

*Unaudited Consolidated Financial Statements of*

**Iteration Energy Ltd.**

*September 30, 2006 and 2005*

## Iteration Energy Ltd.

### Consolidated Balance Sheets (unaudited)

As at

(in thousands of dollars)

	September 30, 2006	December 31, 2005
<b>ASSETS (Note 5)</b>		
Current		
Cash	\$ 1,069	\$ 25,134
Accounts receivable	11,179	19,421
Prepays and other current assets	1,232	1,266
	<b>13,480</b>	45,821
Property, plant and equipment (Notes 3, 4 and 5)	<b>189,115</b>	115,257
Goodwill (Note 3(a))	<b>20,568</b>	20,568
	<b>\$ 223,163</b>	\$ 181,646
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Bank loan (Note 5)	\$ 30,585	\$ -
Accounts payable and accrued liabilities (Note 14)	19,441	33,753
Income taxes payable	128	186
Capital lease obligations (Note 6)	392	730
	<b>50,546</b>	34,669
Future income taxes	<b>1,371</b>	2,928
Leasehold inducements	<b>364</b>	471
Asset retirement obligations (Note 7)	<b>8,873</b>	4,492
	<b>61,154</b>	42,560
Commitments and contingencies (Notes 10,11, and 12)		
Shareholders' equity (Note 8)		
Share capital	163,583	139,467
Warrants outstanding (Notes 3(a) and 8(d))	4,166	4,166
Deficit	(5,740)	(4,547)
	<b>162,009</b>	139,086
	<b>\$223,163</b>	\$ 181,646

See accompanying notes to consolidated financial statements.

# Iteration Energy Ltd.

## Consolidated Statements of Earnings (Loss) and Deficit (unaudited)

<i>(in thousands of dollars, except per share amounts)</i>	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2006	2005	2006	2005
				(Note 3(b))
<b>Revenue</b>				
Production revenue	<b>\$ 16,888</b>	\$ 14,231	<b>\$ 46,600</b>	45,327
Royalties, net of Alberta Royalty Tax Credit	<b>(3,041)</b>	(3,351)	<b>(9,795)</b>	(10,107)
	<b>13,847</b>	10,880	<b>36,805</b>	35,220
Other production revenue	<b>46</b>	125	<b>187</b>	399
Interest income	<b>23</b>	179	<b>257</b>	316
	<b>13,916</b>	11,184	<b>37,249</b>	35,935
<b>Expenses</b>				
Production	<b>4,122</b>	987	<b>8,260</b>	4,775
Transportation	<b>337</b>	10	<b>883</b>	411
General and administrative	<b>1,270</b>	1,224	<b>2,692</b>	3,936
Stock based compensation expense (recovery)(Note 8 (c))	<b>(183)</b>	1,396	<b>(1,865)</b>	2,468
Interest on current debt	<b>471</b>	19	<b>698</b>	607
Accretion expense	<b>210</b>	56	<b>415</b>	165
Depletion and depreciation	<b>11,352</b>	5,638	<b>28,471</b>	23,495
	<b>17,579</b>	9,330	<b>39,554</b>	35,857
Earnings (loss) before the following	<b>(3,663)</b>	1,854	<b>(2,305)</b>	78
Recovery of investment tax credits	-	-	-	1,409
Loss on disposal of investment	-	-	-	(63)
Earnings (loss) before income taxes	<b>(3,663)</b>	1,854	<b>(2,305)</b>	1,424
Income taxes (Note 9)				
Future income tax expense (recovery)	<b>(1,296)</b>	210	<b>(1,084)</b>	1,245
Current income tax expense (recovery)	<b>3</b>	126	<b>(28)</b>	631
	<b>(1,293)</b>	336	<b>(1,112)</b>	1,876
Net earnings (loss)	<b>(2,370)</b>	1,518	<b>(1,193)</b>	(452)
Deficit, beginning of period	<b>(3,370)</b>	(10,337)	<b>(4,547)</b>	(8,367)
Deficit, end of period	<b>\$ (5,740)</b>	\$ (8,819)	<b>\$ (5,740)</b>	\$ (8,819)
Basic and diluted net earnings (loss) per common share (Note 8(e))	<b>\$ (0.04)</b>	\$ 0.03	<b>\$ (0.02)</b>	\$ (0.01)

