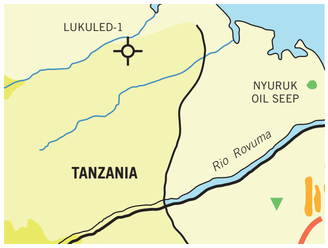
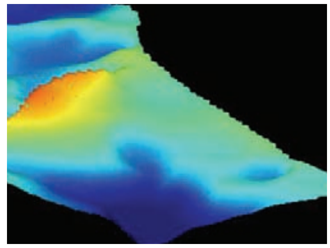
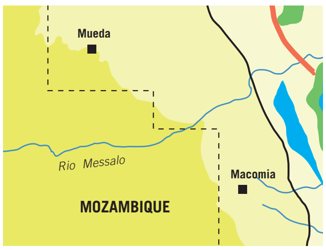
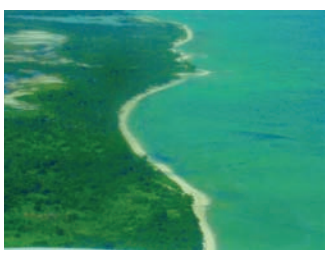


EMERGING THROUGH





EXPLORATION
PRODUCTION
COMMERCIALIZATION



2005 ANNUAL REPORT

ARTUMAS GROUP

CORPORATE PROFILE

Artumas Group Inc. is an oil and gas exploration and production company with operations in the Rovuma Delta Basin in Tanzania and Mozambique, an area with potential for large, unexplored reserves. The Company's focus is on developing this prolific hydrocarbon basin for commercialization, using new technology and strategic partnerships to create opportunities. Commercialization opportunities for these reserves include compressed natural gas (CNG), liquid natural gas (LNG) and electricity.

Through the Company's success with continuing commitment to it's original gas-to-electricity business plan, management has established strong relationships with government and key officials in East Africa. These relationships, combined with its knowledge of the region and its ability to address some of the energy challenges there, allow Artumas to operate successfully in the area. These advantages were instrumental to Artumas's success in acquiring substantial concessions in Tanzania and Mozambique and have allowed the Company to take its place among international integrated oil and gas companies operating in the region.

Artumas Group Inc. trades on the Oslo Stock Exchange in Norway under the symbol AGI.

MILESTONES

Proven plus probable reserve estimates increased to 1.1 tcf

New seismic data and interpretation indicates Mnazi Bay gas field increased more than twofold from 34 square kilometres to 84 square kilometres

Construction of a 27-kilometre pipeline and 10-mmcf/d gas plant facility for the commercialization of Mnazi Bay #1 gas reserves

Eight additional prospective leads identified in Mnazi Bay

Five-well drill program commencing in mid-2006

Undertaking a FEED study with TransCanada Pipeline for the transportation of compressed natural gas (CNG) as an off-take opportunity

Mozambique Rovuma onshore block increases Artumas's concession area twenty times, from 756 to 15,756 square kilometres

Mozambique concession provides strategic location surrounded by major international oil and gas companies

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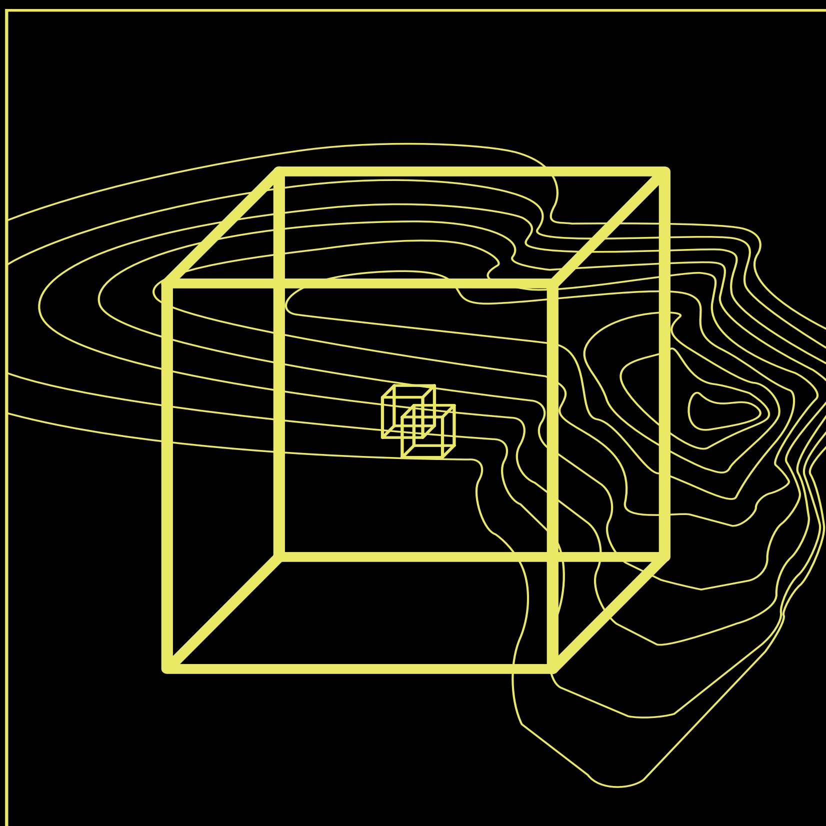


EMERGING THROUGH EXPLORATION

Artumas's mission is to operate profitably, safely and ethically. The Company seeks to maximize shareholder return on investment by exploring for and developing oil and gas reserves in the Rovuma Delta Basin in East Africa and optimizing all opportunities to bring the hydrocarbons to market.

MESSAGE TO SHAREHOLDERS

I am pleased to report a year of monumental developments for Artumas Group Inc. (Artumas). Throughout 2005 and in the beginning of 2006 the Company achieved substantial milestones, which establish it as a significant oil and gas company in the East Africa Basin.

OPERATIONS

- *Artumas verified a significant natural gas reserve at its Mnazi Bay concession located in southeast Tanzania - first half of 2005.*
- *Artumas was awarded a large exploration concession (15,000 square kilometres) in Mozambique – March 2006.*

FINANCIAL

- *The Company began trading on the Oslo Stock Exchange on completion of a US$31-million initial public offering (IPO) – July 8, 2005.*
- *Artumas raised approximately US$42.9 million in equity capital with the issuance of 10.8 million shares – throughout 2005.*
- *The Company completed a US$20-million convertible bond financing – January 2006.*

MTWARA ENERGY PROJECT

Reserve Assessment Encouraging

The Phase 1 reserve assessment of the Mnazi Bay Gas Field included the re-entry, production testing and completion of the original discovery well, Mnazi Bay #1. The well production testing results, which showed excellent natural gas flow rates and indications of oil, proved the existence of an active petroleum system.

Seismic Program Proves Larger Area Estimates

During 2005 Artumas completed a 440-kilometre seismic program over the Mnazi Bay concession. The 2D program, comprising marine, land and transitional data acquisition, defined the Mnazi Bay Gas Field as significantly larger than originally anticipated; the revised estimate indicates the area extends approximately 84 square kilometres.

Drilling Locations Confirmed

During the second half of 2005 the Company completed a geological basin model, including the integration of the new and existing seismic data. The basin model study confirmed four drilling locations on which to begin developing the Oligocene and Miocene formations of the Mnazi Bay Gas Field. Eight other prospective structural leads were identified in the concession area, including deeper potential hydrocarbon-bearing structures in the Eocene and Cretaceous formations.

Artumas's geological and geophysical team combined the seismic findings with the structural leads to form the basis of its 2006/2007 drilling program. In January 2006 the Company secured a drilling rig contract with Nabors Drilling International and plans to drill two appraisal wells and one exploration well which commenced in May 2006.

Phase 1 – Build-out

During the year the Company moved to finalize with the Government of Tanzania the various Project Agreements for the build-out of Phase 1 of the Mtwara Energy Project. The Phase 1 build-out began in March 2006 and entails:

- *Construction of a 10-million-cubic-feet-per-day (mmcf/d) production facility on the Msimbati Peninsula;*
- *Construction of an 8-inch-by-27-kilometre land and marine pipeline; and*
- *Installation of a 12-megawatt (MW) power plant, located at the commercial deep-water port at Mtwara.*

Phase 1 of the Mtwara Energy Project is expected to be on stream providing electricity for the Mtwara distribution area, in Q3 2006. Tanesco, the Government of Tanzania state-owned utility, will purchase electricity from Artumas.

Phase 2 – Project Expansion

The Company will commence the Phase 2 project expansion during the second half of 2006. Phase 2 will include:

- *Upgrading and strengthening the transmission and distribution system; and*
- *Installation of an additional 12 MW of generation capacity.*

MOZAMBIQUE CONCESSION

In January 2006 Artumas entered into a bid licensing and was awarded a large exploration block in Mozambique. The Rovuma onshore concession, adjacent to the Company's Tanzania Mnazi Bay concession, comprises 15,000 square kilometres of sedimentary basin. Numerous major international oil and gas companies participated in the bid-licensing round; the successful bidders were Artumas, Anadarko Petroleum, ENI and Petronas.

During 2005 the Company acquired US$100,000 of existing geological and seismic data. Interpretation of the data indicates numerous Tertiary, Cretaceous and Jurassic leads.

Artumas has committed approximately US$22 million for a capital expenditure program during the first three-year exploration term.

INDUSTRY OUTLOOK – EAST AFRICA ENERGY MARKETS

East Africa is experiencing energy-related issues that have positioned Artumas to realize the economic value of its vast natural gas reserves.

- *An extended drought in hydro-electric-dependent East Africa has resulted in an energy crisis in the region.*
- *Continued high global energy prices have provided the economic incentive to commercialize stranded natural gas reserves utilizing innovative technologies.*

These events have provided the catalyst for the Company to accelerate its commercialization opportunities, which include:

- a feasibility study to build a large-scale (over 200 MW) power project to be located at Mtwara;
- a joint venture with TransCanada Pipelines Ltd., in a front-end engineering and design (FEED) study for the transportation of compressed natural gas (CNG) to markets in Mombassa, Kenya, and Richard's Bay, South Africa.

During the past year, the Company reassessed its strategy of transporting natural gas utilizing medium-scale liquefied natural gas (LNG). Given the advances of CNG technology developed by TransCanada Pipelines Ltd., the Company decided to focus its efforts on CNG, as it is a more cost-efficient method to transport natural gas to relatively closer proximity markets such as Mombassa, Kenya, and Richard's Bay, South Africa.

STRATEGIES FOR GROWTH

Artumas remains committed to its gas-to-electricity business model as the basis on which to position itself as a leading oil and gas exploration and development company. By offering solutions to regions experiencing energy challenges, Artumas gains a competitive edge in acquiring rights to oil and gas potential as demonstrated by its Mnazi Bay and Mozambique concessions.

CORPORATE SOCIAL RESPONSIBILITY

Making energy available to emerging economies is most successful when it is combined with supporting development and encouraging sustainable growth. During 2005 Artumas implemented a Corporate Social Responsibility Plan (CSR) that focuses on:

- environmental awareness;
- health and safety; and
- education and training.

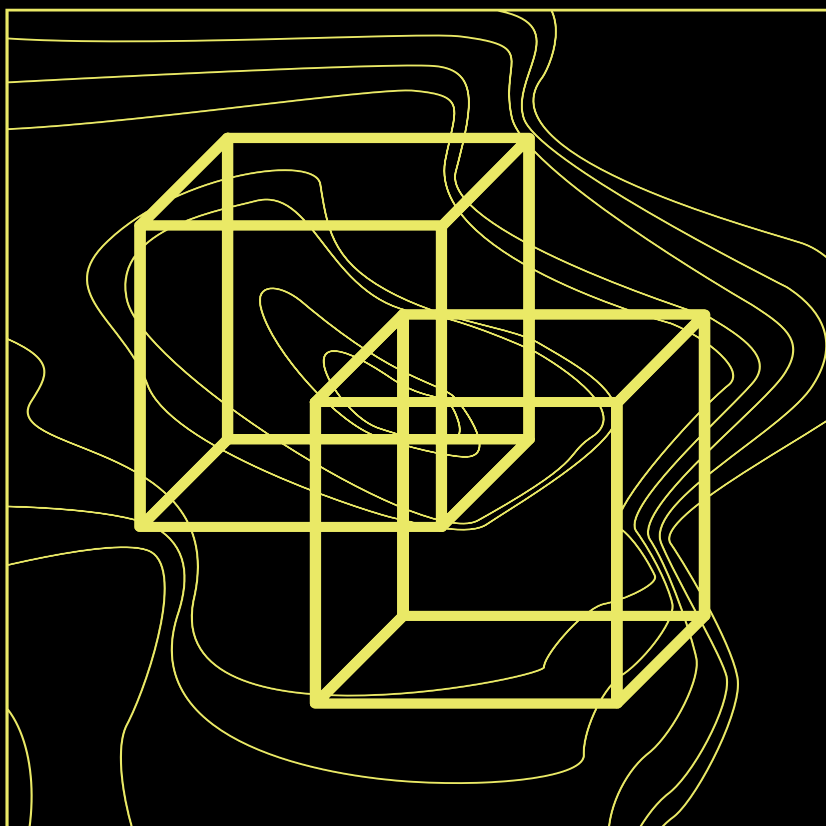
Artumas and its employees are making specific contributions to the societies in which the Company is involved, sharing skills and investing directly in community projects. We believe our commitment to social responsibility is a strategic investment that reduces risk and enhances our reputation while increasing shareholder value.

Artumas's mandate is to run a successful and responsible business that creates wealth and employment in the countries where we are involved. Our focus is on developing indigenous skills by hiring and training local staff.

ACKNOWLEDGEMENT

It has been said many times "people are a company's greatest assets." This holds especially true for Artumas. As CEO, I firmly attest to the fact we have the right people in place to ensure the effective management of the Company's assets and the ability to significantly add value for our shareholders. I am truly grateful to the Artumas team for the hard work and dedication they have demonstrated throughout 2005.

STEPHEN W. MASON, PRESIDENT AND CEO JUNE, 2006



EMERGING OPPORTUNITIES THROUGH EXPANSION

In 2005 Artumas embarked on an ambitious program of expansion, increasing its land base twenty times, from 756 square kilometers to 15,756 square kilometers; with a recently awarded concession in the Mozambique Rovuma Delta Basin.

The Company continues to build relationships with the governments in the countries where it operates and seek partnerships with international private sector companies with which Artumas can realize opportunities for commercialization.

