



**CONSOLIDATED FINANCIAL STATEMENTS**

**Three months ended December 31, 2006 and 2005**

(Unaudited)

**JURA ENERGY CORPORATION**  
**Management's Discussion and Analysis**  
**For the Three Months Ended December 31, 2006**

This Management Discussion and Analysis ("MD&A") of financial conditions and results of operations is a review of the results of operations and the financial position of the Company as at December 31, 2006, and for the three month periods ended December 31, 2006 and 2005. This MD&A is dated February 7, 2007, and should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the same periods. This MD&A should also be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 2006.

Jura Energy Corporation's ("Jura" or the "Company") interim and annual consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada, and are reported in Canadian currency.

Jura is listed and traded on the Toronto Stock Exchange under the trading symbol **JEC**. Additional information relating to Jura Energy Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Overview**

Jura Energy Corporation is an international energy company engaged in the exploration, development and production of petroleum and natural gas properties. The Company's activities are conducted exclusively in Pakistan. The Company has ownership positions in exploration, appraisal and development concessions, and is presently engaged in obtaining and evaluating seismic and other data to identify drilling locations on these properties.

By agreement dated November 3, 2006, the Company, together with its in-country partner concluded the acquisition of the shares of a company whose primary assets consist of interests in producing natural gas properties. The Company's proportionate share of revenues and expenses related to these properties will be reflected in its Statement of Operations effective from January 3, 2007, the date of closing of the acquisition.

Until June 19, 2006 when it changed its name, the Company operated as Proprietary Industries Inc. and was engaged in various businesses and held a variety of investments, none of which were related to its present resource properties. These business activities have all been discontinued, and the Company's efforts are now focused exclusively on the international resource industry.

### **Overall performance**

During the most recently completed fiscal year ended September 30, 2006, the Company underwent a transformation to an international energy resource company with the acquisition of interests in a number of exploratory and appraisal licences and a development lease in Pakistan. On January 3, 2007, the Company concluded an agreement to acquire an interest in natural gas producing properties located in Pakistan.

The Company's activities in the interim financial period ended December 31, 2006 were focused primarily on the negotiation for the acquisition of petroleum and natural gas properties followed by further technical evaluations of properties acquired. As at December 31, 2006, the Company's petroleum and natural gas properties were in a preproduction stage, and as such, the Statement of Operations reflected only passive investment revenues earned from funds held on deposit. Expenses incurred were limited to general and administrative expenses related to the operations of the Canadian corporate office. There is no basis for comparison of the Statements of Operations for the two interim periods presented as the three month period ended December 31, 2005 reflects operations that have been discontinued.

The Company's operational efforts to date have focussed on the acquisition of and evaluation of petroleum and natural gas properties. The following summarizes acquisitions that have been completed to date:

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**a) Exploration and appraisal licences and development lease**

On June 2, 2006 the Company completed the acquisition of certain petroleum and gas interests in Pakistan, comprised of ownership interests ranging from 47.5% to 50% in six exploration licences and a 37.5% interest in a development and production lease for a natural gas field. The acquisition consideration paid was: (a) the issuance of 14,958,838 common shares of the Company valued at \$23,186,199; (b) the payment of \$16,112,200 (US\$14,000,000); (c) the granting of stock options pursuant to the Company's Stock Option Plan to purchase an aggregate of 4,300,000 common shares of the Company valued at \$3,929,220; and (d) the agreement by the Company to issue an additional 500,000 common shares of the Company for each 100 billion cubic feet of reserves of gas proven during the five years following June 2, 2006, up to a maximum of an additional 7,681,918 common shares of the Company (the "Additional Consideration"), to which no value has presently been attributed. The issuance of the Additional Consideration in common shares will be subject to regulatory approval at the time of the proposed issuance. If regulatory approval is not obtained, the Company would be required to pay an equivalent amount of cash, based upon the volume weighted average trading price of the common shares.

