

**XEMPLAR ENERGY CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

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**AUDITORS' REPORT**

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**To the Shareholder's of  
XEMPLAR ENERGY CORP.**

We have audited the Consolidated Balance Sheet of **XEMPLAR ENERGY CORP.** as at December 31, 2006 and 2005 and the Consolidated Statements of Operations and (Deficit) and Cash Flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Delves Freer Anderson Raniga Caine"*

**DELVES FREER ANDERSON RANIGA CAINE**  
Certified General Accountants  
Surrey, B. C.

April 26, 2007

**XEMPLAR ENERGY CORP.  
CONSOLIDATED BALANCE SHEET**

December 31	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 4,758,790	\$ 57
Accounts receivable (Note 4)	87,388	2,697
Prepaid expenses	24,700	-
	4,870,878	2,754
<b>Equipment (Note 5)</b>	5,052	-
<b>Mining properties (Note 6)</b>	5,485,009	229,166
	\$ 10,360,939	\$ 231,920
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness	\$ -	\$ 14,470
Accounts payable	44,067	31,600
	44,067	46,070
<b>Due to related party</b>	-	90,000
	44,067	136,070
<b>Shareholders' equity</b>		
Share capital (Note 7)	13,943,150	3,236,656
Contributed surplus (Note 7)	2,092,306	480,810
(Deficit)	( 5,718,584)	(3,621,616)
	10,316,872	95,850
	\$ 10,360,939	\$ 231,920

**RELATED PARTY TRANSACTIONS (Note 8)**

**SUBSEQUENT EVENTS (Note 9)**

Approved:

“Gennen McDowall” Director

“Simon Tam” Director

See accompanying Notes.

**XEMPLAR ENERGY CORP.**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND (DEFICIT)**

Year ended December 31	2006	2005
<b>Income</b>		
Investment	\$ 118,409	\$ 781
<b>Administrative expenses</b>		
Amortization	1,467	-
Bank charges and interest	1,489	408
Consulting	184,257	22,500
Directors' fees	30,000	30,000
Office and general	4,146	2,811
Marketing and promotion	65,826	37,531
Professional fees	58,886	40,899
Rent	8,001	6,000
Shareholder relations	5,719	1,176
Stock based compensation (Note 10)	1,672,936	480,810
Telephone	29,230	1,164
Transfer agent and exchange fees	66,260	38,655
Travel	87,160	909
	<b>2,215,377</b>	<b>662,863</b>
<b>(Loss) before extra-ordinary item</b>	<b>( 2,096,968)</b>	<b>( 662,082)</b>
<b>Extra-ordinary item</b>		
Gain on debt settlement	-	( 2,728)
<b>(Loss) before taxes</b>	<b>( 2,096,968)</b>	<b>( 659,354)</b>
<b>Income taxes (Note 11)</b>	<b>-</b>	<b>-</b>
<b>Net (loss)</b>	<b>( 2,096,968)</b>	<b>( 659,354)</b>
<b>(Deficit), beginning of year</b>	<b>( 3,621,616)</b>	<b>( 2,962,262)</b>
<b>(Deficit), end of year</b>	<b>\$( 5,718,584)</b>	<b>\$( 3,621,616)</b>
<b>Basic (loss) per share</b>	<b>\$( 0.03)</b>	<b>\$( 0.02)</b>
<b>Fully diluted (loss) per share</b>	<b>\$( 0.02)</b>	<b>\$( 0.02)</b>
<b>Weighted average number of common shares outstanding – basic</b>	<b>67,614,427</b>	<b>29,988,030</b>
<b>Weighted average number of common shares outstanding – fully diluted</b>	<b>95,192,169</b>	<b>29,988,030</b>

See accompanying Notes.