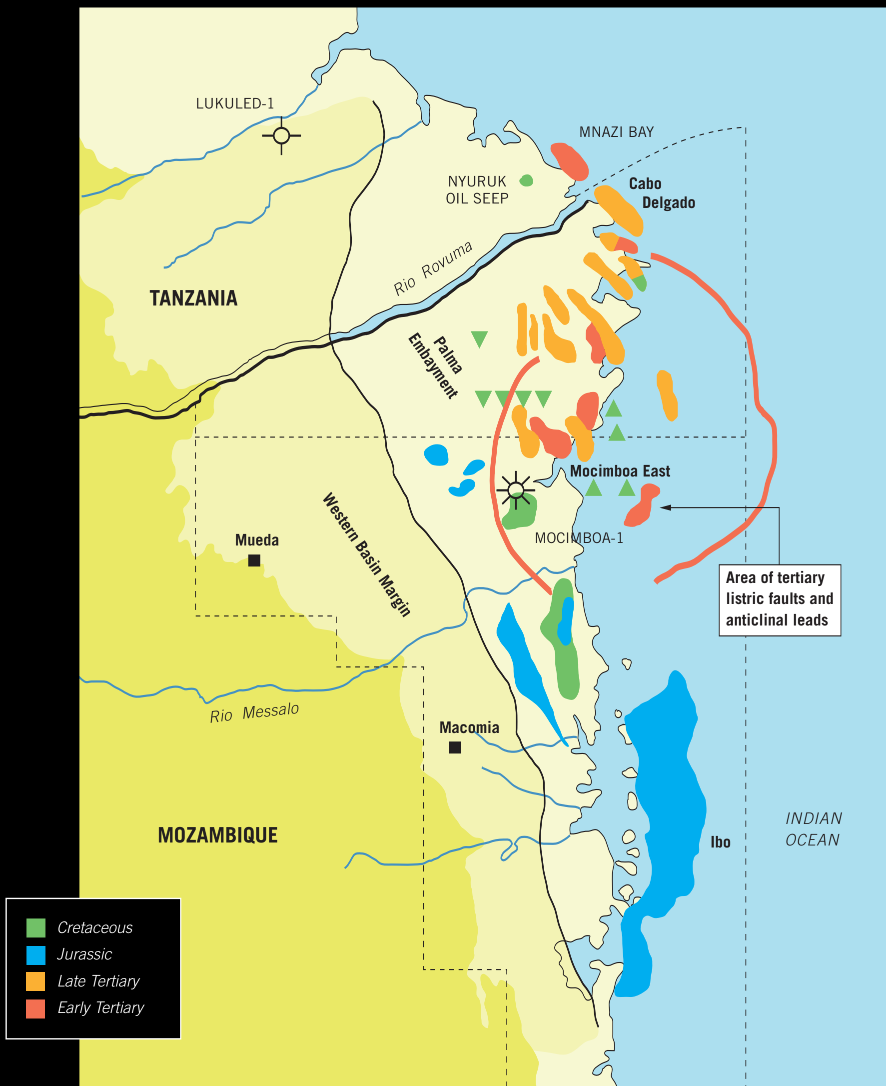


FIG 1. HYDROCARBON POTENTIAL

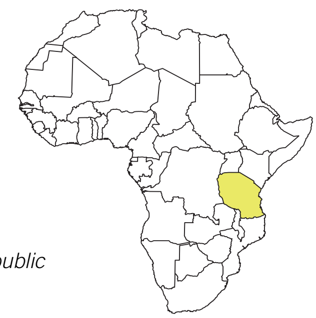
The Rovuma Basin, centred in northern Mozambique and southern Tanzania, provides large-scale exploration potential for oil and gas. Large independent and major oil and gas companies have recently begun to explore this vast frontier area. It has been stated that the Rovuma Delta Basin is geologically analogous to some of the great oil basins of the world, such as the Niger Delta and the Gulf of Mexico.

TANZANIA OPERATIONS

MAINLAND AREA
945,087 square miles

POPULATION
Approximately 37 million

GOVERNMENT
Democratically elected republic



GEOLOGICAL PROFILE

Tanzania is an under-explored frontier area with only 25 exploratory wells drilled in 280,000 square kilometres of hydrocarbon potential sedimentary basins. Artumas's concession is located in southeastern Tanzania, bordering Mozambique to the south and lying along the northeastern flank of the east-west trending Rovuma Delta. The delta has been a major depocenter throughout most of the Tertiary age and is responsible for the accumulation of significant quantities of reservoir-quality sands in the Rovuma Delta Basin.

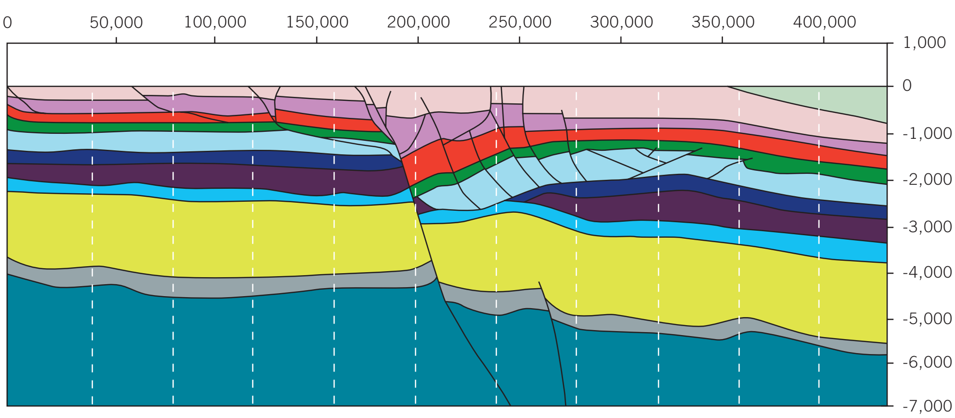
To date, three deep wells have been drilled within the Rovuma Delta Basin:

- *two in Tanzania (Lukuledi-1 and Mnazi Bay-1); and*
- *one in Mozambique (Mocimboa-1).*

In its present configuration, the Rovuma Basin is characterized by:

- *north-east trending Late Karoo grabens;*
- *northerly trending Ibo high in the south; and*
- *a middle Jurassic embayment (Palma Embayment) along the western margin of the Basin.*

FIG. 2 WEST TO EAST DEPTH SECTION: MNAZI BAY, SHALE DEFORMATION (DARK BLUE LAYERS) BELOW RESERVOIR INTERVALS



The Artumas Tanzania concession lies within the northern margins of Rovuma Basin. Primary targets are the Tertiary sands, deposited in a fluvio-deltaic environment and subsequently deformed by gravity-driven shelf extension and basinward toe thrusting. The gravitational forces associated with this faulting have caused the early Tertiary shale to be squeezed to the east and south. This has resulted in a thickening of the shale (the black layer) below the Mnazi Bay structure, which in turn has moved the overlying Tertiary reservoir sands (purple to dark blue layers above the black shale layer) into a structurally high position, forming the trapping area of the Mnazi Bay Gas Field.

OPERATIONS – PHASE I

Through its Tanzanian subsidiary AG&P Gas Ltd., Artumas commenced operations on Phase I of the Mtwara Energy Project in December 2004 with the well re-entry of Mnazi Bay #1 and the acquisition of 440 kilometres of 2D seismic.

Well Re-entry

The well re-entry and testing of Mnazi Bay #1 was completed in May 2005 and successfully tested significant gas reserves. Studies on the Mnazi Bay #1 well test conducted by APA Petroleum Engineering, an independent engineering reserves evaluator from Calgary, Canada, indicate that the co-mingled Oligocene D and E sands are very prolific. At the end of the nine-day extended drawdown period, the interval was producing gas at 10.5 million cubic feet per day (mmcf/d) at an estimated 5.4% sand face pressure drawdown. Using good production practices, this well could be produced at 38 mmcf/d with an 18% drawdown using 3½-inch tubing. The reserves for Mnazi Bay #1 and the resources for the Mnazi Bay Gas Field are as follows:

Transition Zone Seismic

Artumas recorded a 220-kilometre transition zone seismic program in the first half of 2005. This program consisted of land seismic, water-bottom bay-cable seismic and inter-tidal/mangrove/transition-zone seismic. Subsequently, Artumas recorded an additional 220 kilometres of marine seismic in the deeper water areas of this concession.

In addition, 373 kilometres of 1980s Tanzania Petroleum Development Corporation (TPDC) seismic was reprocessed using modern seismic processing techniques. The resultant improved data was incorporated into the geophysical interpretation.

The final interpretation and mapping (see Fig. 4, G Sand Structure map) shows the extent of the Mnazi Bay Gas Field to be approximately 84 square kilometres in aerial extent resulting in multiple appraisal and development drilling locations within the Mnazi Bay Gas Field.

In addition, eight prospective leads have been mapped in the Tertiary and Lower Cretaceous section with several identified drilling locations.

APA RESERVES REPORT FOR THE MNAZI BAY #1 WELL

	P90	P50	EXPECTED	P10
ORIGINAL GAS IN PLACE	27	51	79	133
RECOVERABLE (BCF)	21	40	63	106
RECOVERABLE (MMBOE)	4	7	11	18

ARTUMAS RESOURCE ASSESSMENT MNAZI BAY GAS FIELD

	P90	P50	EXPECTED	P10
ORIGINAL GAS IN PLACE	200	765	1,328	2,929
RECOVERABLE (BCF)	160	612	1,062	2,351
RECOVERABLE (MMBOE)	27	102	177	392

FIG. 3 Structural Interpretation of Mnazi Bay Gas Field G Sand Reservoir

FIG. 4 3D Image of G Sand Time Structure – Looking East

FIG. 5 Additional Geological Leads Map

Appraisal/Development Drilling

The first appraisal well (Mnazi Bay #2) will be drilled directionally from a pad to encounter the G, D & E Sands, approximately 100 metres higher and two kilometres away from Mnazi Bay #1. Artumas expects to spud this well in June 2006.

This appraisal well will test additional deeper sands in the Mnazi Bay field, as well as prospective sands in the adjacent deeper Nico structure.

Immediately following the drilling of Mnazi Bay #2, a second appraisal location (Mnazi Bay #3 well), will be drilled directionally from the same pad.

The Company has executed a one-year drilling rig contract with Nabors Drilling International for a 1,500-horse-power diesel-electric triple land rig complete with a 500-ton top drive. Artumas has the option to extend the rig contract, as required and has secured all drilling services for the drilling operation.

Exploration Leads

Artumas has mapped several drilling locations for the Upper K sand in the Msimbati area. This seismic high-amplitude K sand fairway overlays the south-east side of the Mnazi Bay Gas Field. The first exploration well into this K sand anomaly will likely be deepened to test the G and deeper Mnazi Bay Gas Field sands over this eastern half of the field. Several additional leads have been mapped in both the Tertiary and the Cretaceous levels as seen on the Other Seismic Geologic Leads map.

Additional Geological Leads

Mnazi Bay Gas Field lies between and above the Nico and the Riyanj leads. Eight structural leads have been identified within the Mnazi Bay Concession. These leads cover a variety of play types and include Tertiary, Ecocene and Cretaceous horizons.

FIG. 3

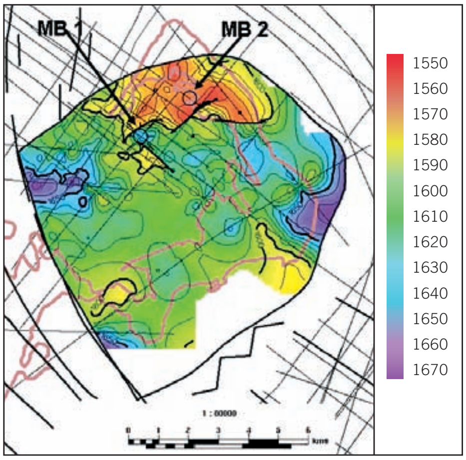


FIG. 4

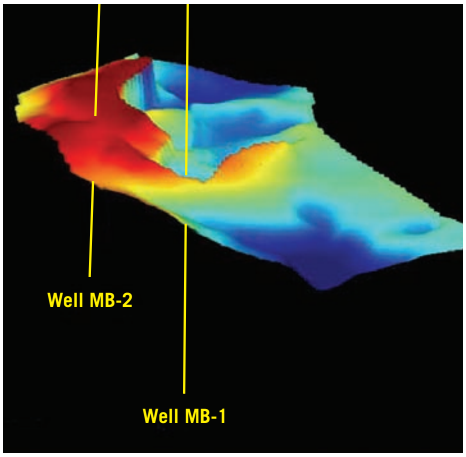
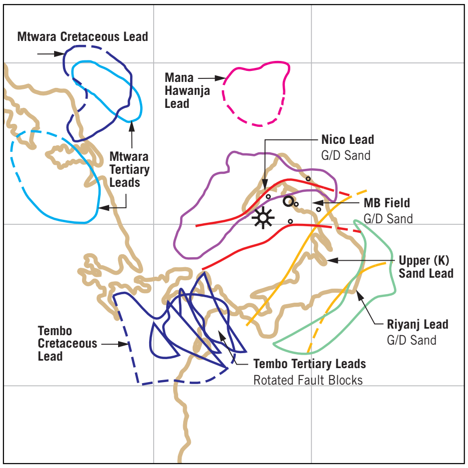


FIG. 5



OPERATIONS – PHASE II

Phase II is in the simultaneous construction stage to fast track the overall project commissioning.

Environmental Impact Assessment

On December 20, 2005, Artumas was granted an Environmental Impact Assessment (EIA) certificate for the Mtwara Energy Project. The facilities and activities approved by the EIA certificate include:

- *the gas field facility (GFF);*
- *operation of the Mnazi Bay #1 gas well;*
- *drilling of new wells;*
- *development of new gas flowlines from wells to the GFF;*
- *construction and operation of the eight-inch natural gas transmission pipeline connecting the GFF to the power generating facility at Mtwara Port; and*
- *construction of a power plant.*

Production Facilities

Artumas began fabrication and installation of the 10 mmcf/d gas plant facilities during the first quarter 2006. The estimated completion date is June 2006.

Pipeline

Artumas began the fabrication and installation of the 27-kilometre, eight inch marine and terrestrial pipeline in the first quarter of 2006. The estimated completion date is Q2 2006.

Power Plant

Artumas completed the engineering design and confirmed the requirement for a 24-megawatt (MW) power generation plant. The first phase of the newly sited power plant will have an installed capacity of 12 MW of reciprocating gas engines manufactured by Caterpillar. This new gas-fired power plant will displace the existing three diesel-fired power plants at Mtwara, Lindi and Masasi. Installation of the first phase power plant will be completed in Q3 2006.

Transmission Upgrade and Distribution Strengthening

The Company completed a tender for the transmission upgrade and distribution strengthening, awarding the contract to Kalpataru Power Transmission Limited (KPTL). KPTL has substantial contracting experience in Asia and Africa. Partnering with Siemens India (Transformers and Sub-stations) and Siemens Tanzania, KPTL will oversee building the overhead power lines, comprising 73 kilometres of 132-kilovolt (kV) line and 140 kilometres of 33-kV line, linking the three load centres in Mtwara, Lindi and Masasi.

Electrical Utility Management

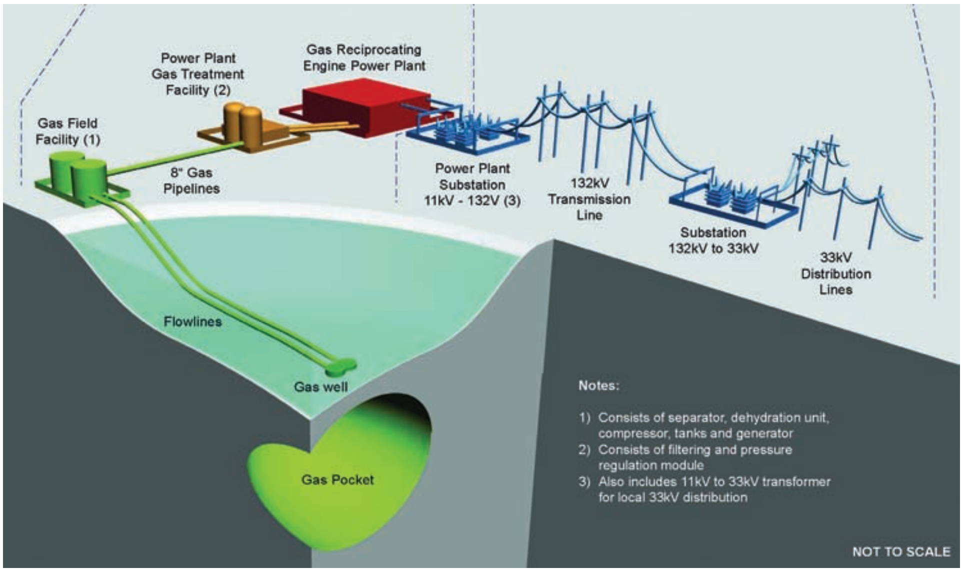
Manitoba Hydro International (MHI), the international contracting arm of Manitoba Hydro from Canada, will assist the Mtwara Transmission and Distribution Company (MTDC). MHI will:

- *ensure technical and commercial losses are within international standards;*
- *increase the customer base via the regional electrification plan; and*
- *build the capacity of the Tanzania staff of MTDC to provide prudent and efficient services to the customer base from within the franchised area.*

The proposed four-year contract covers an inception phase and a performance-based management phase, once the three isolated systems are fully integrated.