The six licences and one lease cover a total area of 1,287,548 acres, with four interests being located in the Central Gas Basin, two interests in the Lower Indus Gas and Oil Basin and one in the northern oil bearing Potwar Basin. The work program associated with these interests' calls for extensive seismic evaluation and the drilling of up to ten exploration wells and fourteen development wells over a period of approximately 36 months.

In January 2007, the Company and its in-country partner submitted a proposal to the relevant regulatory authority in Pakistan to refurbish an existing power station which would utilize as feedstock natural gas from the Kandra natural gas field - the Company's development lease located in the Central Gas basin. Further seismic evaluation followed by drilling up to fourteen development wells will take place over the next two years. The power station would provide electrical power to the Pakistan electricity grid, and as such would provide an effective end-use for the Company's natural gas from the Kandra field.

Further information on the Company's petroleum and gas properties acquired on June 2, 2006 is contained in the Company's September 30, 2006 Annual Information Form.

**b) Pyramid Energy International Inc.**

On November 3, 2006, the Company, together with Petroleum Exploration (Pvt.) Limited ("PEL"), signed a Share Purchase Agreement to acquire all of the issued and outstanding common, voting shares of Pyramid Energy International Inc. ("Pyramid"). Pursuant to the terms of the agreement, Jura will acquire 66.665% of the shares of Pyramid and PEL will acquire 33.335% of the Pyramid shares.

The conditions to which the agreement was subject have all been met, and the acquisition closed on January 3, 2007, with this being deemed the effective date of the acquisition for accounting purposes. Accordingly, the Company's Statement of Operations for the three months ended December 31, 2006 does not reflect Jura's proportionate share of any of Pyramid's revenues or expenses.

The cost to the Company for its interest in Pyramid amounts to \$6,685,035 with consideration consisting of a cash payment of \$5,452,465 (US\$4,695,543 converted to Canadian currency at 1.1612) and the issuance of 1,608,889 common shares valued at \$1,232,570. The valuation of the Company's common shares issued was based on the weighted average closing price of the Company's shares on the TSX for the four day trading period ended January 5, 2007.

Pyramid's only petroleum and natural gas property is a 15.7895% interest in a concession situated in the Central Gas Basin in Pakistan. The concession area currently has three natural gas wells on production, and includes additional acreage which is being evaluated by the Company's technical staff for further development. Commitments for two development wells within the next twelve months have been made, with a possible third development well to be subsequently drilled.

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**Results of Operations**

**Quarterly Comparative Statement of Operations**

	Three months ended December 31,		Quarter over
	2006	2005	Quarter Change
<b>Revenues</b>			
Investment	\$ 207,093	\$ 428,326	\$ (221,233)
Gain on revaluation of marketable securities	24,786	-	24,786
Gain on sale of assets	-	529,399	(529,399)
	<u>231,879</u>	<u>957,725</u>	<u>(725,846)</u>
<b>Expenses</b>			
Rental	-	4,371	4,371
General and administrative	698,147	1,700,365	1,002,218
Interest	-	404	404
Recoveries on settlement of notes payable	(369,624)	-	369,624
Depletion, depreciation and amortization	427	2,706	2,279
	<u>328,950</u>	<u>1,707,846</u>	<u>1,378,896</u>
<b>Net loss for the period</b>	<u>\$ (97,071)</u>	<u>\$ (750,121)</u>	<u>\$ 653,050</u>

The first quarter of fiscal 2007 reflects a period where the Company's efforts have been focused on technical evaluations of the exploratory and appraisal licences and the development lease acquired in June 2006, and with negotiations to acquire Pyramid Energy International Inc. Accordingly, the Company's Statement of Operations for the current quarter reflects only passive revenues earned from the Company's investments of un-deployed cash reserves in short-term deposits, and expenses related to general corporate functions. There is no basis for comparison of the Statements of Operations for the two interim periods presented as the three month period ended December 31, 2005 reflects operations that have been discontinued.

