



Consolidated Financial Statements

For the Years ended December 31, 2006 and 2005

MANAGEMENT'S REPORT

The accompanying financial statements of Ausam Energy Corporation and all information in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and within the framework of the Company's significant accounting policies as described in the notes to the financial statements. The financial statements reflect management's best estimates and judgments based on currently available information within reasonable limits of materiality. Financial information presented throughout the Annual Report has been prepared and reviewed by management to ensure it is consistent with that shown in the financial statements. Management is responsible for the integrity of the financial statements. Management maintains appropriate systems of internal control to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of financial statements. Independent auditors are appointed by the shareholders of the Company to perform an examination of the corporate and accounting records so as to express an opinion on the financial statements. Their examination included a review and evaluation of the system of internal controls and included such tests and other procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit Committee. The Audit Committee meets with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and recommend the financial statements be presented to the Board of Directors for approval. The financial statements, including the notes to the financial statements, have been approved by the Board of Directors on the recommendation of the Audit Committee.

"Mark G. Avery"
President and CEO

"Alastair J. Robertson"
Chief Financial Officer

Calgary, Canada
April 30, 2007

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Ausam Energy Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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.

"KPMG LLP"
Chartered Accountants

Calgary, Canada
April 30, 2007

Consolidated Financial Statements of
AUSAM ENERGY CORPORATION
Consolidated Balance Sheets
(in Canadian dollars)

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 3,336,890	\$ 8,634,332
Accounts receivable	127,940	25,818
Loan receivable (Note 14)	-	419,723
Inventory	-	8,432
Prepaid expenses and deposits	<u>97,022</u>	<u>8,205</u>
	3,561,852	9,096,510
Deferred costs (Note 6)	797,060	-
Advances to Joint Venture partner (Note 5)	478,553	629,209
Property and equipment (Note 3)	<u>10,178,117</u>	<u>4,303,450</u>
	<u>\$ 15,015,582</u>	<u>\$ 14,029,169</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,581,818	\$ 568,140
Asset retirement obligations (Note 7)	192,946	164,207
Shareholders' equity		
Common shares (Note 8)	33,530,337	32,109,399
Share purchase warrants (Note 8)	304,062	997,137
Contributed surplus (Note 8)	5,445,310	2,970,709
Cumulative translation adjustment	(710,227)	(1,568,499)
Deficit	<u>(25,328,664)</u>	<u>(21,211,924)</u>
	13,240,818	13,296,822
Future operations (Note 1)		
Capital Commitments (Note 13)		
Related party transactions (Note 14)		
Subsequent events (Note 15)		
	<u>\$ 15,015,582</u>	<u>\$ 14,029,169</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Mark G. Avery"
Director

"Keith C. Hill"
Director

Consolidated Financial Statements of
AUSAM ENERGY CORPORATION
Consolidated Statement of Operations and Deficit
(in Canadian dollars)

	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2005</u>
Revenues		
Interest and other income	\$ 285,063	\$ 337,854
Expenses		
General and administration	2,500,425	2,207,541
Due diligence and acquisition related expenses (Note 9)	-	1,654,125
Stock option expense	257,563	1,194,935
Interest	-	-
Asset write-down (Note 4)	1,602,311	6,605,948
Depreciation and accretion	41,504	33,718
	<u>4,401,803</u>	<u>11,696,267</u>
Net loss	(4,116,740)	(11,358,413)
Deficit, beginning of year	\$ (21,211,924)	\$ (9,853,511)
Deficit, end of year	\$ (25,328,664)	\$ (21,211,924)
Loss per share:		
Basic and diluted	\$ (0.08)	\$ (0.25)
Weighted average number of shares outstanding during the year	51,416,515	44,813,229

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements of
AUSAM ENERGY CORPORATION
Consolidated Statements of Cash Flows
(in Canadian dollars)