MHI bring a core of expertise from their pool of North America human resources, which have African utility management expertise, essential to this regional electrification project.

FIG. 6 MTWARA ENERGY PROJECT – LINKAGES BETWEEN PROJECT COMPONENTS



Artumas's Mtwara Energy Project taps into the Mnazi Bay gas pool, sending gas to the 10-mmcf/d gas plant treatment facility. The gas travels through a 27-kilometre marine and land pipeline to a 12-MW gas-fired power generation plant, which will be upgraded to accommodate 24 MW as load requirements increase. The electrical power will be transmitted through upgraded transmission and distribution lines to residential and industrial customers.

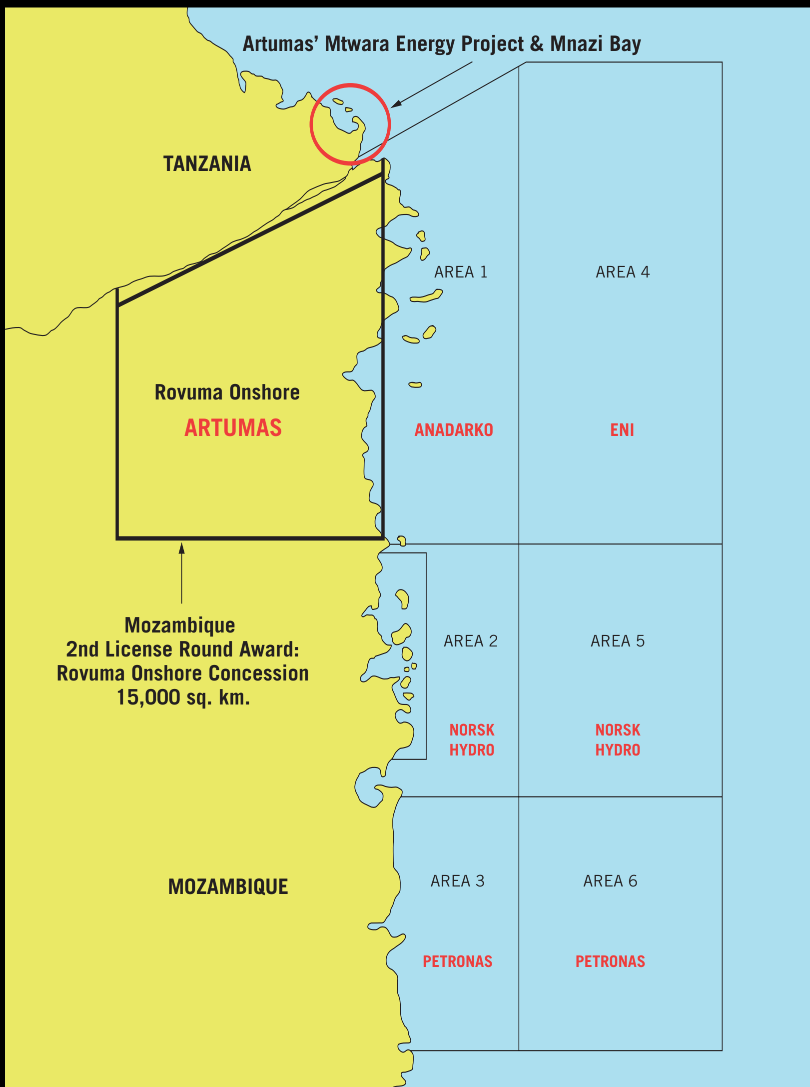


FIG. 7 ROVUMA ONSHORE AREA

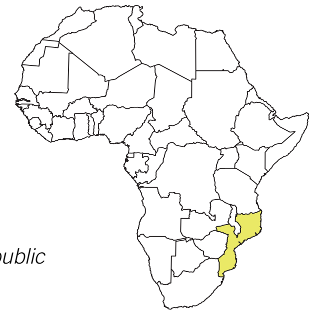
The Mozambique area provides Artumas with a strategic concession surround by major international oil and gas companies. The block consists of 15,000 square kilometres of hydrocarbon prospective onshore and near-shore acreage within the Rovuma Delta.

MOZAMBIQUE OPERATIONS

MAINLAND AREA
801,590 square miles

POPULATION
Approximately 20 million

GOVERNMENT
Democratically elected republic



Background

The Mozambique government initiated the Second Licensing Bid Round in mid 2005. Based on a technical review of existing seismic data, Artumas bid on two blocks and was awarded the Rovuma Onshore Block.

The Block increased the Company's land position by approximately twenty times and builds on existing exploration synergies and development expertise in the area.

Oil Potential

The geologic basin study that Artumas conducted for the entire Rovuma Basin of Tanzania and Mozambique indicates that a high probability of oil reserves exists within the Basin. This is evidenced by the recovery of 24° and 33° API oil from two different zones in Mnazi Bay #1.

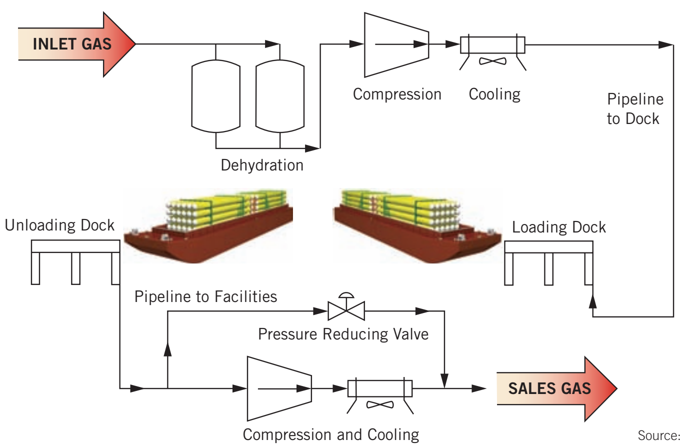
Artumas is conducting studies to fingerprint the chemical components of the oil to match these to possible source rocks, which may lead to the original source kitchens, subsequent oil migration timings and pathways. We expect the origin to be from the deeper Cretaceous or Jurassic formations. Several oil seeps have been found along the Rovuma River on the Mozambique side.

Artumas is reviewing over twenty exploration leads on existing seismic within the Mozambique Rovuma Block at several stratigraphic levels covering various play types. We plan to acquire additional seismic to high-grade and delineate these leads.

During the initial three-year exploration period, the Company is committed to acquiring 250 kilometres of 2D seismic on the Mocimboa and other structures. On conclusion of the seismic program, Artumas has the option to re-enter, test and complete the Mocimboa-1 well and drill an additional well, or alternatively, to elect to drill an 11,500-foot exploration well on one of the other prospective leads on this block.

FIG. 8 GAS TRANSPORT MODULE

A front-end engineering and design (FEED) study is underway for compressed natural gas (CNG) marine transportation with TransCanada Pipelines CNG Group (TCPL). The Gas Transport Module (GTM) technology of TCPL, shown below, will be used on marine barges to transport approximately 50 mmcf/d of CNG to offtake power markets.



Source: TransCanada Pipelines

CORPORATE SOCIAL RESPONSIBILITY

Artumas researches, produces and manufactures economically viable, socially acceptable and environmentally sound energy solutions to provide safe, accessible energy, essential to economic growth, environmental protection and the social progress of Tanzania.

Artumas's goal is to operate profitability, safely and ethically. We are responsible to our shareholders and to the communities where we operate. We are committed to using integrated approaches, involving all stakeholders in our operations to foster environmental sustainability and social responsibility. The strategy is to utilize the stakeholder group and implement projects that fit our Corporate Social Responsibility (CSR) statement.

Sustainable Development

Artumas's sustainable development initiatives (SDI) are developed from our corporate CSR statement, which focuses on health and safety, the environment and employment and education. Our CSR efforts are independent of our operations. They are designed to increase the developmental impact of Artumas's investment in energy infrastructure by improving the health and livelihoods of the local population.

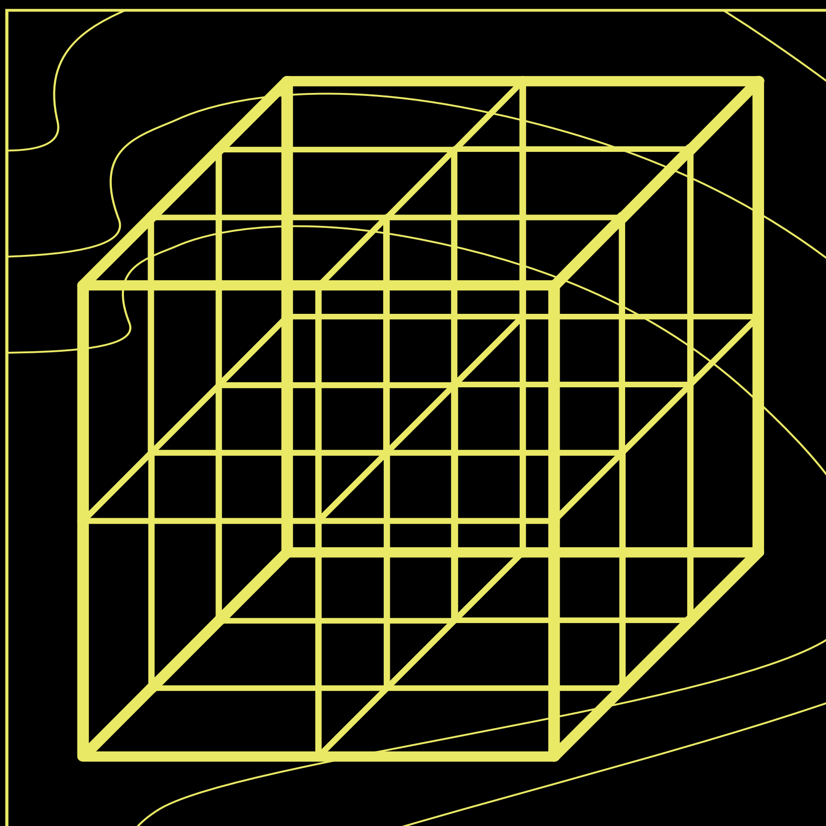
Sustainable development involves engaging with our stakeholders to better understand and manage the impacts, both positive and negative, that our operations and products have on society and the environment and to identify business opportunities.

Building Relationships

Our aim is to build trust, transparency and co-operation with local stakeholders. Artumas has developed a large support group ranging from the Tanzanian, Dutch and Canadian governments to local Non-Government Organizations (NGOs). These affiliations result from over six years of doing business and building relationships in Tanzania.

As Artumas places a corporate focus on environmental, social and health policies for our international work, we recognize that conditions, laws and regulations differ widely around the world, requiring country-specific and site-specific solutions.

*** ILLUSTRATION IS BEING FINESSED ***



ENERGY FOR AN EMERGING ECONOMY

Our vision is guided by doing the right thing while fully advancing the commercial potential of our operations. We believe our commitment to social responsibility and making affordable energy available to local economies is a strategic investment that reduces risk and enhances our reputation while increasing shareholder value. As well, our commitment to sustainable development strengthens our position in labour, capital and consumer markets.

FIG. 9 MNGOJI VEGETABLE FARM

The pilot project of the Mngoji vegetable farm employs 80 farmers (approximately 80% women) who cultivated seven of the 25 acres of land donated by the community. The workers harvested their first cabbage, tomato, onion, spinach and pumpkin crops in November 2005. Since then they have planted a more diverse variety of produce, including sweet potatoes, watermelons, bell peppers and cucumbers.

Soil and water testing has been completed and an irrigation system, using foot pumps, sim tanks, hoses and gravity, is currently being tested. The harvest was sold at the Mtwara market and to Artumas's Mnazi Bay camp.

HEALTH

Health, and the impact our operations have on the health of employees, local communities and consumers is at the core of Artumas's SDI. Our primary aim is to protect people at every stage of our operations through risk evaluation, rigorous procedures, training and close supervision of the working environment.

We work with the communities where we operate to improve health systems by enhancing local capabilities that benefit residents and our employees.

Since many of our activities occur in areas where malaria and HIV/AIDS are prevalent, Artumas's SDI focuses on strategic health management and education for the local population. Artumas has pioneered the use of health, safety and environmental (HSE) management systems to ensure measurable performance with continuous improvement.

ENVIRONMENT

Artumas believes in achieving the highest environmental standards in all aspects of operations. In 2003 we conducted an Environmental Impact Assessment (EIA) study. An Environmental Impact Statement (EIS) was developed from the EIA and was approved by the Government National Environmental Management Committee of Tanzania. The management and monitoring actions propose to avoid and minimize impacts of Artumas's operations through an Environmental & Social Management Plan (ESMP).

EDUCATION/COMMUNITY DEVELOPMENT

Artumas's operations are increasingly becoming an integral component of the communities where we operate. This ongoing process involves governments, NGOs and most importantly, the people living in those communities. Community involvement builds Artumas's reputation as a good corporate citizen, which in turn contributes to community loyalty, license to operate and awareness of the opportunities that electricity brings to communities.

Artumas's first SDI was the Mngoji vegetable farm, which provides the community with sustainable employment and economic development; and provides Artumas with a reliable and cost-effective supply of produce for its camps. Artumas provided full funding, training and support for the farm, as well as a viable consumer market.

Artumas's latest initiative involves building and running Community Development Centres (CDCs). The CDCs are designed to increase the developmental impact of Artumas's investment in energy infrastructure by improving the health and livelihoods of the local population. Education, training and services target mainly women in rural economies, helping them to build sustainable livelihoods.

EMPLOYMENT

Artumas recognizes that employment is one of the biggest engines for social development in Tanzania and believes the Mtwara Project can make a contribution to this.

To this end we endeavour to utilise the citizens of Tanzania who have the appropriate qualifications. Artumas supports the following practices regarding training and employment:

- *building a sustainable, reliable and productive local supply chain;*
- *procuring local goods and services rather than relying on costly imports;*
- *building a sustainable investment climate by transferring business skills and standards.*
- *protecting Artumas's reputation as a responsible employer by reducing the destabilizing effects of labour migration and attrition of other local economic activity as a result of its operations in the area.*

To date the Mtwara Project has hired and trained over 800 people to assist with operations. In the next stage of the Project Artumas will hire approximately 1,000 locals, including 250 full-time positions, to work for Artumas's subsidiary, the Mtwara Transmission and Distribution Company Ltd. (MTDC Limited).

CORPORATE POLICIES

The board and management of Artumas are committed to the highest standards of corporate governance. We conduct our operations in accordance with the laws and regulations of the countries where we operate.

These policies help Artumas to avoid risks and provide an action plan if such risks do occur; and they inform the board of directors, shareholders and investors on how the company operates.

The Board reviews and updates the corporate governance policies on an annual basis and as required, to ensure that the Company's policies remain in accordance with best practices; and it monitors international developments in best practices in corporate governance to ensure that the Company's practices meet global requirements.

REPORTING

Artumas publishes an annual report to all stakeholders. This internal and external communication informs stakeholders about the actions of the Company to fulfill its economic, environmental and social responsibilities.

Artumas posts on its website (www.artumas.com) semi-annual sustainable development newsletters to inform stakeholders of all its activities that seek to improve the lives of the citizens in the area where the Company operates.

KEY PERSONNEL AND DIRECTORS

STEPHEN W. MASON, B. COMM.
President, Chief Executive Officer and Director

Mr. Mason has over 28 years experience in corporate planning, oil & gas marketing, acquisition and divestiture of petroleum assets, and senior management of junior energy companies. During the 1980s, Mr. Mason held various management positions in business development, marketing and finance with Canada Cities Service Ltd. and Canadian Occidental Petroleum Ltd. Over the past 16 years, Mr. Mason has founded three successful energy companies. Mr. Mason has pursued various international initiatives with projects in Kenya, Korea and Tanzania.