See accompanying notes to the consolidated financial statements

# Iteration Energy Ltd.

## Consolidated Statements of Cash Flows (unaudited)

<i>(in thousands of dollars)</i>	<b>Three Months Ended Sept 30,</b>		<b>Nine Months Ended Sept 30,</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss)	<b>\$(2,370)</b>	\$1,518	<b>\$(1,193)</b>	\$(452)
Add (deduct) non-cash items:				
Depletion and depreciation	<b>11,352</b>	5,638	<b>28,471</b>	23,495
Accretion expense	<b>210</b>	56	<b>415</b>	166
Recovery of investment tax credits	-	-	-	(1,409)
Future income tax expense (recovery)	<b>(1,296)</b>	210	<b>(1,084)</b>	1,245
Amortization of leasehold inducements	<b>(37)</b>	(36)	<b>(107)</b>	(118)
Stock-based compensation (Note 7 (c))	<b>(183)</b>	1,396	<b>(1,865)</b>	2,468
	<b>7,676</b>	8,782	<b>24,637</b>	25,395
Asset retirement expenditures	-	(151)	-	(413)
Net change in non-cash working capital (Note 13)	<b>4,182</b>	(386)	<b>(1,273)</b>	(9,952)
	<b>11,858</b>	8,245	<b>23,364</b>	15,030
<b>INVESTING ACTIVITIES</b>				
Proceeds from sale of property, plant and equipment (Note 3(b))	-	(2,543)	<b>679</b>	81,968
Acquisition of subsidiary, net of cash acquired (Note 3(a))	-	109	-	(244)
Acquisition of oil and gas properties	<b>46</b>	-	<b>(51,087)</b>	-
Additions to oil and gas properties	<b>(16,789)</b>	(10,210)	<b>(47,877)</b>	(18,641)
Additions to other capital assets	<b>(55)</b>	-	<b>(79)</b>	(3)
Proceeds on disposal of assets held for sale	-	-	-	2,119
Net change in non-cash working capital (Note 13)	<b>1,737</b>	7,244	<b>(2,677)</b>	3,765
	<b>(15,061)</b>	(5,400)	<b>(101,041)</b>	68,964
<b>FINANCING ACTIVITIES</b>				
Proceeds from (repayment of) bank loan	<b>439</b>	-	<b>30,585</b>	(51,518)
Common shares issued for cash	-	36	<b>25,210</b>	36
Share issue costs	<b>(42)</b>	-	<b>(1,567)</b>	(38)
Principal payment – equipment finance obligation	-	-	-	(325)
Principal payment – capital lease obligation	<b>(112)</b>	(110)	<b>(338)</b>	(324)
Net change in non-cash working capital (Note 13)	-	86	<b>(278)</b>	269
	<b>285</b>	12	<b>53,612</b>	(51,900)
Increase (decrease) in cash	<b>(2,918)</b>	2,857	<b>(24,065)</b>	32,094
Cash, beginning of period	<b>3,987</b>	29,237	<b>25,134</b>	-
Cash, end of period	<b>\$1,069</b>	\$32,094	<b>\$1,069</b>	\$32,094

See Note 13 for supplemental disclosure

See accompanying notes to the consolidated financial statements

## Iteration Energy Ltd.

### Notes to the Unaudited Interim Consolidated Financial Statements Period Ended September 30, 2006 and 2005

(Tabular amounts in thousands of dollars, unless otherwise noted)

#### 1. NATURE OF OPERATIONS

Iteration Energy Ltd. (“Iteration” or the “Company”) is a public company that trades on the Toronto Stock Exchange and is incorporated under the Business Corporations Act (Alberta). Iteration is engaged in the exploration, development and production of petroleum and natural gas in Canada.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Iteration have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with those set out in the audited consolidated financial statements for the year ended December 31, 2005. These interim consolidated financial statements do not include all disclosures provided in the December 31 financial statements and should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2005.

