited)**

ARAPAHOE ENERGY CORPORATION
Consolidated Balance Sheet
(Unaudited)

	Jun 30 2005 \$	Dec 31 2004 \$
Assets		
Current assets		
Cash	4,347,978	12,035
Accounts receivable and accruals	4,225,599	51,055
Due from related parties (note 7)	-	6,357
Prepaid expenses	46,140	10,939
Deferred financing costs	117,644	-
	8,737,361	80,386
Property, plant and equipment (note 3)	1,911,081	2,185,559
	10,648,442	2,265,945
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,772,982	574,924
Due to related parties (note 7)	90,948	86,130
Operating loan payable (note 5)	1,073,969	-
	4,937,899	661,054
Asset retirement obligation (note 5)	14,224	14,224
	4,952,123	675,278
Shareholders' Equity		
Capital stock (note 6)	6,315,144	1,472,189
Deficit	(1,281,769)	(240,780)
Contributed surplus	662,944	359,258
	5,696,319	1,590,667
	10,648,442	2,265,945
Going concern (note 2)		

Approved by the Board of Directors

“Jeffrey L. Standen”

“Ross Moulton”

ARAPAHOE ENERGY CORPORATION
Consolidated Statement of Loss and Deficit
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenue				
Oil and gas	28,432	29,390	62,428	56,900
Royalties	(7,936)	(3,679)	(11,931)	(11,141)
	20,496	25,711	50,497	45,759
Expenses				
Operating costs	7,079	6,110	14,687	10,327
Depletion, depreciation and accretion	8,915	10,417	15,951	21,495
Stock based compensation	303,686	-	303,686	359,258
General and administrative	261,893	82,669	413,944	181,021
Interest expense	92,624	(875)	109,005	(2,002)
Financing costs amortization	175,660	-	234,213	-
	849,857	98,321	1,091,486	570,099
Loss for the period before taxes	(829,361)	(72,610)	(1,040,989)	(524,340)
Future income tax recovery	-	-	-	494,578
Loss for the period	(829,361)	(72,610)	(1,040,989)	(29,762)
Retained earnings (deficit), beginning of period	(452,408)	23,542	(240,780)	-
Reverse takeover transaction costs	-	-	-	(19,306)
Deficit, end of period	(1,281,769)	(49,068)	(1,281,769)	(49,068)
Net loss per share				
Basic and Diluted	(0.05)	(0.01)	(0.07)	(0.00)

ARAPAHOE ENERGY CORPORATION

Consolidated Statement of Cash Flows

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Loss for the period	(829,361)	(72,610)	(1,040,989)	(29,762)
Items not affecting cash				
Depletion, depreciation & accretion	8,915	10,417	15,951	21,495
Stock-based compensation	303,686	-	303,686	359,258
Financing cost amortization	175,660	-	234,213	-
Future tax recovery	-	-	-	(494,578)
	(341,100)	(62,193)	(487,139)	(143,587)
Change in non-cash working capital	(190,476)	84,425	(280,263)	(160,354)
	(531,576)	22,232	(767,402)	(303,941)
Financing activities				
Issuance of capital stock for cash	4,542,955	-	4,542,955	2,250,631
Net change in non-cash financing activities working capital	(1,423,443)	-	1,033,287	-
	3,119,512	-	5,576,242	2,250,631
Investing activities				
Acquisition of other petroleum and natural gas properties	(169,442)	(845,676)	(2,273,040)	(2,170,241)
Proceeds from disposal of capital assets	2,531,567	-	2,531,567	-
Reverse takeover - cash portion	-	-	-	14,812
Net change in non-cash investing working capital	(731,424)	306,127	(731,424)	355,368
	1,630,701	(539,549)	(472,897)	(1,800,061)
Increase (decrease) in Cash	4,218,637	(517,317)	4,335,943	146,629
Cash, beginning of period	129,341	667,713	12,035	3,767
Cash, end of period	4,347,978	150,396	4,347,978	150,396

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 & SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements of the Company have been prepared following the same accounting policies and methods of computation as the financial statements of the Company for the year ended December 31, 2004. The disclosure below is incremental to that included in the annual financial statements. In this regard, these interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2004.

These financial statements 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 amount of revenues and expenses during the period. Actual results could differ from these estimates.

Per share amounts

For the six month period ended June 30, 2005 the weighted average number of shares were 14,713,591. 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 six month period ended June 30, 2005 was 14,713,591.