**Summary of Selected Quarterly Information**

(\$ thousands, except per share amounts - unaudited)

	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$ 231.9	\$ 880.3	\$ 204.9	\$ 556.0	\$ 957.7	\$ 3,810.4	\$ 733.7	\$ 381.0
Expenses	\$ 328.9	\$ 1,027.1	\$ 1,523.9	\$ 1,457.0	\$ 1,707.8	\$ 1,109.0	\$ 1,673.3	\$ 1,820.7
Net earnings (loss)	\$ (97.1)	\$ 831.6	\$ (1,319.0)	\$ (901.0)	\$ (750.1)	\$ 2,701.4	\$ (1,379.0)	\$ (1,440.7)
- per share	\$ -	\$ 0.01	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ 0.05	\$ (0.02)	\$ (0.02)

The above summary of selected information for the current and previous seven quarters reflects the results of the Company's previous operating activities throughout fiscal 2005 and 2006, all of which have been discontinued.

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**Liquidity and capital resources**

The Company presently anticipates expending approximately \$67.4 million for its proportionate share of exploration and development activities, including seismic evaluation and drilling of up to ten exploration wells and up to seventeen development wells over the next two fiscal years. The amount of actual expenditures incurred, together with their timing, will be dependent on the outcome of ongoing technical evaluations, and accordingly may change from the preliminary indications indicated herein.

The Company has submitted a proposal to participate in the development and upgrading of a power generation plant located on the Kandra development lease, with preliminary estimates anticipating that the Company's share of capital expenditures will amount to \$61.2 million.

In order to meet the financial commitments required for planned expenditures on petroleum and natural gas properties, and the proposed power generation plant project, the Company will require funds over and above its existing working capital of \$17.4 million, and funds that will be generated from operations. It is presently anticipated that additional funds of approximately \$111.0 million will be required, with \$37.0 million to \$49.0 million expected to be raised through debt financing secured by the power generation plant and the remaining \$62.0 million to \$74.0 million to be raised through the issuance of additional equity.

The Company has not yet concluded any agreements to raise the additional capital funding referred to above, and failure to do so in a timely manner will result in the potential relinquishment of the Company's interests in its concession grants. Factors that could affect the Company's ability to attract equity and debt funding would include economic downturns affecting capital markets in North America and Europe and the possibility of political instability within Pakistan and its surrounding neighbours.

*Summary of payments due by period:*

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Contractual obligations					
Operating leases - office space	\$ 315,060	\$ 202,162	\$ 112,898	\$ -	\$ -
Exploration and development expenditure commitments made pursuant to the granting of exploration and appraisal licences and development lease agreements	3,597,000	1,216,000	2,381,000	-	-
Exploration and development expenditures presently planned, but for which contractual commitments have not yet been	63,796,000	16,536,000	28,900,000	18,360,000	-
Power generation plant expenditures presently planned, but for which contractual commitments have not yet been made.	61,200,000	-	43,714,000	17,486,000	
	<u>\$128,908,060</u>	<u>\$17,954,162</u>	<u>\$75,107,898</u>	<u>\$35,846,000</u>	<u>\$ -</u>

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**Related party transactions**

For the three months ended December 31, 2006 the Company expensed \$32,710 (2005 - \$289,482) for directors fees and other services. Included in this figure is \$5,710 (2005 - \$95,857) relating to the imputed fair value of compensation expense for stock options. At December 31, 2006 \$nil (September 30, 2006 - \$20,000) was due to these directors and included in accounts payable and accrued liabilities on the consolidated balance sheet.

For the three months ended December 31, 2006, the Company charged \$12,000 (2005 - \$31,995) for administrative and other services provided to a former subsidiary company for which certain directors and officers are also Directors and Officers of the Company.

A company related to the Company through a common Director provides loan syndication services for which it earns fees and other charges from borrowers. For the three months ended December 31, 2006, the Company paid \$nil (2005 - \$8,181) in fees and other charges pertaining to loans provided by the related company.