IAN C. HORSWILL, P. ENG.
Senior Vice President Engineering,
Chief Operations Officer and Director

Mr. Horswill has 23 years of experience in oil and gas operations, production, project management and business development in the international and Canadian petroleum industry. He has also advised several energy companies on the development of international assets. Mr. Horswill was Managing Director Operations and Manager of Engineering for First Calgary Petroleums Ltd., which was active in a gas/condensate project in Algeria and oil exploration in Yemen. Mr. Horswill was in charge of Pacalta Resources's aggressive development and highly successful operations in Ecuador. Mr. Horswill holds a B.Sc. in Civil Engineering from the University of Waterloo and is a member of APEGGA (Association of Professional Engineers, Geologists and Geophysicists of Alberta) and the Society of Petroleum Engineers.

MARTIN H. EDEN, C.A., B.SC., MBA
Chief Financial Officer

Mr. Eden has over 26 years experience in accounting and finance in the energy industry in Canada and overseas. He has held the position of Chief Financial Officer for a number of publicly listed junior oil and gas companies in Canada. He spent nine years with Nexen Inc, including three years as Finance Manager for Nexen's Yemen operations and six years in Nexen's financial reporting and special projects areas in its Canadian head office. Mr Eden has worked in public practice including two years as an audit manager for Coopers & Lybrand in East Africa. Mr. Eden holds a B.Sc. in Economics from Birmingham University, England, an MBA from Henley Management College/Brunel University, England, and is a member of the Institute of Chartered Accountants of Alberta and the Institute of Chartered Accountants in England and Wales.

RICHARD J.C. GRANT, BA, LLB
Corporate Secretary and Director

Mr. Grant has 26 years of extensive business, legal, land and management experience in the domestic and international energy industries. Mr. Grant is a partner with Gowling Lafleur Henderson LLP, a leading Canadian-based international law firm. He has worked with several major multi-national energy companies, including Phillips Petroleum Company, Texaco Canada, Imperial Resources Canada and Gulf Canada; and at Ernst & Young LLP and Heenan Blaikie LLP. Mr. Grant practices energy, corporate commercial and international law and continues to advise several large energy companies and early-stage junior oil and gas and technology companies. Mr. Grant holds a Bachelor of Laws degree from the University of Saskatchewan and a BA from the University of Regina. He is a member of multiple legal, land and international associations and committees.


Stephen W. Mason


Ian C. Horswill


Martin H. Eden


Richard J.C. Grant


Peter Gathercole

THEODOR D. VAN GOLF, PhD
Director

Mr. van Golf has 48 years of experience with the oil industry. He is a professor at the Petroleum Institute of the University of Trondheim and at the Geological Institute of the Catholic University of Paris. He is a guest professor in universities across the world. Mr. van Golf has held four advisory positions in large institutions, including the United Nations. In 1982 Mr. van Golf wrote the book Fundamentals of Fractured Reservoir Engineering, which has received international acclaim. He has published 29 papers, as well. Mr. van Golf has studied and evaluated oil fields located in eight countries and he has received five honorary awards in recognition of his contribution to petroleum engineering. He is also the Executive Vice President of Verdier Petroleum. Mr. van Golf has a doctorate in petroleum reservoir engineering and a PhD in mining engineering.

ANTHONY REINSCH, BA, MA, M.SC.
Director

During the past 25 years, Mr. Reinsch has been involved in research and analysis of the domestic and international energy sector, addressing a wide range of issues including petroleum, natural gas and electric power sector deregulation and restructuring in Central and South America, India and the Commonwealth of Independent States; natural gas market deregulation and electric power restructuring in North America; and world oil market analysis. He has held senior positions within the utility, finance, government, research and corporate sectors of the Canadian energy industry. Mr. Reinsch is currently engaged as an advisor on strategy, planning, competitor landscape and country entry to the international E&P community and to the emerging national/state oil and energy companies. Mr. Reinsch holds a BA and MA in Economics from the University of Calgary, and an M.Sc. Economics from the London School of Economics (LSE).

BRANDON SWIM, B.SC.
Director

Mr. Swim is Managing Director of Chasm Lake Management Services, LLC (CLMS), an investment management advisor in New York City that provides investment management and administrative services to Perseverance Ltd., a private investment group. With the board of Perseverance Ltd., Mr. Swim is responsible for developing and executing the Group's investment and corporate finance function. Perseverance Ltd. takes large stakes in a few major global companies; holds an international real estate portfolio; is a long-term investor in the Lloyds underwriting market and underwriting agencies; and has invested and nurtured specialty investment management businesses. Prior to joining CLMS, Mr. Swim was with Ernst & Young LLP in the Denver office's Entrepreneurial Services Group and Ernst and Young's London Capital Markets Group. He holds a B.Sc. in Finance and Accounting from the Indiana University Kelley School of Business.

PETER GATHERCOLE
Managing Director, Tanzania

Mr. Gathercole has over 25 years experience in power project development in the private and public sector, including construction, commissioning and operations. Recently, Mr. Gathercole was responsible for the East African region as Development Manager for Rolls Royce Power Ventures. Mr. Gathercole resides in Dar es Salaam, Tanzania, and is responsible for the Mtwara Energy Project's development, including construction, commissioning and ongoing operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED DECEMBER 31, 2005 AND 2004

The following management's discussion and analysis ("MD&A") dated March 29, 2006 of the results of operations of Artumas Group Inc. ("Artumas", "the Company" or "AGI") for the years ended December 31, 2005 and 2004 and the financial condition of Artumas at December 31, 2005 should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2005 and 2004. Dollar amounts in the MD&A are in US dollars unless otherwise stated.

The MD&A includes forward-looking estimates that are subject to unknown risks and uncertainties, certain of which are outside the Company's control. These risks and uncertainties include, but are not limited to, changes in market conditions, law or governing policy, operating conditions and costs, operating performance, commodity prices, exchange rates, and technical and economic factors. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking estimates and accordingly Artumas can give no assurances that any of the events anticipated by the forward looking estimates will transpire or occur.

OVERVIEW

Artumas is a Canadian based independent energy producer delivering total energy solutions to targeted regions in rural Africa. The Company's objectives include providing low-cost electricity through development of "stranded" natural gas reserves, conversion of natural gas into electricity, and upgrading and operating regional electricity transmission and distribution systems. In addition, Artumas will pursue opportunities for further exploration, development, production and marketing of petroleum reserves.

In pursuit of its goal, Artumas is focused on the Mtwara Energy Project (the "Project") involving the development of the Mnazi Bay hydrocarbon concession and the development, construction, ownership and operation of an integrated natural gas fired electric power generation project in the Mtwara and Lindi regions of Southern Tanzania.

In furtherance of its strategy, Artumas was awarded the Rovuma Onshore Block following competitive bidding for the exploration areas in the Mozambique Second Licensing Round.

MTWARA ENERGY PROJECT

PROJECT AGREEMENTS AND OWNERSHIP

On August 25, 2003 Artumas entered into an Agreement of Intent with the Ministry of Energy and Minerals for the United Republic of Tanzania ("MEM") and the Tanzania Petroleum Development Corporation ("TPDC") in relation to the Mtwara Region Gas to Power Project for Generation, Distribution and Transmission in the Mtwara and Lindi Regions of Southeast Tanzania. Subsequently, AG&P Gas Ltd. ("AG&P Gas"), a wholly owned subsidiary of Artumas, signed a Production Sharing Agreement ("PSA") with the Government of Tanzania in May 2004 relating to the Mnazi Bay Gas Development Project for Power Generation, Distribution and Transmission in the Mtwara and Lindi Regions of south-eastern Tanzania. The PSA governs the development of the Mnazi Bay natural gas concession and sets out the terms of the relationship between AG&P Gas and the Tanzanian government. Further to these agreements, a number of definitive agreements are currently being negotiated including an Implementation Agreement, Power Purchase Agreement ("PPA"), Transmission and Distribution Franchise Agreement ("TDFA"), and Facilities Lease and Assignment Agreement.

DESCRIPTION OF PROJECT

During the first half of 2005, Artumas completed Phase 1 of the Project comprising the initial development of the Mnazi Bay natural gas concession which included:

- Sourcing and mobilization of well service and seismic equipment and a 100-person camp;
- Re-entry of the Mnazi Bay-1 well (previously drilled and abandoned by AGIP, the Italian national oil company, in 1982);
- Production testing of the Mnazi Bay-1 well to confirm natural gas reserves;
- Acquisition of approximately 220 kilometers of two-dimensional ("2D") seismic.

Phase 2 of the Project, which commenced in the third quarter of 2005, will continue during 2006 and into 2007 and includes:

- Appraisal, exploration and development of the Mnazi Bay concession by drilling up to five new wells;
- Installation of production facilities;
- Construction and operation of a 27 kilometer pipeline from the Mnazi Bay well-site to the power generation facilities at Mtwara;
- Installation and operation of a minimum 30-megawatt ("MW") power generation facility at Mtwara;
- Upgrading the existing transmission and distribution system.

The TFDA will call for an initial franchise period of twenty years, renewable by mutual agreement of Artumas and the MEM for an additional term of 5 years. This time frame is consistent with the expected life of the PSA. The Power portion of the Project is to be governed by a PPA granting Artumas exclusivity of supply of power generation requirements for a period of 15 years, after which time supply would be opened to a market bidding process.

Operations are anticipated to commence in mid-2006 with the Company (using Manitoba Hydro International as its contractor) taking over partial operation of the transmission and distribution system in the third quarter of 2006.

Further commercialization opportunities lie in finding markets for natural gas production in excess of the volumes required for the gas-to-power project. Additional projects involving the marketing of the gas reserves have been identified and are in the process of negotiation.

Ownership of the Project will be through the Company's Tanzanian registered subsidiary companies. Artumas is the operator of the Project through a subsidiary company and its partner, the Netherlands Development Financial Institution ("FMO"), may acquire up to a 20% interest in the Project by paying its proportionate share of the costs.

SOURCES OF FINANCING

Project expenditures are currently estimated to be $97 million, of which expenditures to the end of 2005 of $37.8 million have been funded out of Artumas equity from private placements and the July 2005 IPO. Future sources of funding are anticipated to be:

- ***Artumas Equity***
  Funding for 2006 comprises a $20 million convertible debenture issued in January 2006 and proposed additional equity financings.
- ***FMO***
  FMO may purchase up to a maximum 20% equity share in the Project through investment in Artumas Tanzania (Jersey) Ltd. ("ATJL"), a wholly-owned subsidiary of Artumas. FMO's initial contribution comprised a grant of US $1.7 million received in 2005, which entitles FMO to warrants convertible into shares of ATJL as part of the equity investment. It is assumed that FMO will contribute 20% of the total Project costs to date and 20% of ongoing Project costs. At this time, FMO has indicated its intention to participate in 2 wells.

- ***Debt Financing***
  Project debt financing is anticipated to be $30-35 million with the first disbursement of approximately $10-12 million to be made in July 2006 and $10 million in the fourth quarter of 2006, with the lead lender being the Emerging Africa Investment Fund (EAIF). The banking syndicate led by the EAIF has completed various levels of due diligence including site visitation, environmental impact assessments and demand studies and is currently engaged in the technical due diligence.
- ***Joint Venture Arrangements***
  Artumas is investigating potential joint venture arrangements with suitable partners.

RETURN ON INVESTMENT

Artumas management is confident of the profitability of its investment having negotiated an after-tax 23% return on equity on the power component of the Project.

Artumas anticipates that the selling price for natural gas sold to other markets in East Africa will be linked to energy prices in the region and will cover the costs of production, transportation and marketing and will provide an adequate return to the Company.

MOZAMBIQUE PROJECT

On March 8, 2006, Artumas was awarded the Rovuma Onshore Block following competitive bidding for the exploration areas in the Mozambique Second Licensing Round. An Exploration and Production Concession Contract will be formalized within the next few months.

The Rovuma Onshore Block covers an area of approximately 15,000 square kilometres in the hydrocarbon prospective Rovuma Basin in Northern Mozambique and offsets the Company's Mnazi Bay concession in south-eastern Tanzania.

During the initial 3-year Exploration Period, the Company is committed to acquiring 250 kilometers of 2-D seismic on the Mocimboa and other structures. On conclusion of the seismic program, the Company has the option to either re-enter, test and complete the Mocimboa-1 well and drill an additional well, or alternatively, to elect to drill an 11,500 foot exploration well on one of the other prospective leads on this Block. The expenditure commitment is up to $28 million during this 3-year period.

Financing for the Mozambique Project is anticipated to be from Artumas equity and potential arrangements with joint venture partners.

RESULTS OF OPERATIONS

Artumas is in the development stage of the Project and has not earned revenues to date, except for interest income on its cash balances and foreign exchange gains. The Company has an accumulated deficit of $3,462,014 comprising $3,849,901 of overhead costs incurred during the period from inception of the Company on August 8, 2000 to December 31, 2005, offset by revenue of $276,100 from interest and foreign exchange gains and a cost recovery of $111,787. During 2005, the Company's net loss was $2,051,830 due to overhead costs of $2,315,005 less revenue of $263,175. The loss of $1,206,495 in 2004 consisted of overhead costs of $1,219,418 less revenue of $12,923.

CHANGE IN REPORTING CURRENCY

Artumas changed its reporting currency from Canadian dollars to US dollars effective for the 2005 reporting periods. The comparative numbers for 2004 and prior years have been restated in US dollars on a basis as though the US dollar was the reporting currency in those periods. The majority of the Company's operations are conducted in US dollars and management believes that reporting in US dollars more accurately reflects the Company's financial position and results of operations.

ANNUAL FINANCIAL INFORMATION

A summary of selected financial information of the Company for the three years ended December 31, 2005 is as follows:

	2005	2004	2003
NET LOSS	$ (2,051,830)	$ (1,206,495)	$ (99,368)
NET LOSS PER SHARE	$ (0.16)	$ (0.38)	$ (0.08)
TOTAL ASSETS	$ 54,009,309	$ 9,677,729	$ 981,534

QUARTERLY INFORMATION (UNAUDITED)

A summary of the results of operations on a quarterly basis is as follows:

2005	Q1	Q2	Q3	Q4	TOTAL
NET LOSS	$ (525,264)	$ (835,107)	$ (600,061)	$ (91,398)	$ (2,051,830)

2004	Q1	Q2	Q3	Q4	TOTAL
NET LOSS	$ (336,273)	$ (393,741)	$ (455,184)	$ (21,297)	$ (1,206,495)

OVERHEAD COSTS

A summary of the Company's overhead expenses for 2005 and 2004 and on a cumulative basis is as follows:

FOR THE YEARS ENDED DECEMBER 31	2005	2004	CUMULATIVE SINCE INCEPTION
GENERAL AND ADMINISTRATIVE	$ 1,891,867	$ 898,007	$ 2,982,443
PROJECT DEVELOPMENT	–	–	42,234
STOCK BASED COMPENSATION	334,362	171,603	583,209
FINANCING COSTS	15,969	71,356	88,797
EXCHANGE GAINS	52,958	68,339	119,157
AMORTIZATION	19,849	10,113	34,061
TOTAL EXPENSES	$ 2,315,005	$ 1,219,418	$ 3,849,901

Overhead costs were $2,315,005 in 2005 compared to $1,219,418 in 2004 and $3,849,901 on a cumulative basis. These costs relate primarily to those activities involved in establishing the Project that cannot be allocated and capitalized directly to the Project and to the costs of operating and maintaining the Company's head office in Calgary. Project related overhead expenditures include management salaries, legal expenses, consultant's fees and travel expenses. Calgary office costs include salaries and benefits, rent and office expenses. The increase in costs in 2005 compared to 2004 reflects the increased level of activity as Artumas entered Phase 2 of the Project.

