

ARAPAHOE ENERGY CORPORATION

Financial Statements

For nine months ended September 30, 2007 and 2006

(unaudited)

ARAPAHOE ENERGY CORPORATION
Balance Sheet (unaudited)

See accompanying notes to financial statements

	Sept 30 2007	Dec 31 2006
	\$	\$
Assets		
Current assets		
Cash	2,640,205	8,238
Accounts receivable and accruals	1,419,932	2,559,906
Prepaid expenses	167,975	367,752
	<u>4,228,112</u>	<u>2,935,896</u>
Property, plant and equipment (note 4)	<u>34,063,898</u>	<u>36,294,996</u>
	<u>38,292,010</u>	<u>39,230,892</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	1,469,455	8,731,639
Notes payable	-	525,000
Operating loan payable (note 6)	3,380,000	4,905,000
Current tax payable	253,504	120,000
	<u>5,102,959</u>	<u>14,281,639</u>
Long term debt – debentures (note 11)	7,795,756	-
Future income tax liability	2,326,357	3,645,749
Asset retirement obligation (note 5)	520,992	556,300
	<u>15,746,064</u>	<u>18,483,688</u>
Shareholders' Equity		
Share capital (note 7)	26,507,944	21,892,645
Deficit	(5,792,998)	(2,846,860)
Contributed surplus	1,831,000	1,701,419
	<u>22,545,946</u>	<u>20,747,204</u>
	<u>38,292,010</u>	<u>39,230,892</u>
Commitments & contingencies (note 9)		
Going concern (note 1)		

Approved by the Board of Directors

Robert Chenery

ARAPAHOE ENERGY CORPORATION**Statement of Operations, Comprehensive Income/(Loss), and Deficit (unaudited)**

See accompanying notes to financial statements

	Three Months ended September 30		Nine Months ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenue				
Oil and gas	1,258,812	1,569,287	4,187,054	4,083,153
Royalties	(194,317)	(415,939)	(890,016)	(971,602)
	1,064,495	1,153,348	3,297,038	3,111,551
Expenses				
Operating costs	347,994	366,882	1,139,763	1,006,493
Depletion, depreciation and accretion	641,835	232,314	2,006,480	1,195,687
Stock based compensation	129,581	954	129,581	400,375
General and administrative	1,289,544	414,720	3,260,072	1,371,097
Interest accretion - debentures	1,057,451	-	1,852,022	-
Interest expense	72,275	101,986	343,433	160,422
Loss on disposal of subsidiary		87,067		87,067
	3,538,680	1,203,923	8,731,351	4,221,141
Other income				
Other income/(loss) (note 11)	-	(187)	1,246,244	22,890
Net income/(loss) for the period before taxes	(2,474,185)	(50,762)	(4,188,069)	(1,086,700)
Current income tax recovery/(expense)	(30,460)		(77,460)	
Future income tax recovery/(expense)	704,333	(84,074)	1,319,391	987,957
Net income/(loss) and comprehensive income/(loss) for the period	(1,800,312)	(134,836)	(2,946,138)	(98,743)
Deficit, beginning of period	(3,992,686)	(2,436,260)	(2,846,860)	(2,472,353)
Deficit, end of period	(5,792,998)	(2,571,096)	(5,792,998)	(2,571,096)
Net loss per share				
Basic and Diluted	(0.03)	(0.00)	(0.05)	(0.00)
Going concern (note 1)				

