

ARAPAHOE ENERGY CORPORATION

Financial Statements

For three months ended March 31, 2007 and 2006

Management's Comments on Unaudited Financial Statements

The accompanying unaudited interim financial statements of Arapahoe Energy Corporation for the quarter ended March 31, 2007 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

ARAPAHOE ENERGY CORPORATION**Balance Sheet**

(Unaudited - Prepared by Management)

	Mar 31 2007 \$	Dec 31 2006 \$
Assets		
Current assets		
Cash	19,409	8,238
Accounts receivable and accruals	2,170,731	2,559,906
Prepaid expenses	498,708	367,752
	<u>2,688,848</u>	<u>2,935,896</u>
Property, plant and equipment (note 3)	36,075,909	36,294,996
	<u>38,764,757</u>	<u>39,230,892</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	7,945,592	8,731,639
Notes payable (note 5)	532,500	525,000
Operating loan payable (note 6)	5,825,000	4,905,000
Current income tax payable	120,000	120,000
	<u>14,423,092</u>	<u>14,281,639</u>
Future income tax liability	3,645,749	3,645,749
Asset retirement obligation (note 4)	556,300	556,300
	<u>18,625,141</u>	<u>18,483,688</u>
Shareholders' Equity		
Share capital (note 7)	21,892,645	21,892,645
Deficit	(3,454,448)	(2,846,860)
Contributed surplus	1,701,419	1,701,419
	<u>20,139,616</u>	<u>20,747,204</u>
	<u>38,764,757</u>	<u>39,230,892</u>
Commitments & contingencies (note 9)		
Going concern (note 1)		

Approved by the Board of Directors

Jeffrey L. StandenRobert Chenery

See accompanying notes to financial statements

ARAPAHOE ENERGY CORPORATION
Statements of Loss and Deficit
For the Year Ended December 31
(Unaudited - Prepared by Management)

	Three Months ended Mar 31	
	2007	2006
	\$	\$
Revenue		
Oil and gas	1,523,929	837,676
Royalties (net of ARTC)	(352,564)	(194,617)
	1,171,365	643,059
Expenses		
Operating costs	353,492	344,319
Depletion, depreciation and accretion	644,035	374,035
General and administrative	639,779	451,081
Interest expense	190,206	15,654
	1,827,512	1,185,089
Other income		
Other income	48,557	8,685
Loss for the year before taxes	(607,590)	(533,345)
Future income tax recovery	-	396,808
Loss for the year	(607,590)	(136,537)
Deficit, beginning of year	(2,846,858)	(2,472,353)
Deficit, end of year	(3,454,448)	(2,608,890)
Net loss per share		
Basic and Diluted	(0.01)	(0.00)
Going concern (note 1)		

See accompanying notes to financial statements

ARAPAHOE ENERGY CORPORATION
Statement of Cash Flows
(Unaudited - Prepared by Management)

	Three Months ended Mar 31	
	2007	2006
Cash provided by (used in)	\$	\$
Operating activities		
Loss for the year	(607,590)	(136,537)
Items not affecting cash		
Depletion, depreciation & accretion	644,035	374,035
Future tax recovery	-	(396,808)
	36,445	(159,310)
Change in non-cash working capital	(676,168)	(359,273)
	(639,723)	(518,583)
Financing activities		
Increase in bank loan	920,000	2,245,000
Share issue costs	-	(13,081)
Net change in non-cash financing activities working capital	0	92,224
	920,000	2,324,143
Investing activities		
Acquisition of petroleum and natural gas properties	(424,947)	(1,663,316)
Net change in non-cash investing activities	155,841	(1,207,383)
	(269,106)	(2,870,699)
Increase (decrease) in Cash	11,171	(1,065,139)
Cash, beginning of year	8,238	1,069,021
Cash, end of year	19,409	3,882
Taxes paid	-	-
Interest paid	190,206	15,654

See accompanying notes to financial statements

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

1. BASIS OF PRESENTATION & GOING CONCERN

Arapahoe Energy Corporation (the “Corporation”) is engaged in the exploration, development and production of oil and natural gas in Canada.

The financial statements of the Corporation have been prepared following the same accounting policies and methods of computation as the financial statements of the Corporation for the year ended December 31, 2006.

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 year. Actual results could differ from these estimates.