**XEMPLAR ENERGY CORP.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended December 31	2006	2005
<b>CASH FLOWS FROM:</b>		
<b>Operating activities</b>		
Cash paid to suppliers	\$( 579,078)	\$( 322,427)
Interest income	59,589	780
	( 519,489)	( 321,647)
<b>Investing activities</b>		
Purchase of equipment	( 6,519)	-
Mining properties	( 1,835,843)	( 109,166)
	( 1,842,362)	( 109,166)
<b>Financing activities</b>		
Due to related parties	( 90,000)	3,360
Issuance of shares for cash, net of costs	7,225,054	413,000
	7,135,054	416,360
<b>Increase in cash</b>	<b>4,773,203</b>	<b>( 14,453)</b>
<b>(Bank indebtedness) at beginning of year</b>	<b>( 14,413)</b>	<b>40</b>
<b>Cash at end of year</b>	<b>\$ 4,758,790</b>	<b>\$( 14,413)</b>
<b>Comprised of:</b>		
Cash	\$ 4,758,790	\$ 57
(Bank indebtedness)	-	( 14,470)
	\$ 4,758,790	\$( 14,413)
<b>Supplemental cash flow disclosure</b>		
The following non-cash transactions were recorded:		
<b>Investing activities</b>		
Shares issued for mineral property acquisition	\$ 800,000	\$ 120,000
Shares issued for purchase of subsidiary	2,610,000	-
	\$ 3,410,000	\$ 120,000

See accompanying Notes.

**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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<b>December 31</b>	<b>2006</b>	2005
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## **1 Nature of business**

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Xemplar Energy Corp., formerly Consolidated Petroquin Resources Limited (the “Company”), was incorporated on January 12, 1979, under the Company Act of British Columbia. The Company changed its name on July 11, 2005 and changed its business focus from development of oil and gas properties to acquiring, exploring and developing mineral properties.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company’s ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business. As of December 31, 2006 the Company had a working capital of \$4,826,811.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with the industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

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## **2 Significant accounting policies**

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### **Basis of presentation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiary Namura Mineral Resources (Proprietary) Limited (“Namura”). Results from operations of Namura are included in these consolidated financial statements from the date of acquisition (note 3). All significant inter-company transactions and balances have been eliminated.

### **Cash and cash equivalents**

Cash and cash equivalents represent cash on deposit and term deposits having terms to maturity of 180 days or less when acquired.

### **Mining properties and deferred exploration and development expenditures**

Mineral properties consist of exploration and mining rights, options and claims. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the property is disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be written off over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and any related deferred exploration costs will be written off to operations.

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**December 31**

**2006**

**2005**

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## **2 Significant accounting policies (continued)**

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All deferred expenditures are reviewed by management, on a property by property basis, to consider whether there are any conditions that may indicate impairment in value. When the carrying value exceeds the net recoverable amount as estimated by management, or the Company is unable to sell the property for an amount exceeding the deferred cost, a provision is made for the impairment in value. Recorded costs of mineral properties and deferred exploration and development expenditure are not intended to reflect present or future values of mineral properties.

### **Asset retirement obligation**

The Company has adopted the standard for “asset retirement obligation” as set out in the CICA Handbook section 3110. The standard requires the recognition and measurement of liabilities related to the legal obligation to abandon and reclaim property, plant and equipment upon acquisition, construction, development and/or normal use of the asset. The initial liability must be measured at fair value and subsequently adjusted for the accretion of discount and changes in the fair value. The asset retirement cost is capitalized as part of property and equipment and depleted into earnings over time. The adoption of this standard had no impact on the financial statements.

### **Equipment**

Equipment is recorded at cost. Amortization of equipment is provided using the straight-line method over five (5) years. In the year of acquisition, only 50% of the amount is used.

### **Earnings (loss) per share**

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at their prevailing market rate.

### **Foreign currency translation**

Monetary assets and liabilities are translated at year-end exchange rates; other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except amortization, are translated at the rates prevailing at the time of transactions. Amortization is converted using the rates prevailing at the dates of acquisition. Gains and losses from foreign currency translation are included in the statement of operations.

### **Use of estimates**

The preparation of the Company’s financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses recognized during the reporting period. To these financial statements, the most significant application of estimates is in the assessment of the underlying value of mining properties. Actual results and values could differ from those estimates and these differences could have a material impact on the financial statements.