ARAPAHOE ENERGY CORPORATION**Statement of Cash Flows (unaudited)**

See accompanying notes to financial statements

	Three Months ended September 30		Nine Months ended September 30	
	2007	2006	2007	2006
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Loss for the period	(1,800,312)	(134,836)	(2,946,138)	(98,743)
Items not affecting cash				
Depletion, depreciation & accretion	641,836	232,314	2,006,480	1,195,687
Stock-based compensation	129,581	954	129,581	400,375
Payable settled with debentures			923,745	
Payable settled with shares			167,500	
Interest accretion on debentures	1,057,451		1,852,022	
Loss on disposal of subsidiary		87,067		87,067
Current tax expense/(recovery)	30,460		77,460	
Future tax expense/(recovery)	(704,333)	84,074	(1,319,392)	(987,957)
	(645,317)	269,573	891,258	596,429
Change in non-cash working capital	(235,130)	(15,156)	(6,391,391)	(201,036)
	(880,447)	254,417	(5,500,131)	395,393
Financing activities				
Increase/(decrease) in bank loan	(1,050,000)	(600,000)	(1,525,000)	5,500,000
Issuance of capital stock for cash		445,408		4,222,421
Long term debenture issue			5,019,990	
Share capital – conversion rights, warrants, and brokers warrants related to debenture issue (net of placement costs)			4,425,824	
Net change in non-cash financing activities working capital	21,975	(57,564)	21,975	(28,782)
	(1,028,025)	(212,156)	7,942,789	9,693,639
Investing activities				
Disposition/(acquisition) of petroleum and natural gas properties	(380,572)	(4,991,685)	(791,735)	(17,145,486)
Proceeds from disposal of petroleum and natural gas properties	851,044	1,265,000	981,046	4,553,649
Net change in non-cash investing activities	-	3,665,712	-	1,454,150
	470,472	(60,973)	189,311	(11,137,687)
Increase (decrease) in Cash	(1,438,000)	(18,712)	2,631,967	(1,048,655)
Cash, beginning of period	4,078,205	39,078	8,238	1,069,021
Cash, end of period	2,640,205	20,366	2,640,205	20,366
Taxes paid	-	-	-	-
Interest paid	72,275	101,986	343,435	160,422

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.

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 **\$2,946,138** for nine months ended September 30, 2007. The Corporation had a working capital deficit of **\$874,847** at September 30, 2007.

The Corporation has two significant items which will impact the future results of its operations and its ability to continue to report under the going concern basis:

- 1) In May 2007 one of the Corporations producing properties in the Campbell area was voluntarily shut-in due to deficiencies in submitting a Good Production Practices application with the provincial energy regulators. The application has since been approved and production resumed in November 2007.
- 2) The Corporation anticipates the sale, pending various approvals and requisites, of a substantial portion of its production to a private company in exchange for shares (see note 12 (1)) in November 2007. The Corporation anticipates that, upon closing of the transaction, the bank facility will be extinguished and required to be repaid in full. (note 6).

The result of the pending sale of Freemont will leave the Corporation with substantially less oil and gas production in the 4th quarter of 2007. Accordingly, the Corporation has initiated the following actions to address the ongoing business issues and justify reporting the results on a going concern basis:

- 1) Between the date of the pending Freemont sale and the foreseeable future the Corporation will be using a combination of internal cash reserves and petitioning of warrant holders to exercise their securities in order to meet cash needs.

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

- 2) Simultaneously, the Corporation has actively been seeking a business combination. Management is confident that this can be accomplished within the foreseeable future.
- 3) Management has taken actions to limit expenses and capital commitments.
- 4) The Campbell area production application has been approved by the provincial energy regulator in October 2007. Campbell production has come back on line in November 2007.
- 5) The Corporation has sold certain properties to fund operations. Other opportunities to liquidate properties for working capital needs and investment transactions will be further explored in the foreseeable future.

There can be no assurance that the Corporation will be sufficiently funded after these initiatives are executed. As a result, these circumstances lend substantial doubt as to the ability of the Corporation to meet its obligations as they come due and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. 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 Corporation be unable to continue in existence. Such adjustments could be material.

2. ACCOUNTING POLICIES

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, except as described in Note 3. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporation's Annual Report for the year ended December 31, 2006.

3. CHANGE IN ACCOUNTING POLICIES

1) Effective January 1, 2007, the Corporation adopted the new Canadian accounting standards for financial instruments recognition and measurement; financial instruments - presentation and disclosure, hedging and comprehensive income. The Corporation has adopted these standards prospectively and as such the comparative financial statements have not been restated. The adoption of these standards had no effect on opening retained earnings or accumulated other comprehensive income.

a) Financial instruments - recognition and measurement:

The new standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives and non-financial derivatives are measured in the balance sheet at fair value except for loans and receivables, and other financial liabilities

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

which are measured at amortized cost determined using the effective interest rate method. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts are recorded in net earnings.