The majority of the Company's overhead costs have been recorded as general and administrative expenses and an analysis of these expenses by category for 2005 and 2004 and on a cumulative basis is as follows:

FOR THE YEARS ENDED DECEMBER 31	2005	2004	CUMULATIVE SINCE INCEPTION
SALARIES AND BENEFITS	$ 728,399	$ 112,660	$ 841,059
CONSULTANTS	0	183,551	221,803
PROFESSIONAL FEES	36,396	311,073	387,028
AGENCY AND FILING FEES	389,389	28,516	417,905
OFFICE RENT	219,930	83,332	332,528
OFFICE EXPENSES	220,067	63,042	337,442
TRAVEL AND ACCOMMODATION	297,686	115,834	444,678
	$ 1,891,867	$ 898,007	$ 2,982,443

Overhead costs also include stock based compensation expense of $334,362 in 2005, $171,603 in 2004 and $583,209 on a cumulative basis for stock options issued in 2005 and 2004. Stock based compensation expense for 2005 includes $57,000 for a loan to purchase shares of the Company and cumulative stock compensation expense includes $77,244 for shares issued as compensation expense in 2003.

Financing costs of $15,969 in 2005 and $71,356 in 2004 comprise bank fees for standby credit facilities and legal costs incurred in pursuing debt financing alternatives.

Amortization expense of $19,849 in 2005, $10,113 in 2004 and $34,061 on a cumulative basis has been recorded for office equipment in the Calgary, Canada office.

Cost recovery of $111,787 was recorded in 2003 and prior as part of a contribution from Sunorca Development Corporation.

CAPITAL EXPENDITURES

At December 31, 2005 Artumas had completed Phase 1 of the Project, including the well re-entry and seismic work, which commenced in March 2005 and was engaged in Phase 2 activities including construction of facilities and pipeline and preparation for the drilling program. During 2005, Artumas spent $33,034,254 on Project capital costs compared to $4,345,890 in 2004. Cumulative Project capital expenditures to year-end 2005 were $37,755,100 and these assets were all located in Tanzania.

At December 31, 2005, $113,930 had been spent on office equipment located in the Calgary office of which $48,156 was spent in 2005 and $50,714 spent in 2003.

FINANCIAL CONDITION

Artumas believes it has adequate financial resources to fund the capital expenditure program under Phase 2 of the Project. The Company had no expenditure commitments at December 31, 2005 other than those under the PSA and those necessary to maintain its operations and normal commitments in the ordinary course of business, as disclosed under the Commitments and Contingencies section of this MD&A. The Company's ability to complete Phase 2 of the Project will depend on its ability to raise sufficient funds from equity, debt, grants and partner contributions as discussed in the Financing section of the MD&A.

SOURCES OF CASH

During the year ended December 31 2005 the Company's cash and bank balances increased by $8,404,657. Cash inflows comprised proceeds of $35,135,578 from issue of shares (net of share issue costs), $4,000,000 from the issuance of convertible notes, $1,700,000 from FMO and $4,852,283 from a reduction of working capital (primarily an increase in accounts payable). Cash outflows consisted of capital expenditures of $33,082,410, deposits of $1,439,632 on capital equipment, overhead costs (net of interest income) of $1,697,619, an increase of $575,186 in amounts due from shareholders and an increase of $488,357 in deferred financing costs.

WORKING CAPITAL

Working capital, including cash balances, was $7,535,512. The components of working capital are as follows:

- Cash of $13,048,179 consists primarily of funds held in US dollars in Canadian Bank accounts. These funds were raised from private placements and an IPO in 2005 and are available for capital expenditure requirements for Phase 2 of the Project and general corporate purposes.
- Accounts receivable of $358,860 consists of input tax credits for Canadian GST (Goods and Services Tax) and Tanzanian VAT (value added tax).
- The balance of $126,263 due from directors and officers is non-interest bearing, unsecured and due on demand.
- Prepaid expense and short-term investments of $443,048 includes prepaid travel and office rentals and other of $392,282, deposits of $30,294 and legal retainer of $20,472.

- The accounts payable and accrued liabilities balance of $6,398,108 is comprised of $3,484,698 trade accounts payable and $2,913,410 accrued liabilities and other payables. The accounts payable balance primarily relates to vendors whose December invoices were not recorded or paid until January 2006. It is the policy of Artumas to remit payment of all invoices within 30 days of receipt. Accrued liabilities include an amount of $1,200,000 for Tanzanian withholding taxes on payments made to contractors.
- The note of $42,730 (Canadian $50,000) is due to Sunorca Development Corporation ("Sunorca"). The note bears simple interest of 5% per annum commencing January 1, 2004. The Company anticipates that the note will be cancelled as a result of a proposed settlement with Sunorca (see Commitments and Contingencies section below).

DEFERRED FINANCING COSTS

Financing costs of $488,357 relating to debt facilities currently being negotiated, are deferred and will be amortized over the term of the debt.

DEPOSIT ON CAPITAL EQUIPMENT

At December 31, 2005, the Company had made deposits of $1,439,632 on capital equipment ordered.

DUE FROM DIRECTORS AND OFFICERS

Artumas financed the purchase by an officer and director of the Company (the "Officer") of 150,000 common shares of the Company at $1.80 per share, for a total cost of $270,000. These shares were purchased from a shareholder and former consultant. The shares were originally given to the former consultant in 2002 out of the founder's shares of the Officer. Under the terms of a Right of First Refusal Agreement dated October 1, 2002 the Officer had the right to re-acquire the shares from the Company at the Company's cost. The payment of $270,000 made by the Company on behalf of the Officer for the purchase of the shares has been recorded as a loan due from an entity owned by the Officer pursuant to a Share Purchase Agreement dated June 23, 2005. The loan is secured by the shares, non-interest bearing and is repayable within two years.

PROPERTY AND EQUIPMENT

At December 31, 2005, property and equipment of $37,834,969 consists of capital costs of $37,755,100 relating to Phase 1 and 2 of the Project and $79,869 relating to office equipment, net of accumulated amortization. Project capital costs include $34,115,860 related to petroleum, drilling, exploration and development (including facilities and pipeline), $1,955,106 related to power generation and $684,134 related to transmission and distribution. During the year ended December 31, 2005, $2,401,340 (2004 – $544,873) of general and administrative expenses directly related to the Project were capitalized to Mnazi Bay project costs. The Mnazi Bay property and equipment is located in Tanzania and the office equipment is located in Canada.

No depletion has been recorded for the Mnazi Bay project capitalized costs as the Project is still being evaluated and production has not yet commenced.

INTANGIBLE ASSETS

These represent the acquisition of the rights to further development of certain existing Gas-To-Power projects in East Africa. The project rights have been recorded at a nominal value due to the uncertainty and subjectivity of the valuation of these rights.

DEFERRED OPTION PAYMENTS

FMO entered into an arrangement with Artumas Tanzania (Jersey) Limited ("ATJL"), a wholly-owned subsidiary of AGI, to contribute a minimum of $1.7 million to ATJL in exchange for future warrants convertible on a pro rata basis into shares of ATJL, to a maximum of 20% of the shares of ATJL, by paying a proportionate share of the sunk costs in the Project at the time of the election to convert.

FMO made the first disbursement of $850,000 of its contribution in March, 2005 and the second and third disbursements, amounting to $850,000, in December 2005. These amounts are recorded as Deferred Option Payments in the consolidated financial statements.

SHARE CAPITAL

At December 31, 2005 the Company had issued 18,033,636 common shares for proceeds of $48,767,327, net of share issue costs and adjustments for shares repurchased. During the year ended December 31, 2005, Artumas issued 2,520,000 shares under private placements for proceeds of $5,006,231, net of share issue costs. In addition, 950,000 shares were issued on the exercise of share purchase warrants for cash proceeds of $1,732,500 (recorded as $1,991,903 after adjustments to the deemed value of share purchase warrants).

Effective July 8, 2005, the Company was listed on the Oslo Stock Exchange, Norway, under the trading symbol "AGI". In conjunction with the listing, the Company completed an IPO of 6,200,000 common shares at a price of $5.00 per share for gross proceeds of $31,000,000, less share issue commissions and expenses of $2,603,154.

During May 2005, the Company issued to certain existing shareholders two $2,000,000 non-interest bearing, unsecured notes that did not require repayment and could only be converted into common shares of the Company on the earlier of the date the Company obtained a stock exchange listing or October 31, 2005. The conversion price was 68.75% of the price at which the Company's shares were issued pursuant to an Initial Public Offering ("IPO") in conjunction with a stock exchange listing or, if the Company did not complete an IPO at the time of obtaining a stock exchange listing, 68.75% of the weighted average price at which the Company's common shares were traded on the exchange during the ten business days immediately following admission to the exchange, or such other weighted average price and period as agreed to by the Company and the holder of the notes. Effective August 16, 2005, the holder of one of the $2,000,000 convertible notes elected to convert the note into common shares of the Company at a conversion price of $3.4375 per share, resulting in the issuance of 581,818 common shares. The holder of the other $2,000,000 convertible note elected to convert the note into common shares of the Company effective November 7, 2005 on the same terms.

SHARE PURCHASE WARRANTS

On January 1, 2005, there were 982,000 warrants to purchase common shares outstanding. During the second quarter of 2005, holders of warrants to purchase common shares exercised 950,000 warrants comprising 450,000 warrants at an exercise price of $1.35 per share and 500,000 warrants at an exercise price of $2.25 per share. The total proceeds of $1,732,500 have been recorded as an increase in the value of shares issued in the amount of $1,991,903 and a reduction of $259,403 in the value of outstanding warrants. As at December 31, 2005, there were 32,000 warrants outstanding at an average exercise price of $2.00 each. The value of $21,516 attributed to the warrants was determined at the grant date using the Black-Scholes model assuming a risk free interest rate of 4% and an expected volatility of 49%.

CONTRIBUTED SURPLUS

Contributed Surplus of $541,642 reflects the value of stock options expensed to date of $277,362, $57,000 related to compensation expense on the share purchase loan and an increase of $35,677 relating to adjustments to share proceeds resulting from shares repurchased and reissued during the year ended December 31, 2005.

COMMITMENTS AND CONTINGENCIES

Commitments and contingencies are disclosed in Note 10 to the Consolidated Financial Statements. A summary is as follows:

Contractual Obligations

	PAYMENTS DUE BY PERIOD			
	TOTAL	2006	2007-2009	2010-2012
OFFICE LEASE	$ 774,658	$ 141,065	$ 446,616	$ 186,977
CAPITAL EXPENDITURES	12,000,000	12,000,000	0	0
	$ 12,774,658	$ 12,141,065	$ 446,616	$ 186,977

- ***Office Lease***
  The Company has entered into an operating lease for the Company's office premises in Calgary expiring in 2011.

- ***Sunorca Development Corporation***
  Effective August 8, 2005 the Company reached a settlement agreement with Sunorca regarding outstanding issues related to Sunorca's participating interest in the Mtwara Energy Project. Under the terms of the settlement, Sunorca will sell all its rights and interest in the Mtwara Energy Project for cash consideration of $341,840 (Canadian $400,000) and a gross overriding royalty ("GORR") on the Company's interest in the mineral rights for the Mtwara Energy Project of 2.75% (net 2.2%) for the Development Block and 2.75% to 1.85% (net 2.2% to 1.5%) for the Exploration Block. The unsecured demand promissory note in the amount of $42,730 (Canadian $50,000) payable to Sunorca will be deemed to be satisfied and paid in full as part of the settlement. Under the terms of this agreement Sunorca would have no rights or interest in the power or transmission and distribution components of the Mtwara Energy Project. Closing will take place upon completion of the negotiations with Sunorca on the Gross Overriding Royalty Agreement and selection of three exploration blocks to add to the GORR for the Development Lands. The payment of $325,680 is being held in trust by the Company's legal counsel pending closing of the settlement agreement and has been recorded as an addition to Project costs.

- ***Capital Expenditures***
  Under the PSA, AG&P Gas Ltd. was required to spend $4.4 million on the Appraisal Work Program for the Project. These amounts had been spent by the end of the first quarter of 2005. The PSA has an initial term of four years. Under the terms of the Exploration License issued under the PSA, the Company is subject to an annual charge of $4 per square kilometre ("km^2") for retained areas for the initial term of four years. This increases to $8 per km^2 and $16 per km^2 for each extension period. In addition, an annual charge of $128 per km^2 will be levied for the Development License issued. The Development License has an initial term of 25 years with an extension period of a further 20 years depending on the time required to extract the resources.

  The Company is currently finalizing a number of agreements relating to the Project, including the Implementation Agreement, PPA, TDFA and Facilities Lease and Assignment Agreement and is currently waiting for approval from the Government of Tanzania for the Development License for the Mnazi Bay natural gas concession. In the meantime, the Company is proceeding with Phase 2 of the Mtwara Energy Project, which involves making commitments for capital expenditures. The Company has currently entered into contracts for drilling and other oilfield services, pipeline construction and power generation facilities, which involve commitments for capital expenditures in the amount of approximately $14 million. In addition, subsequent to December 31, 2005, the Company has made payments of approximately $2 million to suppliers and contractors for materials and supplies.

- ***Employment Agreement***
  The Company has entered into an employment agreement with an individual who is an officer, director and shareholder of the Company. If the agreement is terminated by the Company without cause, or if there is a change in control of the Company which is greater than 25%, the individual will receive severance pay amounting to up to two years compensation from the Company.

- ***Indemnification and Guarantees***
  The Company has agreed to indemnify certain individuals, who have acted at the Company's request to be an officer or director of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individual as a result of their service. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to a beneficiary of such indemnification agreement. Additionally, in the ordinary course of business, other indemnifications may have also been provided pursuant to provisions of agreements for services and equipment. In these agreements, the Company has indemnified counterparties if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated. The Company has purchased various insurance policies to reduce the risks associated with such indemnification. As at the date of these consolidated financial statements, the Company's operations have been performed without any incident or claim triggering any indemnity.
- ***Letters of Credit***
  The Company has a $5 million letter of credit facility with a Canadian chartered bank. A fee of 1.25% per annum is charged on amounts drawn-down under the facility, and the facility is fully secured by cash, bank balances and deposits and is payable on demand. As at December 31, 2005, the Company had drawn-down $Nil (2004 – $982,763) under the available facility.

RELATED PARTY TRANSACTIONS

The Company had the following related party transactions:

- During the year ended December 31, 2005 in the normal course of business, legal services of $1,195,685 (2004 – $297,979) were provided by a law firm in which one of the directors of the Company is a partner. The transactions have been recorded at the exchange amount and $58,360 (2004 – $nil) is included in deferred financing costs, $118,374 (2004 – $6,929) in share issue costs and $1,018,951 (2004 – $291,050) in general and administrative expenses, including $727,711 (2004 – $172,198) in capitalized general and administrative expenses. At December 31, 2005 the amount payable to the law firm was $185,463 (December 31, 2004 – $69,792).
- During the year ended December 31, 2005, the Company paid $82,633 (2004 – $38,624) for consulting services to a company that is owned by an individual who is related to an officer, director and shareholder of AGI. At December 31, 2005, AGI owed $9,144 (December 31, 2004 – $8,300) to this Company. These transactions have been recorded at the exchange amount in general and administrative expenses, including $64,397 (2004 – $28,518) in capitalized general and administrative expenses in property and equipment

SUBSEQUENT EVENTS

- During January 2006, the Company issued a convertible bond in the amount of $20 million. The bond is denominated in notes of $100,000 each, carries a coupon of 10.5% per annum, and will mature on 16 January 2009. The conversion price is NOK 40 (approximately $5.96) per Artumas common share, subject to adjustment. The Company may convert the bonds to common shares of the Company on or after 16 January 2007, if the closing price of the common shares has exceeded NOK 80 (approximately $11.92) for at least 20 trading days within a period of 30 consecutive trading days. The exchange rate for conversion is fixed in US dollars at the exchange rate of NOK 6.7135 to 1 US dollar, based on the official European Bank reference rate on January 17, 2006. The offering was fully underwritten by Perseverance Ltd., and Perseverance and related parties purchased $7 million of the bond notes pursuant to the offering. Perseverance is a major shareholder of the Company and is represented on the Board of Directors of the Company. The net proceeds of approximately $18.7 million from the offering, after deduction of fees, commissions and expenses, will be used to finance capital expenditures, project development expenditures and working capital in connection with the development of the Mnazi Bay gas field.