Going concern

These financial statements have been prepared in accordance with GAAP on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation 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 Corporation reported a loss of \$607,590 and funds generated from operations of \$36,445 for three months ended March 31, 2007. The Corporation had a working capital deficit of \$11,734,244 at March 31, 2007. As at March 31, 2007 the Corporation was in violation of their covenants with the National Bank of Canada (“National Bank”). As a result, the corporation continued operating under the forbearance agreement with the National Bank which was put in place in January 2007 (note 12). The Corporation’s ability to continue as a going concern is dependent upon the Corporation’s ability to raise capital and the success of the drilling and exploration program. In addition the Corporation has subsequently completed a private placement of Debenture Units raising proceeds of \$8.695 million. The proceeds from this private placement, have been used to rectify the working capital deficit as well as meet the Corporations working capital requirements for 2007 (11).

2. ACCOUNTING POLICIES

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. In addition the amounts recorded in stock based compensation and the provision for income taxes are also based on estimates. 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 Corporation’s exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Corporation’s proportionate interest in such activities.

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

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, accounts receivable, other current assets, accounts payable, notes payable and bank debt approximate their carrying value. From time to time, the Corporation 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 Corporation are related to an underlying financial position or to future petroleum and natural gas production. The Corporation does not use derivative financial instruments for speculative trading purposes.

Property, plant and equipment

The Corporation 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 the cost of 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.

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.

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

Future income taxes

The Corporation 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 substantively enacted 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 filing of the renouncement documents with the tax authorities with a corresponding 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 Corporation has a stock-based compensation plan. The Corporation follows the fair-value method to record compensation expense with respect to stock options and warrants granted. The fair value of each option or warrant 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. Compensation expense associated with options issued to employees, consultants, officers and directors of the Corporation are expensed while compensation expense related to broker warrants issued are recorded as share issue costs and deducted from share capital. The consideration received by the Corporation 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 year. Weighted average number of shares is determined by relating the portion of time within the year that common shares have been outstanding to the total time in that year.

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 year. The weighted average number of shares outstanding is then adjusted by the net change.

Consolidation

These financial statements for 2006 include the accounts of the Corporation and its wholly owned subsidiary, Torrence Resources Inc. On June 30, 2006 Torrence Resources Inc. was sold to a third party.

Related party transactions

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

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

3. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Depreciation Depletion Accretion	Mar 31, 2007 Net Book Value	Dec 31, 2006 Net Book Value
P&NG Properties	38,441,035	2,595,344	35,845,691	36,049,462
Field vehicle	25,000	11,241	13,759	14,875
Office assets	303,837	87,378	216,459	230,659
TOTAL	38,769,872	2,693,963	36,075,909	36,294,996

The depletion calculation excluded unproved property costs of \$18,752,736 (December 31, 2006 \$18,653,361). The Corporation has not capitalized any general and administrative expenses for the period ended March 31, 2007 or 2006.

4. ASSET RETIREMENT OBLIGATION

The future asset retirement obligations were estimated by management based on the Corporation'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 Corporation has estimated the net present value of its total asset retirement obligation to be \$556,300 at March 31, 2007 based on a total future liability of \$842,748 as at March 31, 2007. These costs are expected to be incurred over the next three to thirty-four years. The Corporation's risk free interest rate of 10% and an inflation rate of 2.2% 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:

	Mar 31 2007	Dec 31 2006
Asset retirement obligation, beginning of year	556,300	359,384
Liabilities acquired from Banks Energy Inc.	-	-
Liabilities adjusted	(13,832)	141,286
Accretion expense	13,832	55,630
Asset retirement obligation, end of year	556,300	556,300

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Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

5. NOTES PAYABLE

In March 2006, the Corporation repurchased an interest in CBM lands in the Sarcee area of Alberta from Tower Energy Ltd. This resulted in two promissory notes issued to Tower each in the amount of \$250,000. The first was due on September 3, 2006 and the second is due on March 3, 2007. These carried an interest rate of 6% per annum. As at March 31, 2007, both of the notes were still outstanding and accrued interest in the amount of \$32,500 was recorded. These notes were subsequently paid in full .