Deferred financing costs

Costs associated with obtaining debt facilities are capitalized as deferred financing costs and amortized over the life of the related facilities on a monthly basis.

ARAPAHOE ENERGY CORPORATION
Notes to Consolidated Financial Statements
For six months ended June 30, 2005

2. GOING CONCERN

The Company reported a loss of \$1,040,990 and cash used in operations of \$487,140 for six months ended June 30, 2005. The Company had working capital of \$3,799,462 at June 30, 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. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Depreciation Depletion	Jun 30, 2005 Net Book Value	Dec 31, 2004 Net Book Value
P&NG Properties	1,941,752	45,866	1,895,886	2,181,009
Office assets	18,833	3,638	15,195	4,550
TOTAL	1,960,585	49,504	1,911,081	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. During the second quarter of 2005, 75% of this prospect was farmed out resulting in Arapahoe retaining 25% of the lands and commitments thereon.

The depletion calculation excluded unproved properties of costs of \$2,185,876 (December 31, 2004 \$2,185,876). The Company has not capitalized any general and administrative expenses for the six month period ended June 30, 2005.

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4. 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 six month period ended June 30, 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

5. 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 based on the trading price of the Company's common shares on the date of the Loan Agreement, 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 \$51,857. 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. At June 30, 2005 the outstanding balance on this loan, including any accrued interest, is \$1,073,969.

6. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

ARAPAHOE ENERGY CORPORATION
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For six months ended June 30, 2005

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
Common shares issued for cash	2,500,000	1,000,000
Flow Through shares issued for cash*	8,823,225	3,970,451
Share issue costs	-	(427,496)
Balance – June 30, 2005	22,317,939	6,315,144
* Flow Through obligation of \$3,970,451 to be met prior to December 31, 2006		

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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.

A summary of the status of the Company's stock option plan as at June 30, 2005 and changes during the period ended on that date:

	Six months ended June 30, 2005	Six months ended June 30, 2005
	# Shares	Weighted average exercise price \$
Outstanding – beginning of period	872,348	.58
Granted	880,000	.43
Expired during period	74,167	.62
Outstanding – end of period	1,678,181	.54

The following table summarizes information about stock options outstanding at June 30, 2005:

Exercise price	Options outstanding # Outstanding Jun 30, 2005	Options outstanding Weighted average remaining contractual life in years	Weighted average exercise price at Dec 31, 2005	Options exercisable Number exercisable	Options exercisable Weighted average exercise price
\$0.55 - \$0.75	1,678,181	4.38	\$0.54	1,628,181	\$0.54
	1,678,181			1,628,181	

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Compensation cost of \$303,686 has been recognized in 2005, (\$359,258 – 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	172%
Weighted average risk-free interest rate	12%
Weighted average expected life in years	3.0
Weighted average expected annual dividends per share	Nil

d) Warrants

On May 5, 2005, in connection with private placement of 2,500,000 Common Shares and 8,823,225 Flow Through Shares, Arapahoe issued 1,132,322 Broker Warrants to purchase Common Shares of the Corporation. These Broker Warrants are exercisable for a period of 12 months ending May 5, 2005 at an exercise price of \$0.40 per share.

All other warrants issued by Arapahoe expired during the period ending March 31, 2005.

7. RELATED PARTY TRANSACTIONS

As at June 30, 2005 the Company had accrued \$97,305 payable to three directors for services provided to the corporation. 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 six month period ending June 30, 2005. Subsequent to June 30, 2005, 289,910 common shares were issued in settlement of this debt.

8. SUBSEQUENT EVENTS

- 1) Subsequent to the period ending June 30, 2005, Arapahoe issued 289,910 common shares in satisfaction of debt owed to three directors (note 8).
- 2) On August 10, 2005, Arapahoe entered into an agreement with Banks Energy Inc.(Banks), whereby Arapahoe will acquire all the issued and outstanding common shares of Banks. Banks shareholders will receive .5 of an Arapahoe common share for each common share of Banks held. Arapahoe will incorporate a wholly-owned subsidiary which will amalgamate with Banks, and former shareholders of Banks will receive Arapahoe common shares, pro rata to their respective shareholdings in Banks. Arapahoe will issue 15,130,404 common shares as well as 4,096,500 warrants and 1,305,000 stock options to satisfy this obligation. Upon completion of the transaction, the combined company will have approximately 37,838,253 common shares outstanding. This transaction is subject to the approval of the Banks shareholders as well as the appropriate regulatory authorities.