	<u>Year ended</u> <u>December 31, 2006</u>	<u>Year ended</u> <u>December 31, 2005</u>
Cash provided by (used for):		
Operations		
Net loss	\$ (4,116,740)	\$ (11,358,413)
Add (deduct) non-cash items:		
Depreciation and accretion	41,504	33,718
Asset write down	1,602,311	6,605,948
Unrealized foreign exchange gain	(59,847)	-
Stock based compensation	<u>257,563</u>	<u>1,194,935</u>
	(2,275,209)	(3,523,812)
Change in non-cash working capital (Note 11)	<u>(361,282)</u>	<u>151,845</u>
	(2,636,491)	(3,371,967)
Financing activities		
Proceeds from issue of shares and warrants	1,750,000	10,924,728
Share issue costs	(25,000)	(370,615)
Decrease/(increase) in loan receivable	419,723	(419,723)
Increase in deferred costs	(797,060)	-
Change in non cash working capital (Note 11)	<u>291,466</u>	<u>72,000</u>
	1,639,129	10,206,390
Investing activities		
Capital asset additions	(5,351,723)	(6,416,659)
Decrease/(increase) in advances to joint venture partners	150,656	403,620
Change in non cash working capital (Note 11)	<u>900,987</u>	<u>-</u>
	(4,300,080)	(6,013,039)
(Decrease)/increase in cash	(5,297,442)	821,384
Cash, beginning of year	<u>8,634,332</u>	<u>7,812,948</u>
Cash, end of year	\$ 3,336,890	\$ 8,634,332

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Ausam Energy Corporation (the "Company" or "Ausam") is incorporated under the Business Corporations Act (Alberta). The Company is considered to be a development stage enterprise as it has yet to generate significant revenue from operations. Its principal activities relate to oil and gas exploration and development in Australia and the United States.

A portion of the Company's exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate working interest in such activities.

Presently Ausam has no production and therefore no operating cash flow, and at this time all exploration activities and overhead expenses are financed by way of equity. Continuing operations and the recovery of petroleum and natural gas property costs is dependent on Ausam's ability to identify commercial oil and gas reserves, generate profitable operations and access sufficient funds to complete development activities.

2. Significant Accounting Policies

a) Foreign currency translation

The Company's Australian operations are considered self-sustaining and are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at period-end exchange rates and items included in the statements of operations and retained earnings and cash flows are translated at the rates in effect at the time of the transaction. The gain or loss on translation is charged to cumulative translation adjustment in shareholders equity. At balance sheet date amounts payable and receivable in foreign currencies are translated to the reporting currency at rates of exchange rates in effect. Resulting exchange differences are recognized in determining the profit or loss for the period. The Company's United States operations are considered to be integrated and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at year-end, non-monetary assets and liabilities are translated at historical rates and revenues and expenses are translated at the monthly average exchange rate.

b) Property and equipment

The Company has interests in oil and gas properties and is in the process of exploring and developing its various properties, the economic viability of which has not been assessed. The realization of the Company's investment in its properties is dependent upon various factors, including the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the exploration and development of the properties, future profitable operations, or, alternatively, upon the disposal of the investment on an advantageous basis.

The Company reviews the carrying values of property acquisition and exploration expenditures regularly, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, assesses whether there has been any impairment in value. In the event that the estimated undiscounted cash flows expected from its use or eventual disposition is determined to be insufficient to recover the carrying value of any property, the carrying value will be written down to the estimated fair value.

Following the discovery of reserves and the commencement of production, the Company accounts for oil and natural gas properties and equipment in accordance with Canadian full cost accounting in the oil and gas industry. Under this method, all costs associated with the acquisition of, exploration for and the development of, natural gas and oil reserves, are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre net of estimated salvage value are depreciated, depleted and amortized using the unit-of-production method based on estimated proved reserves. Proceeds from the disposal of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depreciation, depletion and amortization of 20% or greater in which case a gain or loss is recorded. Costs of major development projects and costs of

acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or impairment has occurred.