#### 3. ACQUISITIONS AND DISPOSITIONS

##### (a) Iteration Energy Inc.

On March 21, 2005 the Company acquired all of the shares of Iteration Energy Inc. The acquisition was accounted for by the purchase method and the purchase price was allocated as follows:

Allocation of purchase price (\$'000's):

Cash	\$	2,175
Goodwill		20,568
Total purchase price	\$	22,743

Consideration was comprised of :

Issue of 5,750,000 common shares using an ascribed value of \$2.81 per share	\$	16,158
Issue of 5,000,000 warrants using an ascribed value of \$0.8332 per warrant		4,166
Cash		2,419
Total consideration	\$	22,743

The goodwill arises as a result of the consolidation of Iteration Energy Ltd. and Iteration Energy Inc and therefore is not considered to be a deductible amount for income tax purposes.

The results of operations for Iteration Energy Inc. have been included in the consolidated financial statements since March 21, 2005.

The fair value of the warrants granted was estimated to be \$4,166,000 as at the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

Risk-free interest rate (%)	3.75
Expected life (years)	3.50

Expected volatility (%)	35.72
Expected dividend yield (%)	-

**(b) Sale of Lavoy Area Properties**

On March 24, 2005, with an effective date of January 1, 2005, the Company sold its Lavoy area properties to two unrelated third parties for gross proceeds totaling \$85,000,000. After adjustments for operating results and capital expenditures for the period between the effective date and the closing date, the Company received net proceeds of \$80,813,000. The proceeds were applied to eliminate bank debt, with the remaining proceeds applied to working capital.

Operating results from the Lavoy area are included in the consolidated financial statements to March 24, 2005, the closing date of the sale. No gain or loss on the disposition was recognized as crediting the net proceeds to capital costs did not result in a change of 20 percent or more in the depletion and depreciation rate.

**(c) Acquisition of East Central Alberta Properties**

On June 27, 2006, with an effective date of April 1, 2006, the Company purchased five producing properties from an unrelated third party for a gross purchase price of \$42,325,000. After adjustments for operating results and capital expenditures between the effective date and the closing date, the Company paid \$42,048,000. The purchase price was initially funded from bank debt. The Company commenced reporting production from the acquisition July 1, 2006.

**4. PROPERTY, PLANT AND EQUIPMENT**

	September 30, 2006 (\$'000's)	December 31, 2005 (\$'000's)
Oil and gas properties	<b>\$299,376</b>	\$ 197,080
Other	<b>683</b>	650
	<b>300,059</b>	197,730
Less accumulated depletion and depreciation	<b>110,944</b>	82,473
	<b>\$189,115</b>	\$ 115,257

At September 30, 2006, unproved properties and seismic expenditures amounting to \$26,254,000, (December 31, 2005: \$13,936,000) have been excluded from the depletion calculation. Future development costs on proven undeveloped reserves of \$1,021,000 (December 31, 2005: \$1,650,000) are included in the depletion calculation.

For the three and nine months ended September 30, 2006, the Company capitalized \$525,000 and \$1,390,000 respectively, (three and nine months ended September 30, 2005: \$472,000 and \$1,305,000 respectively) of overhead directly related to exploration and development activities.

Property, plant and equipment include assets under capital lease having a carrying value of \$1,026,000 as at September 30, 2006 (December 31, 2005: \$1,090,000).

**5. BANK LOAN**

The Bank Loan represents the drawn portion of a \$50 million credit facility that the Company has established with a Canadian Chartered Bank. A general security agreement and a guarantee and postponement of claim have been provided as security. The facility requires monthly payments of interest only, calculated monthly in arrears. Interest on the outstanding balance is calculated at the bank's prime rate. In addition, there is a standby fee, calculated at 10 basis points per annum on the undrawn balance.

## 6. CAPITAL LEASE OBLIGATIONS

During 2004, the Company entered into an agreement to lease a new compressor for a two-year term ending October 2006. Assets under capital lease amounting to \$1,277,000 are included in property, plant and equipment and depreciated with other equipment costs on the unit of production method. The interest rate implicit in the lease is 7.35%. Current future minimum lease payments under the capital lease at September 30, 2006 are \$392,000 (December 31, 2005: \$730,000). Subsequent to the quarter end, the Company paid out the compressor lease.

## 7. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the Company's net working interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company estimates the undiscounted cash flows related to asset retirement obligations, adjusted for inflation, to be incurred over the estimated reserve life of the underlying assets (which is estimated to be from 2006 through 2036) will total approximately \$17,798,000 (December 31, 2005: \$10,756,000). The fair value at September 30, 2006 is \$8,873,000 (December 31, 2005: \$4,492,000) using a discount rate of six percent and an inflation rate of two percent. As at September 30, 2006, no funds have been set aside to settle this obligation.