Under adoption of these standards, the Corporation classified its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and long term debt are classified as other financial liabilities, which are measured at amortized cost.

b) Derivatives:

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in the fair value of derivative instruments are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

c) Other comprehensive income

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which, for the Corporation, related to changes in gains or losses on derivatives designated as cash flow hedges. The Corporation has combined this new statement with the statement of earnings.

d) Effective interest rate method

Transactions costs attributable to financial instruments classified as other than held for trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument.

2) New accounting standards have been issued which will require additional disclosure in the Corporation's financial statements commencing January 1, 2008 about the Corporation's financial instruments as well as its capital resources and how it is managed.

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

4. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Depreciation Depletion Accretion	Sept, 2007 Net Book Value	Dec 31, 2006 Net Book Value
P&NG Properties	37,751,856	3,886,158	33,865,698	36,049,462
Field vehicle	25,000	13,472	11,528	14,875
Office assets	303,837	117,165	186,672	230,659
TOTAL	38,080,693	4,016,795	34,063,898	36,294,996

The depletion calculation excluded unproved property of costs of \$12,616,708 (December 31, 2006 \$18,653,361). The Corporation has not capitalized any general and administrative expenses for the period ended September 30, 2007 or 2006.

5. 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 \$520,992 at September 30, 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:

	Sept 30 2007	Dec 31 2006
Asset retirement obligation, beginning of year	556,300	359,384
Liabilities adjusted for acquisitions/(disposals) of property	(74,922)	141,286
Accretion expense	39,614	55,630
Asset retirement obligation, end of year	520,992	556,300

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

6. BANK LOAN

At September 30, 2007, the Corporation has access to a revolving line of credit with the National Bank in the amount of \$4,050,000. At September 30, 2007 the Corporation has drawn \$3,380,000. The full facility bears interest at the lenders' prime rate plus 1%. During the period ended September 30, 2007, the Corporation incurred interest on this facility totaling \$326,817. Arapahoe is required to report monthly production and operating revenues along with quarterly unaudited financial statements.

In April, 2007, a new revolving credit facility was entered into with the National Bank of Canada. 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.

7. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

Issued and outstanding	# Shares	\$ Value
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 – December 31, 2006	55,305,432	21,892,645
Issued during 2007		
Share issued for debt settlement	1,500,000	189,475
Value of equity component – brokers warrants		558,803
Value of equity component – debenture warrants		666,708
Value of equity component – debenture conversion rights		3,200,313
Balance – September 30, 2007	56,805,432	26,507,944

b) Stock Option Plan

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

The Corporation has a stock option plan, under which the Corporation may grant options to its employees, directors and consultants for up to 20% 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 September 30, 2007 and changes during the period ended on that date:

	# Shares	Weighted average exercise price \$
Outstanding – beginning of period	3,607,347	.12
Granted during period	5,281,000	.125
Cancelled during period	(1,069,166)	(.53)
Outstanding – end of year to date period	7,819,181	0.26

The following table summarizes information about stock options outstanding at September 30, 2007:

Exercise price	Options outstanding # Outstanding Sep 30, 2007	Options outstanding Weighted average remaining contractual life in years	Options outstanding Weighted average exercise price at Sep 30, 2007	Options exercisable Number exercisable	Options exercisable Weighted average exercise price
\$0.125 - \$0.76	7,819,181	4.06	\$0.26	3,781,764	\$0.40
	7,819,181			3,781,764	

Compensation cost of \$129,581 has been recognized in 2007 for stock options granted. These costs have been 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	44%
Weighted average risk-free interest rate	4.01%
Weighted average expected life in years	5.0
Weighted average expected annual dividends per share	Nil

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

d) Warrants

A summary of the status of the Corporation's warrants as at September 30, 2007 and changes during the period ended on that date:

	# Warrants	Weighted average exercise price \$
Outstanding – beginning of period	638,540	0.65
Issued during period	44,494,936	0.125
Exercised during period	-	-
Expired during period	-	-
Outstanding – end of period	45,133,476	0.132

The following table summarizes information about warrants outstanding at September 30, 2007:

Exercise price	Warrants outstanding # Outstanding Sep 30, 2007	Warrants outstanding Weighted average remaining contractual life in years	Warrants outstanding Weighted average exercise price at Sep 30, 2007	Warrants exercisable Number exercisable	Warrants exercisable Weighted average exercise price
\$0.65	638,540	.47	\$0.65	638,540	\$0.65
\$0.125	44,494,936	1.53	\$0.125	44,494,936	\$0.125
	45,133,476			45,133,476	

There were 44,494,936 warrants issued during the period ended June 30, 2007 as part of the debenture issue. These associated costs of these warrants have been included within interest expense being accreted over the 24 month life of the debentures. The debenture warrants have been capitalized within share capital bearing a value of \$666,707. The treatment of the warrants as an equity component reduced the carrying value of the debt component of the debentures. The carrying value of the debenture warrants was calculated using a Black-Scholes Option Pricing Model with the following assumptions:

Volatility factor of expected market price	88%
Weighted average risk-free interest rate	4.00%
Weighted average expected life in years	2.0

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

Weighted average expected annual dividends per share	Nil
--	-----

e) Contributed surplus

	Period ended Sep 30, 2007
Balance December 31, 2006	1,701,419
Options issued	129,581
Warrants issued	-
Balance Sep 30, 2007	1,831,000

f) Per share amounts

For the nine month period ended September 30, 2007 the weighted average number of shares were 56,049,268 (2006- 51,204,679). 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 September 30, 2007. Given the share price at September 30, 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 nine month period ended September 30, 2007 was 105,825,204 (2006 – 51,756,653).

8. 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 \$28,500 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.

Currently Blue Parrot Energy Inc, a working interest partner in the Campbell area, has filed suit against Arapahoe for an alleged breach of a fiduciary obligation to Blue Parrot by entering into a Joint Pooling and Operating Agreement without consent. The amount of the claim is \$2,348,000. Arapahoe has filed a defense and counter claim for the amount of

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

\$5,000,000 for wrongful issuance of the statement of claim. A reasonable estimate and likelihood of a gain or loss resulting from this litigation is unknown.

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 September 30, 2007, The Corporation paid to Kinghorn the amount of \$175,707 which represents 9 months rent and operating expenses at \$19,523 per month.

By Board resolution, the Corporation forfeited the rent deposit to Kinghorn in the amount of \$204,000. These funds were intended to be a deposit for the last year's rental charge and damage deposit per the Office Lease Agreement with Kinghorn. This action was necessary in order for the Corporation to be released from the 5 year lease obligation, commencing January 1, 2006.

11. DEBENTURE 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 the following debentures for the period ended September 30, 2007:

	April tranche	Debt Settlement	June tranche	Total
Total debentures issued for cash	8,650,000	923,734	1,550,000	11,123,734
Cash commission	(645,676)	-	(108,500)	(754,176)
Bank charges			(10)	(10)
Net proceeds (cash/debt settlement)	8,004,324	923,734	1,441,490	10,369,548

In total, 11,123,734 debenture units were issued ("Initial Debenture Units") at the per unit price of \$1.00 per unit. The gross proceeds of the debenture issue was \$11,123,734 with net cash proceeds of \$9,445,814 and reduction of trade payables of 923,734 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

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

following closing, subject to other terms and conditions of the Trust Indenture.

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

A gain on settlement, shown in other income on the statement of operations, arose from the negotiations with trade payables with included an option of accepting a cash reduction on amounts outstanding or a combination of debenture units and cash.

The Shareholders of the Corporation were to vote on whether to approve the conversion feature at a meeting on or before July 31st, 2007. Subsequently resolutions were passed to delay this vote until the upcoming corporate annual general meeting. 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.

