

ARAPAHOE ENERGY CORPORATION

Interim Consolidated Financial Statements

**For the nine-month period ended September 30, 2005 and 2004
(Unaudited)**

ARAPAHOE ENERGY CORPORATION
Consolidated Balance Sheet
(Unaudited)

	Sept 30 2005 \$	Dec 31 2004 \$
Assets		
Current assets		
Cash	2,184,797	12,035
Accounts receivable and accruals	557,614	51,055
Due from related parties (note 7)	-	6,357
Prepaid expenses	27,061	10,939
	2,769,472	80,386
Property, plant and equipment (note 3)	6,054,357	2,185,559
Deferred financing costs (note 1)	58,596	-
	8,882,425	2,265,945
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,248,758	574,924
Due to related parties (note 7)	-	86,130
Operating loan payable (note 5)	141,264	-
	3,390,022	661,054
Asset retirement obligation (note 4)	23,514	14,224
	3,413,536	675,278
Shareholders' Equity		
Capital stock (note 6)	6,455,437	1,472,189
Deficit	(1,722,492)	(240,780)
Contributed surplus	735,944	359,258
	5,468,889	1,590,667
	8,882,425	2,265,945
Going concern (note 2)		

Approved by the Board of Directors

“Jeffrey L. Standen”

“H. Barry Hemsworth”

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenue				
Oil and gas	8,354	10,652	70,782	67,552
Royalties	(1,140)	6,662	(13,071)	(4,479)
Interest income	28,034	-	28,034	-
	35,248	17,314	85,745	63,073
Expenses				
Operating costs	10,787	934	25,475	11,261
Depletion, depreciation and accretion	7,499	1,898	23,450	23,393
Stock based compensation	73,000	-	376,686	359,258
General and administrative	191,812	77,126	605,756	258,147
Interest expense	25,508	(2,599)	134,513	(4,601)
Financing costs amortization	167,364	-	401,577	-
	475,970	77,359	1,567,457	647,458
Loss for the period before taxes	(440,722)	(60,045)	(1,481,712)	(584,385)
Future income tax recovery	-	-	-	494,578
Net loss for the period	(440,722)	(60,045)	(1,481,712)	(89,807)
Deficit, beginning of period	(1,281,770)	(49,068)	(240,780)	-
Reverse takeover transaction costs	-	-	-	(19,306)
Deficit, end of period	(1,722,492)	(109,113)	(1,722,492)	(109,113)
Net loss per share				
Basic & diluted	(0.02)	(0.01)	(0.08)	(0.01)

ARAPAHOE ENERGY CORPORATION
Consolidated Statement of Cash Flows
(unaudited)

	Three months ended Sept 30		Nine months ended Sept 30	
	2005	2004	2005	2004
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Loss for the period	(440,722)	(60,045)	(1,481,711)	(89,807)
Items not affecting cash				
Depletion, depreciation & accretion	7,499	1,898	23,450	23,393
Stock-based compensation	73,000	-	376,686	359,258
Financing cost amortized	155,507	-	389,720	-
Future tax recovery	-	-	-	(494,578)
	(204,716)	(58,147)	(691,855)	(201,734)
Change in non-cash working capital	(203,994)	(76,720)	(484,257)	355,668
	(408,710)	(134,867)	(1,176,112)	153,934
Financing activities				
Issuance of capital stock for cash	(86,120)	-	4,456,835	2,269,728
Net change in non-cash financing activities working capital	(763,932)	-	269,355	-
	(850,052)	-	4,726,190	2,269,728
Investing activities				
Net acquisition / dispositions of petroleum and natural gas properties	(4,141,486)	-	(3,882,958)	(2,380,469)
Proceeds from disposal of capital assets	-	12,125	-	-
Reverse takeover - cash portion	-	-	-	(19,306)
Finance costs paid in advance	(58,596)	-	(58,596)	-
Net change in non-cash investing working capital	3,295,663	-	2,564,238	-
	(904,419)	12,125	(1,377,316)	(2,399,775)
Increase (decrease) in Cash	(2,163,181)	(122,742)	2,172,762	23,887
Cash, beginning of period	4,347,978	150,396	12,035	3,767
Cash, end of period	2,184,797	27,654	2,184,797	27,654

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 nine month period ended September 30, 2005 the weighted average number of shares were 17,344,060. Diluted earnings per share 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 nine month period ended September 30, 2005 was 18,474,438.

Deferred financing costs

Costs associated with obtaining debt facilities were capitalized as deferred financing costs and amortized over the life of the related facilities on a monthly basis. The total amount capitalized was \$351,856, which was expensed in equal installments over the six month period ended September 30, 2005.

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Notes to Consolidated Financial Statements
For nine months ended September 30, 2005

Arapahoe has also paid financing costs during the current period for transactions that closed in October 2005. The total amount of \$58,596 has been capitalized and will be recorded as a cost of the transactions that were completed in October, 2005.

2. GOING CONCERN

The Company reported a loss of \$1,481,711 and cash used in operations of \$691,855 for nine months ended September 30, 2005. The Company had a working capital deficit of \$620,550 at September 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	Sept 30, 2005 Net Book Value	Dec 31, 2004 Net Book Value
P&NG Properties	6,066,143	50,438	6,015,705	2,181,009
Field vehicle	25,000	1,875	23,125	-
Office assets	20,217	4,690	15,527	4,550
TOTAL	6,111,360	57,003	6,054,357	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, 25% of this prospect was farmed out resulting in Arapahoe retaining 75% of the lands and commitments thereon.