- On January 31, 2006, the Company submitted a tender to the Mozambique Second Licensing Round for two concession blocks. The 10,683 square kilometers Area 1 Block and the 15,133 square kilometers Rovuma Onshore Area Block are located adjacent to the Company's Mnazi Bay concession in Tanzania. The Company was awarded the Rovuma Block on March 8, 2006 as a result of the bidding round.

  On February 20, 2006, the Company received notice from Tanzania Petroleum Development Corporation ("TPDC") that, in accordance with the PSA, it intends to elect to pay 20% of certain contract expenses to earn a 20% interest in the Mnazi Bay petroleum reserves.

CRITICAL ACCOUNTING ESTIMATES

Artumas uses certain assumptions and estimates in applying generally accepted accounting principles ("GAAP") in the preparation of its financial statements. Changes in these assumptions and estimates could have a significant impact on the Company's financial results. Significant accounting estimates include the following:

- The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on the going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As a start-up company without a current source of operating revenues, the Company is relying upon its ability to complete its initial project. The Company's ability to continue as a going concern is dependent on its ability to generate future profitable operations, secure additional sources of financing, and on the continued support of its lenders, creditors, and shareholders. The outcome of these matters cannot be predicted at this time. The consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue its operations.
- The Company accounts for crude oil and natural gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on 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 crude oil reserves, including asset retirement costs, are capitalized within a separate cost center for each country in which the Company has oil and gas activities. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. All costs have been capitalized in a single Tanzanian cost center, which is currently in the preproduction stage, and such costs are excluded from costs subject to depletion. Capitalized costs are assessed at the end of each reporting period to determine if the total of such costs may be recovered in the future. Any costs considered unlikely to be recovered are written off and a corresponding loss is recognized in net earnings.
- Capitalized costs no longer in the preproduction stage will be depleted, depreciated and amortized on a unit of production basis over the life of estimated proven petroleum and natural gas reserves. The recoverability of the carrying value of capitalized costs is determined based on a ceiling value utilizing these reserve estimates. Revisions in reserve estimates could have a material impact on earnings. Artumas mitigates this risk by using APA Petroleum Engineering, independent reserve engineers, to evaluate its reserve estimates in accordance with regulatory standards.
- Pursuant to the PSA, the Company is not liable for asset retirement obligations until commercial production is achieved. The Company is not liable for any reclamation or abandonment costs if the Project is abandoned prior to commercial production. Upon commencement of commercial production, an estimate of clean up costs will be made and a reserve fund is required to be set up.

ADOPTION OF ACCOUNTING POLICY

During 2005, the Company adopted an accounting policy for treatment of deferred financing costs. Under this policy, financing costs relating to shares issued subsequent to the end of the period are deferred and will be charged to share capital in the same period as the share issue proceeds are recorded. In addition, financing costs related to debt facilities are deferred and amortized over the term of the debt.

BUSINESS RISKS

Artumas is subject to normal market risks inherent in the oil and gas business. The Company's gas assets are in the development stage resulting in uncertainties such as: operational and technical risks; reserve estimates; risks of operating in a foreign country (including economic, political, social and environmental risks); commodity price fluctuations; and available resources. We recognize these risks and manage our operations to minimize our exposures to the extent practical.

Artumas reserves are an estimated value that were independently evaluated and reviewed. It is important to note that reserves reports include assumptions about the productive capability of each reservoir and each well into those reservoirs. Being estimates, each well and reservoir could perform differently than estimated, significantly altering the net production revenue ultimately realized.

Artumas is subject to all of the operating risks normally associated with the exploration, production, storage, transportation and marketing of oil and gas. These risks include blowouts, explosions, fire, gaseous leaks, and migration of harmful substances. In addition, Artumas operations will be subject to all the normal risks including encountering unexpected formations or pressures, premature declines of reservoirs, equipment failures and other accidents, sour gas releases, natural gas or well fluids, adverse weather conditions, pollution and other environmental risks. Artumas mitigates this risk by employing qualified staff and contractors and has adequate insurance in place. The Company has also developed a comprehensive health, safety and environment (HSE) management framework to diminish physical risk.

Artumas operations and related assets are located in countries outside Canada, which sustain different economic and political risks. Exploration or development activities in countries like Tanzania may require protracted negotiations with host governments, renegotiation or nullification of existing contracts, taxation policies, and international monetary fluctuations. Artumas has helped hedge the economic or political risks through partnerships with the Tanzanian government and will enter into partnerships with the Mozambique government in the course of its operations in that country.

There are a number of social and environmental risks when drilling for natural resources in a remote area. Apprehension often includes environmental concerns, human rights controversies, product liability issues, employee concerns and other reputation issues. With Artumas's public Corporate Social Responsibility (CSR) statement and policies we are able to educate the community of the world class social and environmental standards we uphold.

Artumas is exposed to normal financial risks inherent within the oil and gas industry, including commodity price risk, exchange rate risk, interest rate risk and credit risk. The Company conducts its operations in a manner intended to minimize exposure to these risks.

Artumas's financial performance is most sensitive to prevailing prices of crude oil and natural gas. Prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. The business is managed so that the Company can substantially withstand the impact of a lower price environment, while maintaining the opportunity to capture significant upside when the price environment is higher.

With worldwide increases in oil and gas production, availability of drilling equipment, financing and even qualified employees is increasingly more difficult to come by. With the increasing competition Artumas success is dependent upon its ability to attract and retain experienced management and availability of qualified, professional staff.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented, fairly, in all material respects. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche LLP, the external auditors, conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors have reviewed the financial statements, including notes thereto, with management and Deloitte & Touche LLP and have approved the financial statements.

Stephen W. Mason
PRESIDENT

Martin H. Eden
CHIEF FINANCIAL OFFICER

MAY ••, 2006

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ARTUMAS GROUP INC.

We have audited the consolidated balance sheet of Artumas Group Inc. (a Development Stage Enterprise) as at December 31, 2005 and the consolidated statement of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

The comparative financial statements as at and for the year end December 31, 2004 presented for comparative purposes were audited by another firm of Chartered Accountants which expressed an opinion without reservation on those financial statements in their report dated May 3, 2005.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
CALGARY, ALBERTA
FEBRUARY 19, 2006

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

DECEMBER 31, (US DOLLARS)	2005	2004
		RESTATED NOTE 2
ASSETS		
CURRENT		
CASH	$ 13,048,179	$ 4,643,522
ACCOUNTS RECEIVABLE	358,860	63,480
DUE FROM DIRECTORS/EMPLOYEES (NOTE 5)	126,263	–
PREPAID EXPENSES AND SHORT TERM INVESTMENTS	443,048	198,318
	13,976,350	4,905,320
DEFERRED FINANCING COSTS	488,357	–
DEPOSIT ON CAPITAL EQUIPMENT	1,439,632	–
DUE FROM DIRECTORS/EMPLOYEES (NOTE 5)	270,000	–
PROPERTY AND EQUIPMENT (NOTE 4)	37,834,969	4,772,408
INTANGIBLE ASSETS (NOTE 6)	1	1
	$ 54,009,309	$ 9,677,729
LIABILITIES AND SHAREHOLDERS E QUITY		
CURRENT		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 6,398,108	$ 1,006,930
DUE TO DIRECTORS/EMPLOYEES (NOTE 5)	–	178,923
DEMAND PROMISSORY NOTE (NOTE 7)	42,730	41,515
	6,440,838	1,227,368
DEFERRED OPTION PAYMENTS (NOTE 8)	1,700,000	–
	8,140,838	1,227,368
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (NOTE 9(B))	48,767,327	9,408,023
SHARE PURCHASE WARRANTS (NOTE 9(C))	21,516	280,919
CONTRIBUTED SURPLUS (NOTE 9(E))	541,642	171,603
DEFICIT	(3,462,014)	(1,410,184)
	45,868,471	8,450,361
	$ 54,009,309	$ 9,677,729

NATURE OF OPERATIONS AND BASIS OF PREPARATION (NOTE 1)

COMMITMENTS AND CONTINGENCIES (NOTE 10)

APPROVED ON BEHALF OF THE BOARD

DIRECTOR DIRECTOR

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

YEAR ENDED DECEMBER 31, (US DOLLARS, UNLESS OTHERWISE STATED)	2005	2004	CUMULATIVE SINCE INCEPTION AUGUST 8, 2000
		RESTATED NOTE 2	RESTATED NOTE 2
EXPENSES			
GENERAL AND ADMINISTRATIVE	$ 1,891,867	$ 898,007	$ 2,982,443
PROJECT DEVELOPMENT	–	–	42,234
STOCK BASED COMPENSATION	334,362	171,603	583,209
FINANCING COSTS	15,969	71,356	88,797
EXCHANGE GAINS	52,958	68,339	119,157
AMORTIZATION	19,849	10,113	34,061
TOTAL EXPENSES	2,315,005	1,219,418	3,849,901
COST RECOVERY (NOTE 10(B))	–	–	(111,787)
EXPENSES AFTER COST RECOVERY	2,315,005	1,219,418	3,738,114
OTHER INCOME			
INTEREST INCOME	263,175	12,923	276,100
NET LOSS FOR THE PERIOD	(2,051,830)	(1,206,495)	(3,462,014)
DEFICIT, BEGINNING OF PERIOD	(1,410,184)	(203,689)	–
DEFICIT, END OF PERIOD	$ (3,462,014)	$ (1,410,184)	$ (3,462,014)
LOSS PER SHARE*	(0.16)	(0.38)	
WEIGHTED AVERAGE NUMBER OF SHARES	12,971,595	3,175,627	

*NO DILUTED EARNINGS PER SHARE HAVE BEEN DISCLOSED, AS THESE WOULD BE ANTI-DILUTIVE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, (US DOLLARS, UNLESS OTHERWISE STATED)	2005	2004	CUMULATIVE SINCE INCEPTION AUGUST 8, 2000
		RESTATED NOTE 2	RESTATED NOTE 2
OPERATING ACTIVITIES			
NET LOSS FOR THE PERIOD	$ (2,051830)	$ (1,206,495)	$ (3,462,014)
ADD ITEMS NOT REQUIRING CASH			
STOCK BASED COMPENSATION	334,362	171,603	583,209
AMORTIZATION	19,849	10,113	34,061
	(1,697,619)	(1,024,779)	(2,844,744)
NET CHANGE IN NON-CASH WORKING CAPITAL	252,433	333,680	120,683
	(1,445,186)	(691,099)	(2,724,061)
FINANCING ACTIVITIES			
PROCEEDS FROM DEMAND PROMISSORY NOTE	–	–	42,730
ADVANCES FROM DIRECTORS/EMPLOYEES	(575,186)	(10,514)	(396,263)
PROCEEDS FROM DEFERRED OPTION PAYMENTS (NOTE 8)	1,700,000	–	1,700,000
PROCEEDS FROM CONVERTIBLE NOTES (NOTE 9(B))	4,000,000	–	4,000,000
DEFERRED FINANCING COSTS	(488,357)	–	(488,357)
PROCEEDS FROM ISSUANCE OF COMMON SHARES (NET OF SHARE ISSUE COSTS)	35,135,578	8,620,906	44,747,275
	39,772,035	8,610,392	49,605,385
INVESTMENT ACTIVITIES			
MNAZI BAY PROJECT CAPITAL COSTS	(33,034,254)	(4,345,890)	(37,755,100)
DEPOSIT ON CAPITAL EQUIPMENT	(1,439,632)	–	(1,439,632)
ACQUISITION OF FIXED ASSETS	(48,156)	(50,714)	(113,930)
	(34,522,042)	(4,396,604)	(39,308,662)
NET CHANGE IN NON-CASH WORKING CAPITAL	4,599,850	875,667	5,475,517
	(29,922,192)	(3,520,937)	(33,833,145)
INCREASE (DECREASE) IN CASH	8,404,657	4,398,356	13,048,179
CASH, BEGINNING OF PERIOD	4,643,522	245,166	–
CASH, END OF PERIOD	$ 13,048,179	$ 4,643,522	$ 13,048,179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004, US DOLLARS, UNLESS OTHERWISE STATED

1. NATURE OF OPERATIONS AND BASIS OF PREPARATION

Artumas Group Inc. ("AGI" or the "Company") was incorporated under the laws of Alberta, Canada on August 8, 2000.

The Company is a development stage independent energy producer engaged in developing "complete energy solutions" to provide low-cost electricity through conversion of stranded natural gas reserves to electricity generation together with the connection and distribution of electricity to specific regions in rural Africa. AGI is also actively involved in developing off-take gas markets to allow for the monetization and exploitation of the identified gas pools.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on the going concern basis, which presumes that AGI will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As a start-up company without a current source of operating revenues, AGI is relying upon its ability to complete its initial Project. The Company has been negotiating with the Government of Tanzania for several months on the terms of a number of agreements relating to the Project, and is currently waiting for formal approval from the Government of Tanzania for the Development License for the Mnazi Bay natural gas concession. The Company's ability to execute its business plan is dependent on finalizing the Project agreements to the satisfaction of the Government and the Company's lenders and on obtaining the Development License. The Company's ongoing ability to continue as a going concern is dependent on its ability to generate future profitable operations, secure additional sources of financing, and on the continued support of its lenders, creditors, and shareholders. The outcome of these matters cannot be predicted at this time. The consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue its operations.

On August 25, 2003, AGI entered into an Agreement of Intent with the Ministry of Energy and Minerals for the United Republic of Tanzania ("MEM") and the Tanzania Petroleum Development Corporation ("TPDC") in relation to the Mtwara Region Gas to Power Project for Generation, Distribution and Transmission in the Mtwara and Lindi Regions of Southeast Tanzania (the "Project"). A Production Sharing Agreement ("PSA") between AG&P Gas Ltd. (a wholly owned subsidiary of AGI) and the MEM and TPDC relating to the Mnazi Bay Gas Development Project for Power Generation, Distribution and Transmission in the Mtwara and Lindi Regions was ratified by the Tanzanian Parliament on May 18, 2004, defining the Development and Exploration Blocks to which Mineral Rights may be earned, and the responsibilities of each of the parties to the PSA. Further to these agreements, a number of definitive agreements are currently being negotiated including an Implementation Agreement, Power Purchase Agreement, Transmission and Distribution Franchise Agreement, and Facilities Lease and Assignment Agreement.

Phase 1 of the Project involving the re-entry, testing and completion of an existing natural gas well in the Mnazi Bay natural gas concession and the acquisition of seismic, was completed in the second quarter of 2005. During 2005, the Company fulfilled its minimum expenditure commitments and earned its rights in the Mnazi Bay Discovery Block under the Production Sharing Agreement with the Government of Tanzania. Phase 2 comprising the development of the Mnazi Bay gas field by drilling up to five new wells, installing production facilities, construction of a 27-kilometre pipeline, installing and operating a 30-megawatt ("MW") power generation facility, and upgrading the existing transmission and distribution system, commenced during the third quarter of 2005. Commercial operations are anticipated to begin by mid-2006. Additional projects involving the marketing of the gas reserves have been identified and are in the process of negotiation.

2. CHANGE IN REPORTING CURRENCY

The Company has changed its reporting currency from Canadian dollars to US dollars effective for the 2005 reporting periods. The balance sheet as at January 1, 2004 has been restated in US dollars using the current rate method of translation. The 2004 financial statements being reported on herein have also been restated to US dollars on a basis as though the US dollar was the reporting currency in those periods. Opening deficit for the 2004 year includes a charge of $2,157 for the translation loss resulting from the conversion from Canadian dollars to US dollars using rates prevailing at January 1, 2004. The majority of the Company's operations are conducted in US dollars and management believes that reporting in US dollars will more accurately reflect the Company's financial position and results of operations.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

(b) PROPERTY AND EQUIPMENT

The Company accounts for crude oil and natural gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on 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 crude oil reserves, including asset retirement costs, are capitalized within a separate cost center for each country in which the Company has oil and gas activities. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. All costs have been capitalized in a single Tanzanian cost center, which is currently in the preproduction stage, and such costs are excluded from costs subject to depletion. Capitalized costs are assessed at the end of each reporting period to determine if the total of such costs may be recovered in the future. Any costs considered unlikely to be recovered are written off and a corresponding loss is recognized in net earnings.