Capitalized costs, together with estimated future capital costs associated with proven reserves, are depleted and depreciated using the unit-of-production method based on estimated gross proven reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairments, are excluded from the depletion and depreciation calculation.

c) **Depreciation**

Other assets, which comprise office equipment, computer equipment and software, leasehold improvements and furniture and fixtures, are recorded at cost and are depreciated over their useful life. The depreciation rates are as follows:

Office equipment, leasehold improvements and furniture and fixtures	20.0%
Computer equipment and software	33.3%

d) **Asset retirement obligations**

An asset retirement obligation is recorded as a liability in the period in which a legal obligation is incurred as a result of an acquisition, construction, development and/or normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using a unit-of-production method over the estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

e) **Measurement uncertainty**

Amounts recorded for petroleum and natural gas properties and asset retirement obligations are based upon estimates future costs, cash flows and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

f) **Income taxes**

The Company follows the liability method of accounting for income taxes. Future income taxes are calculated based on temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet using tax rates anticipated to apply in the periods when the temporary differences are expected to reverse. The effect on future taxes for a change in tax rates is recognized in income in the period of the change. Future income tax assets are recognized to the extent that realization of such assets is more likely than not.

g) **Stock-based compensation plan**

The Company has a stock-based compensation plan as described in Note 8. The Company uses the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

h) **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand with commercial banks and investments in bankers acceptances issued by commercial banks with an original maturity of less than three months.

i) **Loss per share**

Basic loss per share is computed using the weighted average number of shares outstanding during the year. Diluted loss per share reflects the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. For years ended December 31, 2006 and 2005, the inclusion of the Company's stock options and warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and therefore options and warrants are excluded from the computation.

3. Property and equipment

December 31, 2006	Cost	Accumulated depreciation	Write down	Net book value
Petroleum and natural gas properties	\$18,280,840	-	\$8,208,259	\$10,072,581 ⁽¹⁾
Other assets	199,994	94,458	-	105,536
	\$ 18,480,834	\$94,458	\$8,208,259	\$10,178,117

(1) Petroleum and natural gas properties comprises \$8,836,908 located in Australia and \$1,279,748 in the United States

December 31, 2005				
Petroleum and natural gas properties - Australia	\$10,800,589	-	\$6,605,948	\$4,194,641
Other assets	160,046	51,237	-	108,809
	\$10,960,635	\$51,237	\$6,605,948	\$4,303,450

4. Asset write down

During the fourth quarter of 2006 an impairment review was conducted on all of the Company's properties. The result of this review was an asset write down of \$1,602,311 to reflect impairment in the carrying value of certain of the Company's oil and gas assets in Australia. The write down is summarized as follows:

Permit/property	ATP552P Bellbird
Location	Queensland
Basis of write down	100%
Write down	\$1,602,311

During the fourth quarter of 2005 an impairment review was conducted on all of the Company's properties following the drilling results in ATP 682P and PL 71 as well as the results of the attempted farm-out of EP 23, EP 321, and EP 407 during 2005. The result of this review was an asset write down of \$6,605,948 to reflect impairment in the carrying value of Company's oil and gas assets in Australia. The write down is summarized as follows:

Permit/property	PL71	ATP682P	EP23/EP414/EP321/EP407	Other permits	Total
Location	Queensland	Queensland	Western Australia		
Basis of write down	100%	100%	100%	100% of specific permits	
Write down	\$3,182,671	\$670,049	\$2,235,731	\$517,497	\$6,605,948

5. Advances to joint venture partners

This amount represent funds advanced on cash calls on approved AFEs to the operators of the joint ventures in which Ausam has an interest in Queensland, Australia, in excess of funds expended on exploration activities, offset by unexpended funds received on cash calls on approved AFEs to partners where Ausam is the operator of the farm-in agreement.

6. Deferred costs

These costs totaling \$797,060 comprise legal, professional, financing and other directly related costs with respect to the acquisition of leasehold rights to certain oil and gas properties in Texas, Louisiana, Mississippi, Alabama and Arkansas, and the related financings which closed on February 8, 2007. These costs will be allocated to share issue costs and Petroleum and natural gas properties in 2007.

7. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

	<u>December 31, 2006</u>
Asset retirement obligation, beginning of year	\$ 164,207
Obligations incurred	27,324
Accretion expense	1,415
Asset retirement obligation, end of year	\$ 192,946

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$203,835. The obligation was calculated using a credit-adjusted risk free discount rate of 9 percent. The majority of expenditures are expected to be incurred in 2007.