	September 30, 2006 (\$'000's)
Balance, beginning of period	\$ 4,492
Liabilities incurred on acquisition of properties (note 3)	2,837
Increase in liabilities from drilling activity	2,074
Decrease in liabilities from revision of estimates	(945)
Settlement of liabilities	-
Accretion expense	415
Balance, end of period	<u>\$ 8,873</u>

## 8. SHARE CAPITAL

### (a) Authorized

Unlimited number of voting common shares without par value.  
Unlimited number of preferred shares issuable in series

### (b) Common Shares Issued

Nine months ended Sept 30, 2006	Year ended, December 31, 2005
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	Number of Shares	Amount (\$'000's)	Number of Shares	Amount (\$'000's)
Balance, beginning of period	<b>48,895,347</b>	<b>\$ 139,467</b>	43,071,681	\$ 126,618
Shares issued on public offering	<b>6,200,000</b>	<b>25,110</b>		
Issued on acquisition of Iteration Energy Inc. (Note 3(a))	-	-	5,750,000	16,158
Shares issued on exercise of stock options	<b>34,500</b>	<b>100</b>	73,666	266
Share issue costs, net of tax effect of \$473,000	-	<b>(1,094)</b>	-	(25)
Tax benefits renounced	-	-	-	(3,550)
<b>Balance, end of period</b>	<b>55,129,847</b>	<b>\$163,583</b>	48,895,347	\$ 139,467

**(c) Stock Options**

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and non-employees to acquire up to 10% of the issued and outstanding common shares. The dates on which options vest are set by the Board of Directors at the time of grant. The exercise price of an option granted is the closing price of the Company's stock on the last trading date prior to the grant date. The dates on which options expire are also set by the Board of Directors at the time of grant and cannot exceed ten years.

Outstanding stock options to acquire common shares through the stock option plan, not including contingent options as discussed further below, are as follows:

	Nine months ended Sept 30, 2006		Year ended December 31, 2005	
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
<b>Outstanding, beginning of period</b>	<b>4,798,122</b>	<b>2.98</b>	747,200	4.93
Granted	<b>625,600</b>	<b>4.51</b>	4,902,500	2.97
Exercised for cash	-	-	(163,331)	3.86
Exercised for shares	<b>(34,500)</b>	<b>(2.90)</b>	(73,666)	3.62
Forfeited	-	-	(614,581)	5.02
<b>Outstanding, end of period</b>	<b>5,389,222</b>	<b>3.15</b>	4,798,122	2.98
<b>Options exercisable, end of period</b>	<b>1,614,996</b>	<b>2.98</b>	16,958	4.25

The following table summarizes information about the stock options outstanding at September 30, 2006, not including contingent options as discussed further below:

Range of exercise prices	Number outstanding September 30, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable September 30, 2006	Weighted average exercise price \$
\$2.90 to \$4.00	4,596,500	3.41	2.90	1,583,838	2.94
\$4.01 to \$5.00	637,100	4.66	4.28	7,933	4.94
\$5.01 to \$9.00	155,622	4.70	5.77	23,225	5.28
	5,389,222	3.60	3.15	1,614,996	2.98

As approved by Iteration’s shareholders, the Company’s stock option plan was amended effective April 1, 2004 to provide stock option holders the choice, upon exercise, to receive a cash payment in exchange for surrendering the option. The cash payment is equal to the appreciated value of the stock option as determined based on the difference between the option’s exercise price and the Company’s share price at the time of exercise. For the three and nine months ended September 30, 2006, a recovery of stock based compensation expense of \$183,000 and \$1,865,000 respectively (2005: expense of \$1,396,000 and \$2,468,000 respectively), was recognized based on the reduction in value of the outstanding stock options. This was determined using the September 30, 2006 closing share price, as compared to the closing share price at June 30, 2006 and December 31, 2005 respectively. Future fluctuations in the stock based compensation expense or recoveries are dependent on the movement of the Company’s share price and the number of options outstanding. Based on the September 30, 2006 share price of \$3.85, had all of the 5,389,222 stock options outstanding been vested, stock based compensation expense and a corresponding liability of \$4,354,000 would have been recognized. Of this amount, \$2,217,000 has been recognized as a liability at September 30, 2006.