In connection with its Pakistan operations, the Company shares certain office facilities, personnel, and other overheads with a company for which certain officers and a director are also officers and a Director of the Company. For the three months ended December 31, 2006, the Company's shared costs and advances received from the related company amounted to \$6,531 (US\$5,604) (2005 - \$nil). The advances were non-interest bearing and have been repaid.

**Proposed transactions**

**Pyramid Selected Financial Information**

As previously outlined, the Company concluded agreements to acquire 66.665% of the issued and outstanding shares of Pyramid. The effective date of the acquisition of Pyramid is deemed for accounting purposes to be the closing date, January 3, 2007, and as such the Company's Statement of Operations for the three months ended December 31, 2006 does not reflect any of Pyramid's revenues or expenses.

The items contained within the following table are extracted from Pyramid's most recently completed financial statements for the fiscal year ended June 30, 2006, and thus do not reflect the potential results from drilling two, and possibly three development wells in 2007. The Company will record its proportionate share of Pyramid's revenues, expenses and cash flows from the date of closing, January 3, 2007.

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	Actual Year ended June 30, 2006 (unaudited)
Petroleum and natural gas sales	\$ 2,453,681
Less:	
Federal sales tax	330,079
Royalty	240,594
	1,883,008
 Expenses	
Production	350,350
General and administrative	375,123
Depletion, depreciation and amortization	270,471
	995,944
 Net earnings	\$ 887,064
 Cash flow from operations	\$ 1,157,535

**Critical accounting estimates**

The Company's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles. In so doing, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the measurement and disclosure of contingent assets and liabilities at the date of the financial statements together with the reported amounts of revenues and expenses for the reporting periods then ended. Actual results could differ from these estimates. Estimates and judgements used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared. Predicting the outcome of future events cannot be done with certainty however, and therefore estimates used may change as new events occur, additional experience is acquired or the Company's operating environment changes. The critical accounting estimates used in the preparation of the Company's interim consolidated financial statements at December 31, 2006 remain unchanged from those used in the preparation of the Company's audited consolidated financial statements for the year ended September 30, 2006.

The Company considers the following accounting estimates to be critical given the uncertainties that exist at the time the interim consolidated financial statements are prepared:

**a) *Litigation***

The Company is involved in a number of lawsuits – both as plaintiff and as defendant – that relate to its former business activities as a merchant bank. Three unresolved legal actions are disclosed in the Company's interim financial statements at December 31, 2006. Two of the actions are claims against the Company for which the total liability would be \$3.46 million in the event of judgements unfavourable to the Company; the Company's financial statements at December 31, 2006 reflect a liability (Note Payable) in the amount of \$0.65 million related to one of the claims notwithstanding that the Company believes it has valid legal defences against the

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claims made against it in respect of these actions. Until these legal matters are resolved however, the final amount of the potential liabilities is not determinable. The Company has also initiated a legal action against its former auditors, for which no amount receivable has been recorded. The Company will not record a receivable or recovery in respect of this action until final resolution has been achieved.

**b) Asset retirement obligations**

The Company completed a significant acquisition of petroleum and natural gas properties in the fiscal year just completed, and is currently evaluating the properties acquired for future locations to drill exploration and development wells; all of the Company's properties as at December 31, 2006 are considered to be in the preproduction stage. Under the Company's full cost accounting policy, such properties would typically have capitalized as a component of their total costs, an amount to represent future abandonment and reclamation costs. The Company is in the early stages of evaluating these petroleum and natural gas properties, and is not yet able to determine with reasonable assurance an estimate of future abandonment and/or reclamation costs.

**Changes in accounting policies**

The accounting policies utilized in the preparation of the Company's December 31, 2006 interim consolidated financial statements are unchanged from those disclosed in Note 2 to the audited consolidated financial statements for the year ended September 30, 2006 except that the Company has, effective October 1, 2006, prospectively adopted the policy of recognizing financial instruments at their fair value, and recognizing changes in fair value as gains or losses in the periods in which they arise.