8. Share Capital

a) Authorized

Unlimited number of common shares without nominal or par value and unlimited number of preferred shares, issuable in series.

b) Issued – common shares

	Shares	Amount
Balance, December 31, 2004	38,506,835	\$ 22,368,505
Issue of common shares for cash	8,895,285	7,006,892
Issue costs	-	(432,708)
Issue of common shares for cash, upon exercise of warrants	2,920,644	3,166,710
Balance, December 31, 2005	50,322,764	\$ 32,109,399
Issue of common shares for cash	4,375,000	1,445,938
Issue costs	-	(25,000)
Balance, December 31, 2006	54,697,764	\$ 33,530,337

Under reverse takeover accounting at the acquisition date the authorized and issued share capital was that of Ausam while the stated value was that of Ausam Resources Pty Ltd.

c) **Issued - share purchase warrants**

	Number	Amount
Balance, December 31, 2004	8,228,847	\$ 986,357
Expired	(5,308,203)	(740,347)
Issued for cash	4,447,642	997,193
Exchanged for common shares	(2,920,644)	(246,066)
Balance, December 31, 2005	4,447,642	\$ 997,137
Expired	(4,447,642)	(997,137)
Issued for Cash (Note 8d)	4,375,000	304,062
Balance, December 31, 2006	4,375,000	\$ 304,062

As part of the private placements completed in June and July 2005, the Company issued 4,447,642 share purchase warrants, exercisable at \$1.20 per common share until December 1, 2006. The fair value of the warrants was estimated using the Black-Scholes option-pricing model.

d) **Issued - Noram warrants**

As at December 31, 2006 there were 4,375,000 warrants issued and outstanding, exchangeable for one common share of Noram Resources, Inc. ("Noram") at no extra cost should the acquisition announced on September 22, 2006 fail to close by a certain date. Noram is a wholly owned subsidiary of Ausam that, as a condition of closing of the October 2006 private placement, was assigned a 20% interest in of one of the leases to be acquired from SKH as part of the transaction. If the transaction is successfully completed prior to January 31, 2007, Noram will remain a wholly owned subsidiary of Ausam and the warrants will automatically expire. If the transaction fails to close prior to February 9, 2007, as amended, all of the warrants will automatically be exchanged according to their terms and the holders of the warrants will become the owners of all of the issued and outstanding shares of Noram. The fair value of the warrants was determined to be the premium paid on a unit basis above the weighted average trading price of the common shares.

The warrants expired unexercised on February 8, 2007.

e) **Stock options**

The Company has established a stock option plan for its directors, officers, employees and consultants, whereby options may be granted subject to certain terms and conditions. Stock options vest over a period of up to three years and expire at various dates through 2009.

Changes in the number of options, with their weighted average exercise prices, are summarized below:

	2006		2005	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, beginning of year	4,400,000	0.76	2,375,000	0.76
Granted	-		450,000	1.30
Granted	-		1,575,000	1.15
Forfeited	(400,000)		-	
Outstanding, end of year	4,000,000	0.96	4,400,000	0.91
Options exercisable, end of year	3,391,667	0.92	2,258,334	0.89

The following table summarizes information about the stock options at December 31, 2006:

Exercise Price	Options outstanding		Options exercisable
	Number outstanding, December 31, 2006	Weighted average remaining contractual life (years)	Number exercisable, December 31, 2006
\$0.75	2,075,000	2.6	2,075,000
\$1.10	100,000	2.8	100,000
\$1.15	1,375,000	2.6	916,667
\$1.30	450,000	3.2	300,000
	4,000,000	3.0	3,391,667

f) **Estimated fair value of stock options**

No options were granted in 2006. During 2005, the Company determined the fair value of stock options issued using the modified Black-Scholes option pricing model under the following assumptions:

	<u>2005</u>
Weighted-average fair value (\$/option)	\$0.72
Risk-free interest rate	3.0%
Estimated hold period prior to exercise	3 years
Volatility in the price of the Company's shares	71%

g) **Contributed surplus**

The following table sets out the changes in Contributed Surplus related to the stock based compensation expense, broker/agent warrants and expired warrants:

Balance at December 31, 2004	\$ 973,334
Stock based compensation	1,194,935
Expired warrants	802,440
<hr/>	
Balance at December 31, 2005	\$ 2,970,709
Stock based compensation	257,563
Assignment of lease ⁽¹⁾	1,219,901
Expired warrants	997,137
<hr/>	
Balance at December 31, 2006	\$ 5,445,310

⁽¹⁾ 20% of an oil and gas property lease was assigned to the Company for no cash consideration in connection with a proposed oil and gas leasehold rights acquisition which subsequently closed on February 8, 2007. (Note 15a)

h) **Per share amounts**

Per share amounts are calculated using the weighted average number of common shares outstanding during the year. The weighted average number and the diluted weighted average number due to options and warrants outstanding, of common shares outstanding during the years ending at December 31, 2006, and December 31, 2005 are as follows:

	2006	2005
Weighted average number of common shares outstanding during the year	51,416,515	44,813,229
Diluted weighted average number of common shares outstanding during the year	51,416,515	44,965,101

4,000,000 stock options and 4,375,000 share purchase warrants were excluded from the calculation of diluted weighted average number of share outstanding since the effect is non dilutive,

i) **Escrow shares**

5,231,861 shares acquired by certain directors and related parties as part of the transaction with Ausam Resources Limited and as part of a private placement completed on the April 2, 2004, are subject to escrow agreements. 10% of the escrowed shares were released upon issuance of the final Notice of the TSX Venture Exchange regarding the completion of the Transaction (the "Initial Release"). The remaining shares are releasable on each of the 6, 12, 18, 24, 30 and 36 months following the Initial Release. At December 31, 2006, 1,569,558 shares remained in escrow.

9. Due diligence and acquisition related costs

During 2005, due diligence and acquisition related costs represent expenses incurred with respect to the investigation and due diligence performed with respect to a potential corporate acquisition in Australia which was not completed.

10. Taxes

a) Tax expense:

The combined provision for taxes in the consolidated statement of earnings and retained earnings reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

	2006	2005
Loss before taxes	\$(4,116,740)	\$ (11,358,417)
Statutory income tax rate	34.5%	37.6%
Expected income taxes recoverable	(1,420,275)	(4,270,765)
Add (deduct):		
Difference in foreign statutory rates	608,309	551,859
Non-deductible expenditures	77,160	585,376
Valuation allowance	734,806	3,133,530
Income taxes recoverable	\$ -	\$ -

The components of the net future income tax asset, as at December 31, 2006 and December 31, 2005, no portion of which has been recorded in these financial statements, are as follows:

	2006	2005
Future income tax asset:		
Losses not utilized	\$ 9,179,362	\$ 6,350,629
Share issue costs/other	834,925	1,154,420
Property, plant and equipment	(2,624,173)	(1,249,662)
Future income tax asset before valuation allowance	7,390,114	6,255,387
Valuation allowance	(7,390,114)	(6,255,387)
Net future income tax asset	\$ -	\$ -

- b) In Australia, the Company has non-capital losses available for income tax purposes of approximately \$24.4 million (2005 - \$16.4 million) which are available to reduce taxable income in future years. In addition, the Company has capital losses available for income tax purposes of approximately \$1.0 million (2005 - \$1.0 million) which are available to reduce taxable capital gains in future years. The non-capital and capital losses have indefinite life.

In Canada, the Company has non-capital losses available for income tax purposes in Canada of approximately \$4.7 million (2005 - \$2.9 million) which are available to reduce taxable income in future years, and expire between 2014 and 2026.

In the United States, the Company has non-capital losses available for income tax purposes in the United States of approximately \$0.4 million which are available to reduce taxable income in future years, and expire in 2026

11. Supplemental cash flow information:

Changes in non-cash working capital	2006	2005
Accounts receivable	\$ (102,122)	\$ 55,564
Inventory	8,432	822
Prepaid expenses	(88,817)	74,521
Accounts payable and accrued liabilities	1,013,677	92,938
Change in non-cash working capital	\$ 831,170	\$ 223,845
Operating activities	(361,282)	151,845
Financing activities	291,466	72,000
Investing activities	900,986	-
	\$ 831,170	\$ 223,845

No cash taxes or interest was paid in either 2006 or 2005.