### **Income taxes**

Income taxes are accounted for using the future income tax method. Under this method, income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized. Future income tax assets and liabilities are measured using tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

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<b>December 31</b>	<b>2006</b>	2005
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## **2 Significant accounting policies (continued)**

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### **Stock-based compensation plans**

The Company accounts for stock based compensation using the fair value method for all direct awards of stocks. The fair value of the options granted are estimated at the date of grant using the Black-Scholes Option Pricing model with assumptions for risk-free interest rates, dividend yields, and volatility factors of the expected life of the options. The fair value of direct awards of stock is determined by the quoted price of the Company's stock.

### **Share issue costs**

Commissions paid to underwriters on the issue of the Company's shares are charged directly to share capital.

### **Financial instruments**

All significant financial assets, liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable, the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise, only available information pertinent to fair value has been disclosed.

### **Non-monetary consideration**

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up is not readily determinable, the fair market value (as defined) of shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date of the agreement to issue shares as determined by the management.

### **Comparative figures**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

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**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

<b>December 31</b>	<b>2006</b>	2005
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**3 Business combination**

On May 26, 2006, the Company acquired all the issued and outstanding shares of Namura, a company based in the Republic of Namibia. The Company paid \$600,000 in cash and issued 6,000,000 shares of the Company. Namura is the beneficial holder of three Exclusive Reconnaissance Licenses covering uranium exploration properties in Namibia (note 6).

The business combination was accounted for using the purchase method and the results from the operations of Namura included in these statements are from May 26, 2006. The following is a summary of the consideration paid and fair value of assets acquired and liabilities assumed by the Company:

Consideration paid:		
Cash	\$	600,000
Common shares		2,610,000
Transaction cost		95,063
		\$ 3,305,063
Assets acquired:		
Cash	\$	29,890
Mining property		3,341,173
		3,371,063
Liabilities assumed:		
Mining property		66,000
		\$ 3,305,063

**4 Accounts receivable**

	<b>2006</b>	2005
Accrued interest	\$ 58,820	\$ -
GST receivable	28,568	2,697
	\$ 87,388	\$ 2,697

**5 Equipment**

		<b>2006</b>		2005
	<b>Cost</b>		<b>Accumulated Amortization</b>	
			<b>Net Book Value</b>	Net Book Value
Computer equipment	\$ 6,519	\$ 1,467	\$ 5,052	\$ -

**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

December 31				2006	2005
<b>6 Mining properties</b>					
	<b>Acquisition Costs</b>	<b>Exploration and Development Expenditures</b>	<b>Disposal and Abandonment</b>	<b>2006 Total</b>	<b>2005 Total</b>
<b>Canada:</b>					
Corhill property (see details below)	\$ 144,657	\$ 144,009	\$ -	\$ 288,666	\$ 205,866
Otis basin (see details below)	1,204,397	376,511	-	1,580,908	23,300
<b>Republic of Namibia:</b>					
Namura Uranium Property (see details next page)	3,341,172	274,263	-	3,615,435	-
	<b>\$ 4,690,226</b>	<b>\$ 794,783</b>	<b>\$ -</b>	<b>\$ 5,485,009</b>	<b>\$ 229,166</b>

**Corhill Property**

By agreement dated July 7, 2005, the Company acquired a 100% interest in the Corhill Property entailing approximately 30,628 acres located 312 miles northwest of Yellowknife and 90 miles southwest of Kugluktuk in the Northwest Territories. Upon commencement of commercial production, the vendor will be entitled to a net smelter royalty of 2% on all minerals. The purchaser can buy down to a 1% net smelter royalty at a cost of \$1,000,000. The purchase price of \$194,657 was paid by issuance of 500,000 shares of the Company and payment of \$74,657 cash. Included in the purchase price is \$9,657 paid for legal fees directly attributed to the purchase of the property.