During the quarter, the Company granted 504,000 “conditional” stock options to employees, none of whom are officers, at an exercise price of \$4.35 per share. The options have a three year vesting period and a term of four years. These options are conditional because the granting of these options has resulted in the number of common shares available to be issued under the stock option plan exceeding the maximum number allowed (currently 10% of issued and outstanding common shares). The conditional nature of these options can only be removed by ratification of the granting of the options to the employees by the shareholders of the Company at the 2007 annual general meeting. In the event that the shareholders do not ratify the Shareholder Proposal with respect to these conditional options, all of the conditional options granted will immediately and automatically terminate without payment.

These conditional options have not been included in the calculation of the effect of dilutive options for purposes of calculating weighted average commons shares outstanding as the result would not be dilutive.

Concurrent with the granting of the options, the Board has adopted a stock appreciation rights (“SAR”) plan and granted 504,000 stock appreciation rights to the employees who were granted the conditional options, with the same exercise price, vesting conditions and term as the options. Upon the exercise of each SAR, the employee will be entitled to receive a cash payment equal to the difference between the closing price of the common shares on the date immediately preceding the date of exercise, and the exercise price of \$4.35 per SAR. In the event that the shareholders ratify the Shareholder proposal with respect to the conditional options, all SAR’s granted will immediately and automatically terminate without payment and the options granted will remain in effect.

No obligation has been recorded by the Company either with respect to the conditional options or the SAR’s because as at September 30, 2006, the market value of the common shares of the Company was less than the exercise price of the conditional options and SAR’s.

Subsequent to quarter end, 87,000 options with an average exercise price of \$6.12 and 26,000 contingent options or SARS with an exercise price of \$4.35 were forfeited by employees who left the Company and 75,000 options with an exercise price of \$3.85 were issued to new employees.

**(d) Warrants**

Warrants to purchase 5,000,000 common shares at \$2.90 were issued to Iteration Energy Inc. shareholders (Note 3(a)). On May 7, 2005, all of the warrants vested. The warrants expire on September 21, 2008.

**(e) Per Share Amounts**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006	2005	2006	2005
Weighted average common shares				

outstanding	<b>55,129,847</b>	48,823,964	<b>51,689,169</b>	47,158,531
Effect of dilutive warrants	-	2,329,650	-	-
Effect of dilutive options	-	249,349	-	-
Weighted average diluted common shares outstanding	<b>55,129,847</b>	51,402,963	<b>51,689,169</b>	47,158,531

The options and warrants outstanding for the three months ended September 30, 2006 and the nine months ended September 30, 2006 and September 30, 2005 are not included in the computation of diluted common shares outstanding as the Company realized a net loss during these periods and the effect would be anti-dilutive.

## 9. INCOME TAXES

The provision for income taxes recorded in the financial statements differs from the amount that would be obtained by applying the statutory income tax rate to the net income (loss) before tax as follows:

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006	2005	2006	2005
	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)
<b>Earnings</b> (loss) before tax	<b>(3,663)</b>	1,854	<b>(2,305)</b>	1,424
Statutory Canadian corporate tax rate	<b>34.50 %</b>	37.62 %	<b>34.50 %</b>	37.62 %
Anticipated tax expense (recovery)	<b>(1,263)</b>	697	<b>(795)</b>	535
Non-deductible Crown payments	<b>372</b>	846	<b>1,133</b>	2,341
Alberta Royalty Tax Credit	<b>(15)</b>	-	<b>(37)</b>	(36)
Resource allowance	<b>(358)</b>	(766)	<b>(1,059)</b>	(2,216)
Rate adjustment	<b>(125)</b>	(37)	<b>(126)</b>	(19)
Other	<b>93</b>	(530)	<b>(200)</b>	640
Future income tax expense (recovery)	<b>(1,296)</b>	210	<b>(1,084)</b>	1,245

The rate adjustment of \$(126,000) represents the impact of the decrease in future income tax rates from 35.50% to 31.00%.