12. Financial instruments:

a) **Fair value of financial instruments:**

The Company's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable, and accrued liabilities. The fair value of these financial instruments approximate their carrying amounts due to their short terms to maturity.

b) **Interest rate risk:**

The Company is exposed to fluctuations in interest rates with respect to its cash and short-term investment balance.

c) **Foreign exchange rate risk:**

The Company is exposed to fluctuations in foreign exchange rates with respect to its cash and short-term investment balance and also foreign currency denominated liabilities.

13. Capital commitments:

In order to maintain current rights of tenure to exploration and mining tenements in Australia, the Company has exploration expenditure requirements up until expiry of the leases. These obligations are subject to renegotiation upon expiry of the leases. The Company has the following discretionary exploration expenditure requirements up until expiry of the leases. This table does not include leases or permits where the Company intends to relinquish its rights, and the amounts are not provided for in the financial statements and are payable as follows:

Not later than one year	\$	1,391,325
Later than one year but not later than 2 years		22,967
Later than 2 years but not later than 5 years		-
	\$	1,414,292

In addition future minimum annual operating lease payments for office space and equipment are as follows:

2007	\$	234,778
2008		252,113
2009		247,212
2010		200,087
2011		200,087
	\$	1,134,277

14. Related party transactions

The following summarizes related party transactions during 2006 and 2005:

- a) As at December 31, 2005, the loan receivable comprised \$419,723 of advances to a director and officer. A promissory note, secured by shares of the Company, was signed for the indebtedness, which specified interest at bank prime and full repayment by December 31, 2005. During 2006, \$22,504 (2005 - \$5,700) of interest was charged on this loan, which is included in interest income. A new promissory note in the amount of \$397,087, secured by shares of the Company, was signed on March 31, 2006 for the indebtedness outstanding at that time, which specifies interest at bank prime and full repayment by September 20, 2006. The Company agreed to extend the repayment terms until December 31, 2006 and during December 2006, the loan was fully repaid.
- b) During the year ended December 31, 2005 Ausam paid \$62,660 of management and consulting fees to companies where two directors and an officer of the Company are the shareholders of the respective companies. These fees are included in general and administrative costs.

All related party transactions were in the normal course of operations and have been measured at exchange amounts established and agreed to by the related parties and which are similar to those that Ausam would expect to have negotiated with third parties in similar circumstances.

15. Subsequent events

- a) On February 8, 2007, the Company closed the acquisition of leasehold rights to certain oil and gas properties in Texas, Louisiana, Mississippi, Alabama and Arkansas. The aggregate purchase price of approximately US\$35 million (the "Purchase Price") comprised cash consideration of US\$15 million and 63,417,143 common shares of Ausam.

In connection with the acquisition, the Company secured US\$46,480,000 (approximately C\$54,300,000) in financing. The financing comprised:

- 1) a private placement consisting of 30,926,842 units ("Units") at a price of US\$0.54 (C\$0.64) per Unit, each Unit consisting of one common share in the capital of the Company ("Common Share") and one half of one Common Share purchase warrant (the "Unit Warrants"), each whole Unit Warrant entitling

the holder thereof to purchase one Common Share at a price of C\$0.65 for a period of 24 months from the date of issuance, for gross proceeds of US\$16,700,494.

- 2) a private placement consisting 19,966,666 series 2 units ("Series 2 Units") at a price of US\$0.60 (C\$0.71) per Series 2 Unit, each such Series 2 Unit consisting of one first preferred share, series 2 in the capital of the Company ("First Preferred Shares, Series 2") and one half of one Common Share purchase warrant (the "Series 2 Warrants"), each whole Series 2 Warrant entitling the holder thereof to purchase one Common Share at a price of C\$0.75 for a period of 24 months from the date of issuance, for gross proceeds of US\$11,978,000. In total, 25,446,754 warrants to purchase Common Shares were issued.
- 3) convertible debt facilities allowing the Company to access up to US\$17,800,000 in financing with a 10% coupon and a conversion price of C\$0.70.

- b) On April 4, 2007 the directors of the Company approved the granting of 7,446,253 stock options to directors, officers and employees, exercisable at a price of C\$0.475, and exercisable until April 4, 2012.