On July 7, 2006 the Company entered into an option agreement with Garuda Ventures Canada Inc. ("Garuda"), whereby Garuda can earn a 70% interest in the Company's Corhill Property located in central Quebec by making cash payment of \$50,000, issuing 2,000,000 shares of Garuda Capital Corp. (Parent company of Garuda) which is listed on the Nasdaq Over the Counter Bulletin Board. The shares received have a hold period of two years and hence will be recorded in the books when the hold period expires. Garuda also has to incur \$1,500,000 of exploration expenditure on the property in different tranches over the three year period. During the year, Garuda paid \$100,000 in cash towards the exploration costs incurred by the Company.

Subsequent to the year ended December 31, 2006, Garuda failed to meet their obligations.

**Otis Basin Uranium Property**

By agreement dated September 28, 2005, the Company acquired a 100% interest in the Otis Basin Uranium Property entailing 1,159 claims and covering approximately 14,663 acres located 310 kilometres northeast of the city of Chibougamau in central Quebec. Upon commencement of commercial production, the Vendor will be entitled to a net smelter royalty of 2% on all minerals. The Company can buy down to a 1% net smelter royalty at a cost of \$2,000,000. The purchase price of \$975,000 is payable as follows:

Cash	\$ 300,000
Shares – 3,000,000 @ \$0.27 each	810,000
Finders fee in cash	75,000
<b>Total acquisition cost</b>	<b>\$ 1,185,000</b>

**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

<b>December 31</b>	<b>2006</b>	2005
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**6 Mining properties (continued)**

**Namura Uranium Property**

On March 22, 2006 the Company entered into a purchase agreement to acquire 100% of the outstanding shares of Namura Mineral Resources (Proprietary) Limited (“Namura”). Namura is a privately owned company incorporated in the Republic of Namibia. Namura is the beneficial holder of two Exclusive Reconnaissance Licenses and six Exclusive Prospective Licenses (“EPL’s”) covering uranium exploration properties in Namibia. The purchase price is comprised of a payment of \$600,000 in cash and the issuance of 6,000,000 common shares of the Company. Each of the properties is subject to a 3% net smelter return royalty. The Company has the rights to reduce the royalty to 1.5% on each property by paying \$3,000,000 per property to the vendors.

**7 Share capital**

**a) Authorized:**

Unlimited common shares without par value

**b) Issued and outstanding:**

	<b>Shares</b>	<b>2006 Amount</b>	<b>Shares</b>	<b>2005 Amount</b>
Balance, beginning of year	<b>43,618,611</b>	<b>\$ 3,236,656</b>	8,837,629	\$ 1,439,607
Issued for property (note 8)	<b>9,000,000</b>	<b>3,420,000</b>	500,000	120,000
Issued for cash				
Private placement	<b>24,044,429</b>	<b>6,503,054</b>	9,000,000	413,000
Exercise of warrants	<b>2,706,667</b>	<b>642,000</b>	-	-
Exercise of options	<b>400,000</b>	<b>80,000</b>	25,280,982	1,264,049
Transfer from contributed surplus on exercise of options	-	<b>61,440</b>	-	-
Balance, end of year	<b>79,769,707</b>	<b>\$ 13,943,150</b>	43,618,611	\$ 3,236,656

**c) Shares issued for property**

During the fiscal years 2005 and 2006, the Company issued the following shares for acquisition of mineral property rights and claims:

For the year ended December 31, 2005

	<b>Amount</b>	<b>Price/Share</b>	<b>Total</b>
Corhill Property	500,000	\$ 0.24	\$ 120,000

For the year ended December 31, 2006

Otis Basin Property	<b>3,000,000</b>	<b>\$ 0.27</b>	<b>\$ 810,000</b>
Namura Mineral Resources	<b>6,000,000</b>	<b>\$ 0.435</b>	<b>2,610,000</b>
	<b>9,000,000</b>		<b>\$ 3,420,000</b>

**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

<b>December 31</b>	<b>2006</b>	2005
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**7 Share capital (continued)**

**d) Private placement**

The Company issued a total of 6,700,000 common shares in two tranches of 3,365,000 on January 26, 2006 and 3,335,000 on February 2, 2006 through a non-brokered private placement at \$0.15 per unit with each unit consisting of one transferable share purchase warrant with each warrant entitling the holder to acquire one further common share at \$0.30 within two years from the date of issuance. A total of \$93,400 (\$48,375 + \$45,025) was paid as finder's fees. The Company applied the residual approach and allocated the net proceeds of \$911,600 (\$1,005,000 - \$93,400) to the common shares and \$NIL to the warrants.