6. BANK LOAN

At March 31, 2007, the Corporation has access to a revolving line of credit with the National Bank in the amount of \$5,900,000. At March 31, 2007 the Corporation has drawn \$5,825,000. The full facility bears interest at the lenders' prime rate plus 1%. During the period that the Corporation was under the forbearance agreement with the National Bank, this interest rate increased by 2% to lenders' prime rate plus 3%. This facility is secured with a general security agreement over the property and assets of the Corporation. This credit facility is dated November 27, 2006 and, pursuant to the terms therein, is subject to an annual review. During the period ended March 31, 2007, the Corporation incurred interest on this facility totaling \$182,706. As at March 31, 2007, the Corporation was in breach of the working capital covenant of this credit agreement. This covenant stated that the working capital ratio should be no less than 1:1. At March 31, 2007, the Corporation's working capital ratio was .32:1.

7. 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

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

b) Issued and outstanding

	Number of Shares	Amount \$
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)
Balance – 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
Shares issued for debt	289,910	86,973
Woodstone Capital – consulting fee	100,000	40,000
Exercise of stock options	20,000	8,600
Shares issued for acquisition of Arapahoe Energy Holding Ltd. (Banks Energy)	15,299,542	8,272,383
Common shares issued for cash	3,619,317	2,352,556
Flow Through shares issued for cash*	4,041,337	3,031,003
Flow Through shares issued for cash*	1,986,665	1,490,000
Share issue costs	-	(1,412,851)
Balance – December 31, 2005	47,787,710	20,661,024
Issued during 2006		
Exercise of warrants	1,132,322	452,929
Flow Through shares issued for cash*	5,615,400	3,650,010
Flow Through shares issued for cash*	770,000	500,500
Share issue costs		(381,019)
Share issue costs – tax effect		118,299
Stock-based compensation - Warrants		(9,700)
Tax effect flow through renouncement		(3,099,398)
Balance – Dec 31, 2006 & Mar 31, 2007	55,305,432	21,892,645

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

c) Stock Option Plan

The Corporation has a stock option plan, under which the Corporation 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 Corporation's stock option plan as at March 31, 2007 and changes during the period ended on that date:

	Year ended March 31, 2007	Period ended March 31, 2007
	# Shares	Weighted average exercise price \$
Outstanding – beginning of period	4,503,181	0.57
Granted during period	-	-
Expired during period	-	-
Outstanding – end of period	4,503,181	0.57

The following table summarizes information about stock options outstanding at March 31, 2007:

Exercise price	Options outstanding # Outstanding Mar 31, 2007	Options outstanding Weighted average remaining contractual life in years	Options outstanding Weighted average exercise price at Mar 31, 2007	Options exercisable Number exercisable	Options exercisable Weighted average exercise price
\$0.40 - \$0.76	4,503,181	2.62	\$0.57	4,199,848	\$0.57
	4,503,181			4,199,848	

No compensation cost have been recognized in 2007, for stock options granted. These costs would be recorded as stock based compensation expense with the offsetting amount being credited to contributed surplus. 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	98%
Weighted average risk-free interest rate	4.01%
Weighted average expected life in years	3.0
Weighted average expected annual dividends per share	Nil

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

d) Warrants

A summary of the status of the Corporation's warrants as at March 31, 2007 and changes during the period ended on that date:

	Year ended March 31, 2007	
	# Warrants	Weighted average exercise price \$
Outstanding – beginning of period	638,540	0.65
Issued during period	-	-
Exercised during period	-	-
Expired during period	-	-
Outstanding – end of period	638,540	0.65

The following table summarizes information about warrants outstanding at March 31, 2007:

Exercise price	Warrants outstanding # Outstanding Mar 31, 2007	Warrants outstanding Weighted average remaining contractual life in years	Warrants outstanding Weighted average exercise price at Mar 31, 2007	Warrants exercisable Number exercisable	Warrants exercisable Weighted average exercise price
\$0.65	638,540	.68	\$0.65	638,540	\$0.65
	638,540			638,540	

There were no warrants issued during the period ended March 31, 2007 therefore no compensation cost have been recognized. These costs would have been recorded as share issue costs with the offsetting amount being credited to contributed surplus. The fair value for warrants issued was estimated at the date of issue using a Black-Scholes Option Pricing Model with the following assumptions:

Volatility factor of expected market price	98%
Weighted average risk-free interest rate	4.01%
Weighted average expected life in years	1.0
Weighted average expected annual dividends per share	Nil

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

e) Contributed surplus

	Period ended March 31, 2007
Balance December 31, 2006	1,701,419
Options issued	-
Warrants issued	-
Balance Mar 31, 2007	1,701,419

f) Per share amounts

For the period ended March 31, 2007 the weighted average number of shares were 55,305,432 (2006- 47,787,710). Diluted earnings per share reflect the exercise of options and warrants as if issued at the later of the date of grant or the beginning of the year. This calculation takes into account only the options and warrants that are considered in the money at March 31, 2007. Given the share price at March 31, 2007, no options or warrants were considered to be dilutive and therefore were not factored into the weighted average number of shares. The diluted weighted average number of shares for the period ended March 31, 2007 was 55,305,432 (2006 – 48,029,817).