For cost centers no longer in the preproduction stage, costs accumulated within each cost center are depreciated, depleted and amortized using the unit-of-production method based on estimated gross proved reserves as determined by independent engineers. For purposes of this calculation, gas is converted to oil on an energy equivalent basis. Capitalized costs subject to depletion are net of equipment salvage values and include estimated future costs to be incurred in developing 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 percent 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 center basis, from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or impairment has occurred. An impairment loss is recognized in net earnings when the carrying amount of a cost center is not recoverable and the carrying amount of the cost center exceeds its fair value. The carrying amount of the cost center is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of: (a) the fair value of proved and probable reserves; and (b) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves. At December 31, 2004, all the Company's cost centers were in the preproduction stage.

Office equipment is recorded at cost and amortized over its estimated useful life at rates of 20% per annum for furniture and equipment and 30% per annum for computer equipment.

(c) ASSET RETIREMENT OBLIGATIONS

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the consolidated statement of operations and deficit. The fair value of the obligation is periodically adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimates on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of operations and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based on estimated gross proven reserves as determined by independent engineers. Pursuant to the PSA, the Company is not liable for asset retirement obligations until commercial production is achieved. The Company is not liable for any reclamation or abandonment costs if the Project is abandoned prior to commercial production. Upon commencement of commercial production, an estimate of clean up costs will be made and a reserve fund is required to be set up.

(d) REVENUE RECOGNITION

Natural gas and electricity sales will be recognized as revenue when the commodities are delivered to purchasers.

(e) STOCK-BASED COMPENSATION

The Company records compensation expense in the consolidated financial statements for stock options granted to employees and directors using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of the options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(f) FUTURE INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse. Future income tax assets are recorded in the consolidated financial statements if realization is considered more likely than not.

(g) FOREIGN CURRENCY TRANSLATION

Transactions originating in foreign currencies are translated into US dollars at the exchange rate on the date of the transaction. Monetary items are translated at the rates in effect at the balance sheet date and non-monetary items are translated at the rates prevailing at the respective transaction dates. Exchange gains and losses arising on translation are included in the determination of losses for the year. Monetary assets and liabilities of integrated operations that are not denominated in US dollars are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates and expenses are translated at average rates of exchange during the year. Exchange gains and losses arising on translation of the accounts of integrated operations are included in the consolidated statements of operations and deficit. All of the Company's foreign operations are considered to be integrated.

(h) FINANCING COSTS

Financing costs relating to shares issued subsequent to the end of the period are deferred and will be charged to share capital in the same period as the share issue proceeds are recorded. Financing costs related to debt facilities are deferred and amortized over the term of the debt.

(i) FINANCIAL INSTRUMENTS

The fair values of financial instruments approximate their carrying values, unless otherwise noted.

(j) JOINT VENTURES

The Company's exploration and development activities may be conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(k) SHARE ISSUE COSTS

Included in share issue costs are legal, broker and travel costs associated with various share placements completed by the Company.

(l) MEASUREMENT UNCERTAINTY

The amount of likely loss or recoverability of capitalized pre-production costs is not determinable and there is uncertainty as to the likelihood of loss. Recovery of these capital costs is uncertain and dependent upon the completion of the Company's initial Project. By their nature, the estimate of recoverability is subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

The valuation of stock options and warrants is based on a number of assumptions. The valuation is significantly affected by the assumptions made with respect to the expected volatility over the expected life of the option at the time of the grant. As the assumption is based on management's best estimate, it is subject to measurement uncertainty. The Company does not plan to amend the assumptions once they have been determined at the grant date.

4. PROPERTY AND EQUIPMENT

DECEMBER 31, 2005	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
MNAZI BAY PROJECT COSTS			
PETROLEUM DRILLING,			
EXPLORATION, DEVELOPMENT	$ 34,115,860	$ –	$ 34,115,860
POWER GENERATION	1,955,106	–	1,955,106
TRANSMISSION/DISTRIBUTION	684,134	–	684,134
	37,755,100	–	37,755,100
OFFICE EQUIPMENT	113,930	34,061	79,869
	$ 37,869,030	$ 34,061	$ 37,834,969

DECEMBER 31, 2004			
MNAZI BAY PROJECT COSTS			
PETROLEUM DRILLING,			
EXPLORATION, DEVELOPMENT	$ 4,720,846	$ –	$ 4,720,846
OFFICE EQUIPMENT	65,774	14,212	51,562
	$ 4,786,620	$ 14,212	$ 4,772,408

During the year ended December 31, 2005, $2,401,340 (2004 – $544,873) of general and administrative expenses directly related to the Project were capitalized to Mnazi Bay project costs. The Mnazi Bay property and equipment is located in Tanzania and the office equipment is located in Canada.

No depletion has been recorded for the Mnazi Bay project capitalized petroleum costs as the Project is still being evaluated and production has not yet commenced. In addition, no amortization has been recorded for the capitalized costs of non-oil and gas assets as these assets are under construction and have not commenced operations. The amounts included under property and equipment represent costs incurred to date and are not intended to reflect present or future values. The recoverability of these capitalized costs is dependant on the confirmation of economically recoverable reserves, and the ability of the Company to obtain the necessary approvals and financing to successfully complete their development, including finalization of all agreements with the Government of Tanzania.

The Company has recorded an amount of $1,200,000 in capitalized Project costs (with an offsetting liability of $1,200,000 included in accounts payable and accrued liabilities) to cover the estimated amount of Tanzanian withholding tax not deducted by the Company from payments made to its foreign contractors who provided services in Tanzania but were not registered for Tanzanian tax purposes. The Company anticipates that it will receive an exemption from the requirement to deduct withholding taxes for these contractors and will be able to reduce its capitalized costs and accounts payable by the amount of the provision. Project costs also include $325,680 related to cash held in trust (see Note 10(b)).

5. DUE (TO) FROM DIRECTORS/EMPLOYEES

At December 31, 2004, certain directors and employees had agreed to the deferral of payment for consulting services they had provided to the Company, which amounts were recorded as a liability of $178,923 in the consolidated financial statements.

During the first quarter of 2005, the Company made a settlement in the amount of $180,579 with certain directors and employees through the issue of 150,000 common shares in the amount of $160,781 and a cash payment of $19,798 (see Note 9(b)). As a result of this settlement and other transactions during the second and third quarters of 2005, an amount of $126,263 is due from directors and employees at December 31, 2005.

These transactions were recorded at the exchange amount. The amounts owing are non-interest bearing, unsecured and due on demand.

AGI financed the purchase, by an officer and director of the Company (the "Officer"), of 150,000 common shares of the Company at $1.80 per share, for a total cost of $270,000. These shares were purchased from a shareholder and former consultant. The shares were originally given to the former consultant in 2002 out of the founder's shares of the Officer. Under the terms of a Right of First Refusal Agreement dated October 1, 2002, the Officer had the right to re-acquire the shares from the Company at the Company's cost. The payment of $270,000 made by the Company on behalf of the Officer for the purchase of the shares has been recorded as a loan due from an entity owned by the Officer pursuant to a Share Purchase Agreement dated June 23, 2005. The loan is secured by the AGI shares, non-interest bearing and is repayable within two years.

6. INTANGIBLE ASSETS

August 1, 2001, the founding shareholder of AGI transferred the rights to further development of certain existing Gas-to-Power Projects in East Africa (the "Project Rights") to the Company as consideration for the issuance of 1,000,000 common shares (as adjusted for the September 1, 2002 stock split – see Note 7(b)). These Project Rights include, but are not limited to, various financial data, business plans, engineering studies, seismic records and evaluations, accounting information, customer names and lists, strategies, techniques, approaches, and experiment and test results. The actual costs incurred over the six years prior to August 1, 2001 to develop the project were in excess of $1 million. The Project Rights and the common shares issued have been recorded at $1 in the consolidated financial statements, due to the uncertainty and subjectivity of the valuation of these costs.

7. DEMAND PROMISSORY NOTE

The unsecured demand promissory note bears interest at an annual rate of 5% beginning January 1, 2004, and is due to Sunorca Development Corporation ("Sunorca"). AGI and its management and directors own approximately 13% of the shares of Sunorca.

8. DEFERRED OPTION PAYMENTS

The Netherlands Development Financial Institution ("FMO") entered into an arrangement with Artumas Tanzania (Jersey) Limited ("ATJL"), a wholly-owned subsidiary of AGI, to contribute a minimum of $1.7 million to ATJL in exchange for future warrants convertible on a pro rata basis into shares of ATJL, to a maximum of 20% of the shares of ATJL, by paying a proportionate share of the sunk costs in the Project at the time of the election to convert.

FMO made the first disbursement of $850,000 of its contribution in March, 2005 and the second and third disbursements, amounting to $850,000, in December 2005. These amounts are recorded as Deferred Option payments in the consolidated financial statements. If FMO elects not to exercise its right to participate, the $ 1.7 million received to date is non-refundable.

9. SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of voting common shares without nominal or par value.
Unlimited number of non-voting preferred shares to be issued in series, without nominal or par value.

(b) COMMON SHARES ISSUED

	NUMBER OF SHARES	AMOUNT
BALANCE, DECEMBER 31, 2000 AND 2001	100	$ 1
SEPTEMBER 1, 2002 STOCK SPLIT (10,000 TO 1)	999,900	–
BALANCE, DECEMBER 31, 2002	1,000,000	1
ISSUED FOR CASH PURSUANT TO PRIVATE PLACEMENTS (i)	1,000,000	1,028,621
ISSUED AS EMPLOYEE COMPENSATION (ii)	200,000	77,244
SHARE ISSUE COSTS	–	(37,830)
BALANCE, DECEMBER 31, 2003	2,200,000	1,068,036
ISSUED FOR CASH PURSUANT TO PRIVATE PLACEMENTS (iii)	4,825,000	9,650,000
LESS: AMOUNT ALLOCATED TO WARRANTS	–	(259,403)
ISSUED AS BROKER'S FEES (iv)	175,000	350,000
SHARE ISSUE COSTS (v)	–	(1,400,610)
BALANCE, DECEMBER 31, 2004	7,200,000	$ 9,408,023
ISSUED FOR CASH PURSUANT TO PRIVATE PLACEMENTS (vi)	2,520,000	6,045,000
ISSUED FOR CASH PURSUANT TO INITIAL PUBLIC OFFERING (vii)	6,200,000	31,000,000
ISSUED ON EXERCISE OF WARRANTS (viii)	950,000	1,991,903
ISSUED ON CONVERSION OF NOTES PAYABLE (xi)	1,163,636	4,000,000
SHARES REPURCHASED FROM FORMER EMPLOYEE	(150,000)	(196,458)
ISSUED IN SETTLEMENT OF SHAREHOLDER LOANS	150,000	160,781
SHARE ISSUE COSTS	–	(3,641,922)
BALANCE, DECEMBER 31, 2005	18,033,636	$ 48,767,327

(i) During the year ended December 31, 2003 the Company completed two private placement issuances for a total of 1,000,000 common shares, as follows:

100,000 common shares were issued for cash consideration of Canadian $0.50 (approximately $0.38) per share for gross proceeds of $38,621 to an officer and director of the Company. The shares were recorded at the exchange amount which approximated the fair value of the shares.

900,000 units were issued for cash consideration of $1.10 per unit for gross proceeds of $990,000, each unit consisting of one common share and one half of one common share purchase warrant entitling the holder to purchase one common share at an exercise price of $1.50. Of the 450,000 warrants, 227,272 are exercisable until December 31, 2005 and 222,728 are exercisable until February 15, 2006, subject to the condition that the holder does not own more than 20% of the then issued and outstanding common shares of the Company after giving effect to such exercise. The Company incurred share issue costs of $37,830 related to this transaction. Of the total subscription price, $500,000 was received on December 17, 2003 and the remaining $490,000 was received on February 12, 2004. No value has been attributed to the warrants; as such value was determined to be immaterial.

(ii) During the year ended December 31, 2003 the Company issued a total of 200,000 common shares to two employees as compensation for services provided. The shares were recorded at the exchange amount of $77,244, which approximated the fair value of these services.

(iii) During the year ended December 31, 2004 the Company completed private placement issuances for a total of 4,825,000 common shares, as follows:

500,000 units were issued for cash consideration of $ 2.00 per unit for gross proceeds of $1,000,000 each unit consisting of one common share and one half of one common share purchase warrant entitling the holder to purchase one common share at an exercise price of $2.50 until June 20, 2007, subject to the condition that the holder does not own more than 20% of the then issued and outstanding common shares of the Company after giving effect to such exercise. The portion of the proceeds attributed to the warrants was $259,403. The fair value of the warrants was determined at the grant date using the Black-Scholes model assuming a risk free interest rate of 4%, an expected volatility of 49% and a dividend yield of nil.

3,000,000 common shares were issued for cash consideration of $2.00 per share for gross proceeds of $6,000,000. The Company incurred share issue costs of $450,000 related to this transaction.

250,000 common shares were issued for cash consideration of $ 2.00 per share for gross proceeds of $500,000.

1,000,000 common shares were issued for cash consideration of $2.00 per share for gross proceeds of $2,000,000. The Company incurred share issue costs of $344,980 related to this transaction.

50,000 common shares were issued for cash consideration of $2.00 per share for gross proceeds of $100,000.

25,000 common shares were issued for cash consideration of $2.00 per share for gross proceeds of $50,000.

(iv) At December 31, 2004, 175,000 common shares at $2.00 per share were reserved for issuance to a broker as commission fees of $350,000. The shares were issued in 2005.

(v) During 2004, the Company incurred an additional $255,630 share issue expenses relating to private placements.

(vi) During the first six months of 2005, the Company completed private placement issuances for 1,520,000 common shares for cash consideration of $2.25 per share and 1,000,000 common shares for cash consideration of $2.625 per share for total gross proceeds of $6,045,000. The Company incurred share issue costs of $1,038,768 during the first half of 2005 in connection with the private placements. Shares issued during the period include 25,000 common shares purchased by a director of the Company.

(vii) During the third quarter of 2005 the Company completed an initial public offering for 6,200,000 common shares for cash consideration of $5.00 per share for total gross proceeds of $31,000,000. The Company incurred share issue costs of $2,603,153 in connection with the initial public offering.

(viii) During the second quarter of 2005, holders of warrants to purchase common shares exercised 950,000 warrants comprising 450,000 warrants at an exercise price of $1.35 per share and 500,000 warrants at an exercise price of $2.25 per share. The total proceeds of $1,732,500 have been recorded as an increase in the value of shares issued in the amount of $1,991,903 and a reduction of $259,403 in the value of outstanding warrants.

(xi) During May 2005, the Company issued to certain existing shareholders two $2,000,000 non-interest bearing, unsecured notes that did not require repayment and could only be converted into common shares of the Company on the earlier of the date the Company obtained a stock exchange listing or October 31, 2005. The conversion price was 68.75% of the price at which the Company's shares were issued pursuant to an Initial Public Offering ("IPO") in conjunction with a stock exchange listing or, if the Company did not complete an IPO at the time of obtaining a stock exchange listing, 68.75% of the weighted average price at which the Company's common shares were traded on the exchange during the ten business days immediately following admission to the exchange, or such other weighted average price and period as agreed to by the Company and the holder of the notes.

Effective August 16, 2005, the holder of one of the $2,000,000 convertible notes elected to convert the note into common shares of the Company at a conversion price of $3.4375 per share, resulting in the issuance of 581,818 common shares. The holder of the other $2,000,000 convertible note elected to convert the note into common shares of the Company effective November 7, 2005 on the same terms.