On May 25, 2006 the Company issued 17,344,429 units through a non-brokered private placement at \$0.35 per unit with each unit consisting of one common share and one transferable share purchase warrant with each warrant entitling the holder to acquire one further common share at \$0.47 within one year from the date of issuance. A total of \$479,096 was paid as finder's fees. The Company applied the residual approach and allocated the net proceeds of \$5,591,454 to the common shares and \$Nil to the warrants.

All shares issued through private placement are subject to a hold period of four months from the day of issue.

**e) Exercise of warrants**

During the fiscal year 2006, 2,706,667 warrants were exercised to acquire 2,706,667 common shares of the Company at a price ranging from \$0.10 to \$0.30 per share.

**f) Warrants**

	2006		2005
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants Weighted Average Exercise Price
Balance, beginning of year	9,000,000	\$ 0.10	9,000,000 \$ 0.10
Warrants granted	24,044,429	0.30 – 0.47	- -
Warrants exercised	( 2,706,667)	0.10 - 0.30	- -
Warrants expired	-	-	- -
Outstanding and exercisable at end of year	30,337,762	\$0.10 – 0.47	9,000,000 \$ 0.10

As at December 31, 2006, the following share purchase warrants of the Company were outstanding:

	Exercise Price	Number of Warrants	Expiry Date
	\$ 0.10	8,150,000	May 27, 2007
	\$ 0.30	3,295,000	Jan. 26, 2008
	\$ 0.30	1,548,333	Feb. 2, 2008
	\$ 0.47	17,344,429	May 25, 2008

**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

<b>December 31</b>	<b>2006</b>	2005
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**7 Share capital (continued)**

**g) Options**

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the current issued and outstanding common shares. Options granted under the Plan may have a maximum term of (5) five years. The exercise price of options granted under the Plan will not be less than the discounted market price as calculated and defined in accordance with the policies of the TSX Venture Exchange. Stock options granted under the Plan are subject to a (4) four month hold period from the date the options are granted in addition to any other restrictions which may be imposed at the discretion of the Directors.

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>2006</b>	<b>Number of Options</b>	<b>2005</b>
					<b>Weighted Average Exercise Price</b>
Outstanding and exercisable, at beginning of year	<b>2,600,000</b>	<b>\$ 0.20 - 0.30</b>	-	-	-
Options granted	<b>4,600,000</b>	<b>0.47 - 0.58</b>	2,800,000		0.20 - 0.30
Options exercised	<b>( 400,000)</b>	<b>0.20</b>	( 200,000)		0.20
Outstanding and exercisable, at end of year	<b>6,800,000</b>	<b>\$ 0.42</b>	2,600,000		\$ 0.20 - 0.30

The following summarizes the stock options outstanding and exercisable at December 31, 2006:

	<b>Exercise Price</b>	<b>Outstanding and exercisable at December 31, 2006</b>	<b>Expiry Date</b>
	\$ 0.20	1,100,000	June 30, 2010
	\$ 0.25	100,000	Sept. 12, 2010
	\$ 0.30	700,000	Sept. 30, 2010
	\$ 0.20	300,000	Dec. 15, 2008
	\$ 0.47	500,000	Mar. 24, 2008
	\$ 0.50	2,000,000	June 2, 2011
	\$ 0.51	1,500,000	July 5, 2011
	\$ 0.58	600,000	Dec. 18, 2011

<b>h) Contributed surplus</b>	<b>2006</b>	2005
Balance, beginning of year	<b>\$ 480,810</b>	\$ 480,810
Stock based compensation expense	<b>1,672,936</b>	-
Options exercised	<b>( 61,440)</b>	-
<b>Balance, end of year</b>	<b>\$ 2,092,306</b>	\$ 480,810

**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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<b>December 31</b>	<b>2006</b>	2005
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**8 Related party transactions**

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The following amounts were paid or accrued to directors or companies controlled by directors or officers of the Company for services provided during the years December 31, 2006 and 2005.