The current income tax expense (recovery) of \$(28,000) for the nine months ended September 30, 2006 (2005: expense of \$631,000) consists of the following:

	2006	2005
	(\$'000's)	(\$'000's)
Part 1 tax reassessment	<b>(28)</b>	45
Capital tax	-	120
Part X11.6 tax	-	297
Part 1 tax reassessment – predecessor corporations	-	169
Current tax expense	<b>(28)</b>	631

The Company also has approximately \$4,328,000 of unclaimed investment tax credits available to reduce future years' income taxes payable, the benefit of which has not been reflected in these financial statements. The investment tax credits ('000's) expire as follows:

2006	\$ 1,376
2007	1,132

2008	964
2009	856

## 10. OPERATING LEASES

The Company has entered into various operating leases with respect to its premises. The leases expire June 30, 2009 and require the following future minimum lease payments, by calendar year ('000's);

2006	\$ 172
2007	687
2008	687
2009	344

## 11. FINANCIAL INSTRUMENTS

### a) Fair Value

Financial instruments consist of cash, accounts receivable, accounts payable, income taxes payable, capital lease obligations and bank loan. The carrying value of these instruments approximates fair value unless otherwise stated.

### b) Fixed Price Contracts

The following plant gate sales contract was outstanding as at September 30, 2006:

Transaction Type	Volume (GJ/d)	Contract Price (GJ)	Expiry
Cogeneration Fuel Supply	33	\$2.058 - \$2.272	October 31, 2009

Based on independent price forecasts, had this contract been closed on September 30, 2006, a loss of \$123,000 would have been realized. No accrual has been made for this loss in the current financial statements.

### c) Credit Risk

Substantial portions of the Company's accounts receivable are with entities in the oil and gas industry. The Company generally extends unsecured credit to these companies, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. The Company has not previously experienced any material credit losses on the collection of receivables.

### d) Interest Rate Risk

The Company is exposed to changes in the prime interest rate on its bank debt.

## 12. CONTINGENCIES

The Company is party to various lawsuits as at September 30, 2006. It is management's opinion that, based on the best currently available information, the amount of any potential exposure and the outcome of these law suits is not determinable at this time. As a result, no provisions for these items have been recorded in these financial statements.

Pursuant to a purchase and sale agreement, the Company has indemnified the purchaser of a former subsidiary company for up to \$1,000,000 of income tax and legal expenses incurred with respect to specifically identified income tax returns. Any obligation pursuant to the terms of this indemnification will be recorded in the period in which the obligation is incurred.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

### 13. SUPPLEMENTAL DISCLOSURE ON CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital were comprised of the following:

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006 (\$'000's)	2005 (\$'000's)	2006 (\$'000's)	2005 (\$'000's)
Accounts receivable	\$447	\$(2,523)	\$8,242	\$(2,203)
Prepays and other current assets	(259)	(214)	34	1,033
Accounts payable and accrued liabilities	5,432	9,620	(12,446)	(4,899)
Income taxes payable	299	61	(58)	151
<b>Net change</b>	<b>\$5,919</b>	<b>\$6,944</b>	<b>\$(4,228)</b>	<b>\$(5,918)</b>

	2006		2005	
	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)
Net change by activity:				
Operating	\$4,182	\$(386)	\$(1,273)	\$(9,952)
Investing	1,737	7,244	(2,677)	3,765
Financing	-	86	(278)	269
<b>Net change</b>	<b>\$5,919</b>	<b>\$6,944</b>	<b>\$(4,228)</b>	<b>\$(5,918)</b>

Additional information:

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006 (\$'000's)	2005 (\$'000's)	2006 (\$'000's)	2005 (\$'000's)
Cash interest paid	\$ 471		\$ 698	\$ 607
Cash taxes paid	3		(28)	631

### 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

Sept 30, 2006                      December 31, 2005

	(\$'000's)	(\$'000's)
Trade accounts payable	<b>\$11,125</b>	\$ 24,756
Joint venture accounts payable	<b>2,935</b>	1,270
Royalties payable	<b>3,954</b>	3,676
Stock based compensation	<b>2,217</b>	4,082
Other	<b>(790)</b>	(31)
<b>Total</b>	<b>\$19,441</b>	<b>\$ 33,753</b>

## 15. COMPARATIVE FIGURES

Certain figures provided for 2005 have been reclassified to conform to the presentation adopted in 2006.