8. FINANCIAL INSTRUMENTS

The fair market value of cash, receivables, other current assets, payables and bank debt approximate their carrying value due to their short term nature.

Risk management activities

Substantially all of the Corporation's accounts receivable are due from companies in the oil and gas industry and are subject to the normal industry credit risks. The carrying value of accounts receivable reflects management assessment of the associated risks.

9. COMMITMENTS & CONTINGENCIES

The Corporation has an obligation under an office lease agreement, through 2010, requiring annual payments of a fixed amount of \$156,000 per year plus operating expenses. Operating expenses are estimated to be \$86,000 for the remainder of 2007 and increasing each year with inflation. The Corporation currently sublets approximately 3,500 sq ft of the 7,800 sq ft until such time as additional space is required to satisfy the corporate growth.

As at March 31, 2007 the Corporation had over \$6.5 million in payables to vendors that had been outstanding for over 90 days. At the time of this report this amount has increased to \$7.3 million. Subsequent to March 31, 2007 the Corporation negotiated a settlement with these parties that saw all amounts settled upon the closing of the financing (note 11).

ARAPAHOE ENERGY CORPORATION

Notes to Financial Statements

For the period ended March 31, 2007

(Unaudited - Prepared by Management)

10. RELATED PARTY TRANSACTIONS

In October 2005, the Corporation 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. This transaction was measured at fair value. During the period ended March 31, 2007, The Corporation paid to Kinghorn the amount of \$58,569 which represents 3 months rent and operating expenses at \$19,523 per month.

11. SUBSEQUENT FINANCING

On April 11th, 2007 (the "Closing Date"), the Corporation entered into a Trust Indenture for the issuance of convertible secured subordinated debentures. The Corporation issued 8,650,000 debenture units ("Initial Debenture Units") at the issue price of \$1.00 per unit. The gross proceeds of the debenture issue was \$8,650,000 with net cash proceeds of \$8,014,824 after issuance costs. Each Initial Debenture Unit entitles the holder to a repayment amount of \$1.50 and four Warrants. The repayment amount is due and payable to the unit holders on the 2nd anniversary (the "Maturity Date") following the Closing Date. Each whole Warrant entitles the holder to purchase 1 Corporation Common Share for \$0.125 for a period of 24 months following closing, subject to other terms and conditions of the Trust Indenture.

In addition to the cash proceeds, the Corporation issued 923,734 Debenture Units directly to trade creditors of the Corporation in satisfaction for certain trade payables.

Use of the net proceeds of the debenture issue were to satisfy certain outstanding trade payables and provide the Corporation working capital for continued operations and to comply with lender covenants.

The Shareholders of the Corporation will vote on whether to approve the conversion feature at a meeting on or before July 31st, 2007. In the event Shareholder approval is obtained, each holder of the Initial Debenture Units shall have the right at its option, at any time following the date of Shareholder approval and prior to the close of business on the Maturity Date, to convert each \$1.00 of the invested amount into 12 Common Shares. The Initial Debenture Units will also accrue interest at a rate of 20% per annum from April 11, 2008 to the Maturity Date or Conversion Date, whichever is earlier.

12. SUBSEQUENT TRANSACTIONS

Subsequent to March 31, 2007, a new revolving credit facility was entered into with the National Bank of Canada. This new facility has a maximum limit of \$5,300,000. This line reduces by \$250,000 per month beginning on April 30, 2007. Repayment is interest only, subject to the National Bank's right to demand. The full facility bears interest at the lenders' prime rate plus 1% and is secured with a general security agreement over the property and assets of the Corporation. As with previous agreements, Arapahoe is required to report monthly production and operating revenues along with quarterly unaudited financial statements and pursuant to the terms therein, is subject to an annual review.