**Financial instruments**

The Company's interim consolidated financial statements reflect a number of financial instruments, including cash and short-term deposits, accounts receivable, marketable securities, prepaid expenses and deposits, accounts payable and accrued liabilities and notes payable. In conformance with the Company's newly adopted accounting policy regarding the recognition and measurement of financial instruments, all of these aforementioned assets and liabilities are recorded at their fair value.

**a) Interest rate risk**

The Company maintains its short-term deposits in instruments that are redeemable after 30 days without penalty, thereby reducing its exposure to interest rate fluctuations thereon. Other interest rate risks on the Company's obligations are not considered material.

**b) Credit risk**

The Company's accounts receivable will be primarily from joint venture partners, government agencies and customers operating within the international petroleum and natural gas industry, and are subject to credit and political risks that would be considered normal in this environment. Amounts receivable remaining from the Company's former business activities are carried at their estimated realizable value.

**c) Foreign currency exchange risk**

The Company is exposed to risks arising from fluctuations in currency exchange rates between Canadian dollars, United States dollars and Pakistan rupees. At December 31, 2006 the Company's primary exposures relate to U.S. dollars held on deposit for the Government of Pakistan and for deposits and advances related to expenditures on petroleum and natural gas properties.

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**Outstanding share data**

**a) Authorized**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series with the Board of Directors authorized to fix the number of shares in each series together with the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

**(b) Issued**

Common shares issued:

	Number of shares		Stated value
Balance, September 30, 2005	59,835,356	\$	142,319,358
Issuance of shares upon acquisition of petroleum and natural gas properties	14,958,838		23,186,199
Private placement, net of costs of issuance	15,000,000		13,379,001
Balance, September 30, 2006	89,794,194		178,884,558
Share issuance costs	-		(919)
Balance, December 31, 2006	89,794,194	\$	178,883,639

Pursuant to the acquisition of petroleum and natural gas properties in June 2006, the Company agreed to issue an additional 500,000 of its common shares for each 100 billion cubic feet of reserves of natural gas proven for these properties during the five years following June 2, 2006, to a maximum of an additional 7,681,918 common shares. The issuance of the Additional Consideration in common shares will be subject to regulatory approval at the time of the proposed issuance. If regulatory approval is not obtained, the Company would be required to pay an equivalent amount of cash, based upon the volume weighted average trading price of the common shares in lieu thereof.

**(c) Stock Options**

The Company's Stock Option Plan permits the Company to grant options to its directors, officers, and employees to a maximum of 5,983,534 common shares. The granting of options, exercise price, vesting, and terms of the option agreement are determined by the Board of Directors. The exercise price cannot be at a discount to the market price of the common shares on the last day preceding the grant of the option.

The Company's shareholders will be asked to approve an amended and restated stock option plan at the next Annual General Meeting of shareholders. Amendments to the stock option plan are being made to reflect the current requirements of the Toronto Stock Exchange regarding security based compensation arrangements, and include:

- Revising the limit on the aggregate number of shares that can be issued under the stock option plan to 10% of the Commons Shares outstanding from time to time, and
- The exercise price for options issued under the plan will be set by the Board of Directors, and cannot be less than the market price of the shares at the time of the grant calculated in accordance with the Toronto Stock Exchange's rules.

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Share purchase options outstanding are as follows:

	Number	Option price per share
Balance outstanding, September 30, 2006	5,920,000	1.31 <sup>(1)</sup>
Granted on December 13, 2006, and subject to approval of an amended and restated stock option plan by shareholders to be sought on March 14, 2007.	<u>2,140,000</u>	\$1.00
Provisional balance outstanding, December 31, 2006	<u>8,060,000</u>	

(1) *weighted average*

**(d) Common Share Purchase Warrants**

Share purchase warrants outstanding are as follows:

	Number	Exercise price per share
Exercisable for one year from August 9, 2006, subject to acceleration of the expiry date in the event that the Company's common shares trade at \$2.50 per share or higher for 20 consecutive days after December 9, 2006.	15,000,000	\$1.50
Exercisable for two years from August 9, 2006	<u>900,000</u>	\$1.00
Balance outstanding, December 31, 2006 and September 30, 2006	<u>15,900,000</u>	

**Forward Looking Statements**

This MD&A may contain forward looking statements and information. Forward looking statements are statements that are not historical fact and are generally identified by words such as "believe", "expect", "project", "could", "anticipate", "intend", "plan", "likely", "will" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict and are usually beyond the control of management, which could cause actual results to be materially different from those expressed by these forward looking statements and information.

Risks and uncertainties include, but are not limited to, risk with respect to:

- general economic, business and political conditions;
- the petroleum and natural gas industry, such as operational risks in exploring for, developing and producing crude petroleum and natural gas, and market demand for petroleum and natural gas;
- geology of petroleum and natural gas deposits;
- uncertainty of reserves estimates, reserves life, and estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- health, safety, environmental;
- property values;

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- foreign regulations and taxes;
- civil unrest or military action;
- acts of, or actions against, international terrorism;
- corporate restructuring and related costs;
- capital and operating expenses;
- pricing and availability of capital and financing; and
- foreign currency exchange rate fluctuations and currency exchange controls.

Readers are cautioned not to place undue reliance on these forward looking statements and information. The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

**Disclosure Controls and Procedures, and Internal Controls over Financial Reporting**

There have been no changes to the Company's system of internal controls over financial reporting for the most recently completed interim period from those that existed at the end of the most recently completed fiscal year end. The evaluations of and conclusions reached with respect to the design of the Company's system of disclosure controls and procedures, and the design of the system of internal controls over financial reporting contained in the Company's September 30, 2006 Management's Discussion and Analysis for the year ended September 30, 2006 remains unchanged as at December 31, 2006.

**Approval**

The Company's Board of Directors has approved the disclosure contained within this MD&A. A copy of the MD&A is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Jura Energy Corporation**  
**Consolidated Balance Sheets**  
(unaudited)

	December 31, 2006	September 30, 2006
<b>Assets</b>		
Current		
Cash and short-term deposits	\$ 19,501,619	\$ 21,591,496
Accounts receivable	200,619	364,664
Marketable securities, at fair value (September 30, 2006: at cost; note 2e)	58,687	33,901
Prepaid expenses and deposits	248,214	354,683
	20,009,139	22,344,744
Other assets (note 3)	4,096,944	3,949,721
Property and equipment (note 4)	47,009,443	45,449,458
	\$ 71,115,526	\$ 71,743,923
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,986,270	\$ 2,309,461
Notes payable (note 5)	650,000	863,426
	2,636,270	3,172,887
Minority interest in subsidiaries	833,298	833,298
	3,469,568	4,006,185
<b>Shareholders' Equity</b>		
Share capital (note 6)	178,883,639	178,884,558
Contributed surplus (note 7)	20,176,979	20,170,769
Deficit	(131,414,660)	(131,317,589)
	67,645,958	67,737,738
	\$ 71,115,526	\$ 71,743,923

Approved on behalf of the Board of Directors:

\_\_\_\_\_, "A. Murray Sinclair", Director

\_\_\_\_\_, "Stephen C. Akerfeldt", Director

**Jura Energy Corporation**  
**Consolidated Statements of Operations and Deficit**  
(unaudited)

	Three months ended December 31,	
	2006	2005
Revenue		
Investment	\$ 207,093	\$ 428,326
Unrealized gain on revaluation of marketable securities (note 2e)	24,786	-
Gain on sale of assets	-	529,399
	231,879	957,725
Expenses		
Rental	-	4,371
General and administrative	698,147	1,700,365
Interest	-	404
Recoveries on settlement of amounts payable	(369,624)	-
Depletion, depreciation and amortization	427	2,706
	328,950	1,707,846
Net loss for the period	(97,071)	(750,121)
Deficit, beginning of period	(131,317,589)	(129,179,141)
Deficit, end of period	\$ (131,414,660)	\$ (129,929,262)
Loss per share - basic and diluted	\$ (0.001)	\$ (0.030)