- a) Professional fees of \$18,000 (2005 - \$18,000) incurred for accounting services provided by a company owned by one of the directors of the Company.
- b) Management fees of \$120,000 (2005 - \$30,000) were paid to a director of the Company. \$90,000 of this fee related to service provided in prior years.
- c) Consulting fees of \$47,500 (2005 - \$30,000) were paid to a company owned by one of the directors of the Company.
- d) Technical fees of \$160,563 were paid to a director of the Company.
- e) The Company paid \$75,000 to a Company owned by one of the directors for acquisition of a mineral property.
- f) Rental fees of \$6,000 (2005 - \$12,000) were paid to a company owned by one of the directors of the Company.
- g) The Company issued 2,000,000 shares and paid \$200,000 in cash to a company owned by one of the directors of the Company for the acquisition of Namura (note 3).
- h) The Company issued 2,000,000 shares and paid \$200,000 in cash to a director of the Company for the acquisition of Namura (note 3).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, unless otherwise noted.

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**9 Subsequent events**

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Subsequent to the year-end, the Company raised \$6,772,750 when the following share purchase options and warrants were exercised:

900,000 Share purchase options @ \$0.20 - \$0.30	\$	205,000
14,521,809 Warrants @ \$0.10 - \$0.47	\$	6,567,750

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**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**December 31** **2006** 2005

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**10 Stock based compensation**

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The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors, officers, and employees to acquire up to 10% of the issued and outstanding common shares. The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	<b>Granted March 24, 2006</b>	<b>Granted June 2, 2006</b>	<b>Granted July 5, 2006</b>	<b>Granted December 18, 2006</b>
Number of options	500,000	2,000,000	1,500,000	600,000
Dividend rate	0%	0%	0%	0%
Weighted average risk-free interest rate	3.88%	4.18%	4.48%	3.90%
Expected life	2 Years	5 Years	5 Years	5 Years
Expected volatility	94%	94%	94%	94%
Weighted average strike price	\$ 0.47	\$ 0.50	\$ 0.51	\$ 0.58
Weighted average spot price	\$ 0.47	\$ 0.50	\$ 0.51	\$ 0.57
Expiry date	March 24, 2008	June 2, 2011	July 5, 2011	December 18, 2011
Fair value per option	\$ 0.24	\$ 0.37	\$ 0.38	\$ 0.42
Stock based compensation	\$ 120,705	\$ 736,660	\$ 565,125	\$ 250,446

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During the year ended December 31, 2006, the Company issued 400,000 shares for options exercised. Using the above assumptions, the fair value of the stock options vested during the year ended December 31, 2006 was \$61,440, which has been recorded in the statement of operations, and credited to contributed surplus.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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**XEMPLAR ENERGY CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**December 31**

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<b>11 Income taxes</b>	<b>2006</b>	<b>2005</b>
A reconciliation of the statutory income tax rate to the effective rate for the Company is as follows:		
Statutory income tax rate	( <b>36%</b> )	( 36%)
Tax losses not benefited	<b>36%</b>	36%
Effective tax rate	-	-

The Company has approximately \$1,242,459 of non-capital losses available for income tax purposes to reduce taxable income of future years. These non-capital losses will expire commencing in 2008 through to 2026.

In addition, the Company has available mineral resource related expenditure pools totalling approximately \$2,837,483 which may be deducted against future taxable income on a discretionary basis.

Future income tax benefits which may arise as a result of these losses have not been recognized in these financial statements as their realization is uncertain.

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