Upon conversion, brokers of the issue will be entitled to an equivalent amount of brokers warrants at 10% of total debentures converted to common shares at an exercise price of \$0.0833

The Corporation's Initial Debenture Unit's are classified as debt with a portion of the proceeds allocated to equity representing the value of the detachable warrants and conversion rights. If the Initial Debenture Units are granted the conversion option, and these convertible debentures are converted to equity, the debt component will be transferred to share equity. Prior to conversion, the debt component accretes over time to the amount owing at maturity with such increases appearing as interest accretion on the statement of operations.

Among other industry standard events of default, the failure of the Corporation to complete a "Business Combination Transaction" by December 31, 2007 will be considered a default under the debentures, unless such date is extended or waived by the holders of debentures. Upon an event of default, the debt Amount shall be immediately due and payable.

The following table summarizes financial reporting of the Initial Debenture Units:

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

Debentures	<u>Equity Component</u>		Debt Component
	Warrants	Conversion Rights	
Opening carrying value, April 11, 2007	755,933	3,628,613	6,739,188
Placement costs	(51,251)	(246,016)	(456,909)
Broker warrants	(37,974)	(182,284)	(338,545)
Adjusted opening carrying value, April 11, 2007	666,708	3,200,313	5,943,734
April 11 to September 30, 2007 interest accretion			1,852,022
Carrying value, September 30, 2007	666,708	3,200,313	7,795,756
Carrying value, April 11, 2009 (assumes no conversion to equity)	666,708	3,200,313	18,910,348

12. SUBSEQUENT TRANSACTIONS

1) Fremont Sale

The Corporation has a pending sale of the Fremont property to Serrano Energy in exchange for 32.4% of Serrano's outstanding shares. The transaction is pending with closing to follow receipt of all requisite approvals which are anticipated to be obtained not later than November 30, 2007.

The Corporation anticipates that, upon closing of the transaction, the bank facility will be extinguished and required to be repaid in full. The Corporation will petition that a portion of the debenture warrants be exercised and, with available internal funds, repay the outstanding loan balance with the National Bank of Canada.

2) First West Petroleum Acquisition

On October 19th, 2007 the Corporation executed a non- arm's length letter agreement with First West Petroleum Inc. of Calgary, Alberta ("First West") to effect a business combination whereby Arapahoe will acquire all of the outstanding common shares of First West in exchange for 193,897,000 common shares of Arapahoe. The transaction will result in First West shareholders receiving 10.415 common shares of Arapahoe for each First West common share held. Upon completion of the Transaction and the financings described below, former shareholders of First West are anticipated to collectively hold approximately 38.7% of the outstanding common

ARAPAHOE ENERGY CORPORATION
Notes to Financial Statements
For the period ended September 30, 2007 (unaudited)

shares of Arapahoe, subject to other share issuances from financings or acquisitions. The Corporation has agreed to advance \$500,000 to First West as a secured loan. This amount shall be repayable in the event the Transaction is not successfully completed.

This Transaction is conditional upon the execution of a definitive agreement, completion of satisfactory due diligence, receipt of shareholder, debentureholder, court (if applicable) and regulatory approval, and receipt of third party consents and other conditions customary in a transaction of this nature. Pursuant to the letter agreement, the directors and officers of First West have agreed to support the Transaction, subject to certain conditions. It is anticipated that the completion of the Transaction will occur in the foreseeable future.

3) Financing

Arapahoe proposes to complete a non-brokered private placement of up to 80,000,000 common shares issued on a flow-through basis at a price of \$0.125 per share for proceeds of up to \$10.0 million. In addition, Arapahoe anticipates that warrants to purchase common shares in the capital stock of the Corporation issued April and June 2007 will be exercised for maximum proceeds of \$5.6 million. The proceeds of these financings will be used following the completion of the First West transaction to develop the Corporation's Campbell and Sarcee oil and gas properties, as well as the properties currently held by First West, including tying-in certain of First West's wells, completing a 5-well drilling program on First West lands by year-end 2007, and for working capital. Finder's fees may be payable on certain portions of the proposed financing.