The depletion calculation excluded unproved properties of costs of \$2,721,069 (December 31, 2004 \$2,185,876). The Company has not capitalized any general and administrative expenses for the nine month period ended September 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 \$64,692 as at December 31, 2004. This estimate has changed to \$23,514 during the nine month period ended September 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:

	Sept 30 2005	Dec 31 2004
Asset retirement obligation, beginning of period	14,224	-
Liabilities incurred and acquired	7,825	12,755
Accretion expense	1,465	1,469
Asset retirement obligation, end of period	23,514	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 of \$141,264, including any accrued interest, was paid to Quest on October 11, 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 was amortized over the six month 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. This charge against the assets was released by Quest subsequent to the payout of the loan, which occurred on October 11th, 2005.

In August 2005, Arapahoe engaged Quest to guarantee the financing of a potential acquisition. Although the company elected not to proceed with the opportunity, 113,000 shares were issued to Quest to reserve this option during the evaluation process. These shares were valued at \$49,720 based on the trading price of the Company's common shares on the date of the Agreement. This amount was expensed as financing costs during the current period.

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6. 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)
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Balance as at December 31, 2004	9,813,714	1,472,189
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
Quest Capital Corp. – loan guarantee	113,000	49,720

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Shares issued for debt (note 7)	289,910	86,973
Woodstone – consulting fee	100,000	40,000
Exercise of stock options	20,000	8,600
Share issue costs	-	(472,496)
Balance – September 30, 2005	22,840,849	6,455,437
* Flow Through obligation of \$3,970,451 to be met prior to December 31, 2006		

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 September 30, 2005 and changes during the period ended on that date:

	Nine months ended September 30, 2005 # Shares	Nine months ended September 30, 2005 Weighted average exercise price \$
Outstanding – beginning of period	872,348	0.58
Granted – May 31, 2005	880,000	0.43
Granted – Sept 8, 2005	185,000	0.61
Expired during period	(224,167)	0.49
Exercised during period	(20,000)	0.43
Outstanding – end of period	1,693,181	0.51

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

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Exercise price	Options outstanding	Options outstanding		Options exercisable	Options exercisable
	# Outstanding Sept 30, 2005	Weighted average remaining contractual life in years	Weighted average exercise price at Sept 30, 2005	Number exercisable	Weighted average exercise price
\$0.43 - \$0.75	1,693,181	4.05	\$0.51	1,643,181	\$0.51
	1,693,181			1,643,181	

Compensation cost of \$376,686 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	78%
Weighted average risk-free interest rate	2.5%
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, 2006 at an exercise price of \$0.40 per share.

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

7. RELATED PARTY TRANSACTIONS

As at August 25, 2005 the Company had accrued \$93,330 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 August 25, 2005. The loan was non-interest bearing with no fixed repayment terms. On August 25, 2005, 289,910 common shares were issued in settlement of these accounts in their entirety.

8. GUARANTEES

On May 31, 2005 ATB Financial provided an Irrevocable Letter of Guarantee in the amount of \$4,007,123 in favor of C1 Energy Ltd. on behalf of Arapahoe. This Letter of Guarantee was in support of a Cash Call on the Sarcee 12-13-24-4 W5M well. This facility was secured by a term deposit of an equal amount. This Letter of Guarantee was effective on June 1, 2005 and can be drawn upon until November 30, 2005. As at September 30, 2005, \$1,905,984 had been drawn from this facility leaving a balance remaining of \$2,101,139. In October, 2005 an additional amount of \$1,570,799 was drawn against this facility.

9. SUBSEQUENT EVENTS

On August 10, 2005, Arapahoe entered into an agreement with Banks Energy Inc. ("Banks"), whereby Arapahoe offered to acquire all the issued and outstanding common shares of Banks. This transaction was completed on October 19, 2005. The shareholders of Banks received .5 of an Arapahoe common share for each common share of Banks held. Arapahoe incorporated a wholly-owned subsidiary which amalgamated with Banks, and former shareholders of Banks received Arapahoe common shares, pro rata to their respective shareholdings in Banks. Arapahoe issued 15,299,416 common shares as well as 4,096,500 warrants and 1,305,000 stock options to satisfy this obligation.

On October 26, 2005, the company closed the first tranche of a private placement with an additional tranche closing on October 27, 2005. As a result, an aggregate of 4,041,337 flow-through shares were issued at a price of \$0.75 per share and 3,619,317 common shares were issued at a price of \$0.65 per share. This provided the corporation additional capital of \$5,383,559. Dominick & Dominick Securities Inc. ("Dominick") acted as the Corporation's Canadian agent and financial advisor in connection with the private placement and were paid aggregate fees of \$334,032 cash and issued an aggregate of 679,051 broker and advisory warrants. In addition, S&P Investors, Inc. of Dallas, Texas ("S&P") was paid a finder's fee of \$41,408 cash and issued 91,007 warrants. The warrants issued to Dominick and S&P are exercisable for a period of 12 months, expiring on October 27, 2006 at an exercise price of \$0.75 per share. These funds will be applied towards the Corporation's 2005 – 2006 exploration and development program with a portion being used for administrative purposes.

In October 2005, Arapahoe entered into an agreement with Kinghorn Resources Ltd (Kinghorn) to lease approximately 7,800 sq ft of office space in the Beltline area of Calgary. Kinghorn is a private corporation controlled by Jeffrey Standen, President and CEO of Arapahoe. Arapahoe intends to sublet approximately 3,500 sq ft of this space until such time as additional space is required to satisfy the corporate growth. The space is anticipated to be available for occupancy in January 2006.