(x) During the second quarter of 2005, the Company repurchased 150,000 common shares from a former employee for $1.07 per share for $160,781 and re-issued the shares to three individuals who are shareholders, directors and officers of the Company in settlement of amounts due to shareholders (see Note 4). The share purchase has been recorded at the cumulative weighted average share value of $1.31 per share for a total of $196,458 and the difference between the purchase price and weighted average price has been recorded as contributed surplus.

(c) ISSUED AND OUTSTANDING WARRANTS

	NUMBER OF SHARES	AMOUNT
BALANCE, DECEMBER 31, 2004	**982,000**	**$ 280,919**
EXERCISED IN EXCHANGE FOR COMMON SHARES	**(950,000)**	**(259,403)**
BALANCE, DECEMBER 31, 2005	**32,000**	**$ 21,516**

The following table summarizes information about warrants outstanding at December 31, 2005:

WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF WARRANTS OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE (YEARS)
$ 2.00	**32,000**	**1.47**

(D) STOCK OPTIONS

The Company has a stock option plan under which up to 10% of the number of the Company's issued and outstanding common shares (including warrants to purchase common shares) may be reserved for issuance to directors, officers, employees and consultants. Under the plan, the options that have been granted vest over a four year period and expire ten years from the date of grant.

At December 31, 2005 the Company has granted stock options to various directors, consultants, and employees of the Company as follows:

	NUMBER OF OPTIONS	EXERCISE PRICE
BALANCE, DECEMBER 31, 2004	**370,000**	**$ 1.75**
GRANTED	**375,000**	**$ 2.40**
BALANCE, DECEMBER 31, 2005	**745,000**	**$ 2.08**

The following table summarizes information about the stock options outstanding at December 31, 2005:

	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE (YEARS)	NUMBER OF SHARES EXERCISABLE
DECEMBER 31, 2005	**$ 2.08**	**745,000**	**8.71**	**223,000**

On April 13, 2005, the Company reserved an additional 150,000 common shares under its stock option plan for issuance to directors, officers, employees and consultants. During the year ended December 31, 2005, the Company granted 75,000 options to purchase common shares at $3.00 per share effective April 13, 2005, leaving 75,000 options authorized but not yet allocated.

The value of stock options granted during the year ended December 31, 2005 was estimated at $320,629 and this amount will be recognized as stock compensation expense over the four-year vesting period of the options. During the year ended December 31, 2005, stock compensation expense of $277,362 for options issued in 2004 and 2005 has been recorded in the consolidated statement of operations and deficit.

The value of stock options granted was determined at the dates of granting the options using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4%; expected term of 10 years; volatility of 20%; and expected future dividend yield of nil.

(e) CONTRIBUTED SURPLUS

BALANCE, DECEMBER 31, 2004	$ 171,603
STOCK COMPENSATION EXPENSE	277,362
COMPENSATION EXPENSE ON LOAN TO DIRECTOR	57,000
ADJUSTMENT TO VALUE OF SHARES PURCHASED	35,677
BALANCE, DECEMBER 31, 2005	$ 541,642

The fair value of the loan for the purchase of shares (see Note 4) was determined to be $57,000 at the date of the loan granted using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4%; expected term of 1 year; volatility of 49%; and expected future dividend yield of nil. The value of the loan has been recorded as stock compensation expense during the year.

10. COMMITMENTS AND CONTINGENCIES

(a) LEASE PAYMENTS

The future minimum lease payments as at December 31, 2004 under an operating lease for the Company's office premises, which expires March 31, 2011, are as follows:

2006	$ 141,065
2007	147,452
2008	149,582
2009	149,582
2010	149,582
2011	37,395
TOTAL FUTURE MINIMUM LEASE PAYMENTS	$ 774,658

(b) SUNORCA DEVELOPMENT CORPORATION

Effective August 8, 2005 the Company reached a settlement agreement with Sunorca regarding outstanding issues related to Sunorca's participating interest in the Mtwara Energy Project (see Note 8 (d) to the Consolidated Financial Statements for the years ended December 31, 2004 and 2003). Under the terms of the settlement, Sunorca will sell all its rights and interest in the Mtwara Energy Project for cash consideration of $341,840 (Canadian $400,000) and a gross overriding royalty ("GORR") on the Company's interest in the mineral rights for the Mtwara Energy Project of 2.75% (net 2.2%) for the Development Block and 2.75% to 1.85% (net 2.2% to 1.5%) for the Exploration Block. The unsecured demand promissory note in the amount of $42,730 (Canadian $50,000) payable to Sunorca will be deemed to be satisfied and paid in full as part of the settlement. Under the terms of this agreement Sunorca would have no rights or interest in the power or transmission and distribution components of the Mtwara Energy Project. Closing will take place upon completion of the negotiations with Sunorca on the Gross Overriding Royalty Agreement and selection of three exploration blocks to add to the GORR for the Development Lands. The payment of $325,680 is being held in trust by the Company's legal counsel pending closing of the settlement agreement and has been recorded as an addition to Project costs.

(c) CAPITAL EXPENDITURE COMMITMENTS

Under the PSA, AG&P Gas Ltd. was required to spend $4.4 million on the Appraisal Work Program for the Project. These amounts had been spent by the end of the first quarter of 2005. The PSA has an initial term of four years. Under the terms of the Exploration License issued under the PSA, the Company is subject to an annual charge of $4 per square kilometre ("km^2") for retained areas for the initial term of four years. This increases to $8 per km^2 and $16 per km^2 for each extension period. In addition, an annual charge of $128 per km^2 will be levied for the Development License issued. The Development License has an initial term of 25 years with an extension period of a further 20 years depending on the time required to extract the resources.

The Company is currently finalizing a number of agreements relating to the Project, including the Implementation Agreement, Power Purchase Agreement, Transmission and Distribution Franchise Agreement, and Facilities Lease and Assignment Agreement and is currently waiting for approval from the Government of Tanzania for the Development License for the Mnazi Bay natural gas concession. The Company anticipates that these outstanding issues will be finalized in the first half of 2006. In the meantime, the Company is proceeding with Phase 2 of the Mtwara Energy Project, which involves making commitments for capital expenditures. The Company has currently entered into contracts for drilling and other oilfield services, pipeline construction and power generation facilities, which involve commitments for capital expenditures in the amount of approximately $14 million. In addition, subsequent to December 31, 2005, the Company has made payments of approximately $2 million to suppliers and contractors for materials and supplies.

(d) EMPLOYMENT AGREEMENT

The Company has entered into an employment agreement with an individual who is an officer, director and shareholder of the Company. If the agreement is terminated by the Company without cause, or if there is a change in control of the Company which is greater than 25%, the individual will receive severance pay amounting to up to two years compensation from the Company.

(e) INDEMNIFICATION AND GUARANTEES

The Company has agreed to indemnify certain individuals, who have acted at the Company's request to be an officer or director of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individual as a result of their service. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to a beneficiary of such indemnification agreement. Additionally, in the ordinary course of business, other indemnifications may have also been provided pursuant to provisions of agreements for services and equipment. In these agreements, the Company has indemnified counterparties if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated. The Company has purchased various insurance policies to reduce the risks associated with such indemnification. As at the date of these consolidated financial statements, the Company's operations have been performed without any incident or claim triggering any indemnity.

(f) LETTER OF CREDIT FACILITY

The Company has a $5 million letter of credit facility with a Canadian chartered bank. A fee of 1.25% per annum is charged on amounts drawn-down under the facility, and the facility is fully secured by cash, bank balances and deposits and is payable on demand. As at December 31, 2005, the Company had drawn-down $Nil (2004 – $982,763) under the available facility.

11. INCOME TAXES

The Company has available for application against future taxable income in Canada, non-capital losses of approximately $2,935,000 (2004 – $1,147,000), which expire beginning in the year 2007, $113,929 (2004 – $65,774) relating to expenditures on office equipment, and $5,080,000 relating to share issue costs (2004 – $1,438,000). In addition, the Company has available for application against future taxable income in Tanzania, non-capital losses of approximately $2,461,000 (2004 – $115,000) and temporary tax differences of $35,177,000 (2004 – $4,606,000) in Tanzania relating to capital expenditures on the Project

The potential benefits resulting from these non-capital losses and tax pools have not been recorded in the consolidated financial statements as there is no certainty of their ultimate realization.

12. FINANCIAL INSTRUMENTS

The fair value of the Company's cash, accounts receivable, deposits, and accounts payable, due from directors and officers and demand promissory note approximate their carrying values due to the short-term nature of these instruments.

The nature of these instruments and the Company's operations expose the Company to fair value and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

The Company holds monetary assets and liabilities that are denominated in foreign currencies and is therefore exposed to foreign currency exchange risk. The Company incurs operating and administrative expenses in Tanzania and accordingly they are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies.

Substantially all of the Company's cash was held at one recognized Canadian financial institution and, as a result, the company was exposed to all of the risks associated with that institution.

13. SUPPLEMENTARY CASH FLOW INFORMATION

(a) NET CHANGE IN NON-CASH WORKING CAPITAL

FOR THE YEARS ENDED DECEMBER 31	2005	2004	CUMULATIVE SINCE INCEPTION
ACCOUNTS RECEIVABLE	$ (295,380)	$ (44,204)	$ (358,860)
SHARE SUBSCRIPTION RECEIVABLE	–	–	–
PREPAID EXPENSES AND SHORT-TERM INVESTMENTS	(244,730)	322,293	(443,048)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	5,392,393	931,258	6,398,108
	4,852,283	1,209,347	5,596,200
LESS: AMOUNTS RELATED TO INVESTING ACTIVITIES	(4,599,850)	(875,667)	(5,475,517)
NON-CASH WORKING CAPITAL RELATED TO OPERATING ACTIVITIES	$ 252,433	$ 333,680	$ 120,683

(b) INTEREST PAID

FOR THE YEARS ENDED DECEMBER 31	2005	2004	CUMULATIVE SINCE INCEPTION
INTEREST PAID	$ 2,355	$ 4,075	$ 6,430

14. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions:

(a) During the year ended December 31, 2005 in the normal course of business, legal services of $1,195,685 (2004 – $297,979) were provided by a law firm in which one of the directors of the Company is a partner. The transactions have been recorded at the exchange amount and $58,360 (2004 – $nil) is included in deferred financing costs, $118,374 (2004 – $6,929) in share issue costs and $1,018,951 (2004 – $291,050) in general and administrative expenses, including $727,711 (2004 – $172,198) in capitalized general and administrative expenses. At December 31, 2005 the amount payable to the law firm was $185,463 (December 31, 2004 – $69,792).

(b) During the year ended December 31, 2005, the Company paid $82,633 (2004 – $38,624) for consulting services to a company that is owned by an individual who is related to an officer, director and shareholder of AGI. At December 31, 2005, AGI owed $9,144 (December 31, 2004 – $8,300) to this Company. These transactions have been recorded at the exchange amount in general and administrative expenses, including $64,397 (2004 – $28,518) in capitalized general and administrative expenses in property and equipment.

15. SUBSEQUENT EVENTS

(a) During January 2006, the Company issued a convertible bond in the amount of $20 million. The bond is denominated in notes of $100,000 each, carries a coupon of 10.5% per annum, and will mature on 16 January 2009. The conversion price is NOK 40 (approximately $5.96) per Artumas common share, subject to adjustment. The Company may convert the bonds to common shares of the Company on or after 16 January 2007, if the closing price of the common shares has exceeded NOK 80 (approximately $11.92) for at least 20 trading days within a period of 30 consecutive trading days. The exchange rate for conversion is fixed in US dollars at the exchange rate of NOK 6.7135 to 1 US dollar, based on the official European Bank reference rate on January 17, 2006. The offering was fully underwritten by Perseverance Ltd., and Perseverance and related parties purchased $7 million of the bond notes pursuant to the offering. Perseverance is a major shareholder of the Company and is represented on the Board of Directors of the Company. The net proceeds of approximately $18.7 million from the offering, after deduction of fees, commissions and expenses, will be used to finance capital expenditures, project development expenditures and working capital in connection with the development of the Mnazi Bay gas field.

(b) On January 31, 2006, the Company submitted a tender to the Mozambique Second Licensing Round for two concession blocks. The 10,683 square kilometers Area 1 Block and the 15,133 square kilometers Rovuma Onshore Area Block are located adjacent to the Company's Mnazi Bay concession in Tanzania. If successful, the Company will be committed to a capital program the amount of which will be subject to negotiations with the Mozambique Government.

(c) On February 20, 2006, the Company received notice from Tanzania Petroleum Development Corporation ("TPDC") that, in accordance with the PSA, it intends to elect to pay 20% of certain contract expenses to earn a 20% interest in the Mnazi Bay petroleum reserves.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Stephen W. Mason
President and Chief Executive Officer
Artumas Group Inc.

Ian C. Horswill
Senior Vice President Engineering,
Chief Operating Officer
Artumas Group Inc.

Richard J.C. Grant
Partner
Gowling Lafleur Henderson LLP

Anthony E. Reinsch
Director of Upstream Services
PFC Energy Ltd.

Brandon Swim
Managing Director
Chasm Lake Management Services

Theodor D. van Golf
Professor of Petroleum Engineering
University of Trondheim

OFFICERS & SENIOR PERSONNEL

Stephen W. Mason
President and Chief Executive Officer

Ian C. Horswill
Senior Vice President Engineering,
Chief Operating Officer

Martin H. Eden
Chief Financial Officer

Richard J.C. Grant
Corporate Secretary

Peter Gathercole
Managing Director, Tanzania

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Chartered Accountants
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BANKERS

HSBC Bank Canada
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Calgary, Alberta T2H 0P3

ANNUAL GENERAL MEETING

Artumas Group Inc. (OSE: AGI) will hold its annual general meeting at 9:00 a.m. on Thursday, June 15, 2006 at the Continental Hotel in Oslo, Norway.

ARTUMAS 2006 FINANCIAL CALENDAR

May 30, 2006
Results:
Publication of First Quarter 2006

June 15, 2006
Annual General Meeting:
Oslo, Norway

August 29, 2006
Results:
Publication of Second Quarter 2006

November 28, 2006
Results:
Publication of Third Quarter 2006

February 28, 2007
Results:
Publication of Fourth Quarter and
Year-Ending December 31, 2006

ABBREVIATIONS

ATJL	Artumas Tanzania (Jersey) Ltd.
bcf	billion cubic feet
CDC	Community Development Centre
CNG	Compressed Natural Gas
CSR	Corporate Social Responsibility
EAIF	Emerging Africa Investment Fund
EIA	Environmental Impact Assessment
EIS	Environmental Impact Statement
ESMP	Environmental & Social Management Plan
FEED	Front End Engineering and Design
FMO	Netherlands Development Financial Institution
GAAP	Generally Accepted Accounting Principles
GFF	Gas Field Facility
GORR	Gross Overriding Royalty
GST	Goods and Services Tax
HSE	Health, Safety and Environment
IPO	Initial Public Offering
km^2	square kilometre
KPTL	Kalpataru Power Transmission Limited
kV	kilovolt
kWh	kilowatt-hour
LNG	Liquid Natural Gas
MD&A	Management Discussion and Analysis
MEM	Ministry of Energy and Minerals for the United Republic of Tanzania
MHI	Manitoba Hydro International
mmcf/d	million cubic feet per day
MTDC	Mtwara Transmission and Distribution Company
MW	mega watt
NGO	Non-Government Organizations
NOK	Norwegian Kroners
OSE	Oslo Stock Exchange
PPA	Power Purchase Agreement
PSA	Production Sharing Agreement
SDI	Sustainable Development Initiatives
tcf	trillion cubic feet
TCPL	TransCanada Pipelines
TDFA	Transmission and Distribution Franchise Agreement
TPDC	Tanzania Petroleum Development Corporation
VAT	Value Added Tax

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