**Jura Energy Corporation**  
**Consolidated Statements of Cash Flows**  
(unaudited)

	Three months ended December 31,	
	2006	2005
Operating activities		
Net loss	\$ (97,071)	\$ (750,121)
Items not involving cash:		
Depletion, depreciation and amortization	427	2,706
Gain on sale of assets	-	(529,399)
Unrealized gain on revaluation of marketable securities (note 2e)	(24,786)	-
Foreign exchange differences	28,451	(41,080)
Recoveries on settlement of amounts payable	(369,624)	-
Stock based compensation	6,210	43,614
Funds used in operations	(456,393)	(1,274,280)
Changes in other current assets and liabilities:		
Accounts receivable	164,045	1,842,508
Prepaid expenses and deposits	106,469	(22,802)
Loans and notes receivable	-	(25,375)
Restricted cash, net	-	(128,325)
Accounts payable and accrued liabilities	241,175	555,855
Income taxes payable	-	(105,992)
Deferred revenue	-	(129,043)
	55,296	712,546
Financing activities		
Common share issuance cost	(919)	-
Investing activities		
Proceeds on sale on investments, net	-	177,602
Loans receivable repayments, net of advances	-	220,325
Proceeds on sale of land	-	493,942
Property and equipment	(1,560,412)	-
Change in accounts payable related to capital expenditures	(408,168)	-
	(1,968,580)	891,869
Effect of exchange rate changes on cash	(175,674)	16,830
Change in cash and short-term deposits	(2,089,877)	1,621,245
Cash and short-term deposits, beginning of year	21,591,496	13,979,830
Cash and short-term deposits, end of period	\$ 19,501,619	\$ 15,601,075
<b>Supplemental cash flow information</b>		
Interest paid	\$ -	\$ 24,504
Income tax paid	\$ -	\$ 81,892

**Jura Energy Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**  
**(Unaudited)**

**1. Basis of preparation**

Jura Energy Corporation is an energy exploration, development and production company with active operations focused in Pakistan. The Company's unaudited, interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and are presented in Canadian currency.

These interim consolidated financial statements are prepared on the same basis as, and should be read in conjunction with the Company's annual consolidated financial statements as at, and for the year ended September 30, 2006. The disclosures provided in these interim consolidated financial statements are incremental to those included in the annual consolidated financial statements, and certain disclosures typically included in annual consolidated financial statements have been summarized or omitted from these interim consolidated financial statements.

Until June 19, 2006, the Company was named Proprietary Industries Inc. and operated as a merchant bank with investments in a number of business activities all of which have been discontinued in order to pursue the mandate described above.

Jura Energy Corporation is listed on the Toronto Stock Exchange and trades under the symbol "JEC".

**2. Summary of significant accounting policies**

**(a) Property and equipment**

The Company follows the full cost method of accounting for its resource activities, and accordingly all costs related to the exploration for and development of petroleum and natural gas reserves are presently accumulated in one cost centre for Pakistan. Capitalized costs include: concession, land and lease acquisition costs, geological and geophysical expenditures, the carrying costs associated with undeveloped and non-producing properties, drilling and completion costs of productive and non-productive properties, and related production, gathering and plant equipment costs. A portion of overhead charges directly related to acquisition, exploration and development activities are capitalized. Proceeds received from the disposition of properties are normally credited to the cost centre without recognition of a gain or loss unless such treatment would result in a change of 20% or more to the depletion rate.

The Company performs a cost recovery test at least annually to evaluate and if appropriate, recognize impairment when the carrying value of property and equipment exceeds the undiscounted future cash flows from proven reserves using estimated future commodity prices. The amount of any impairment to be recognized is determined as the excess of the carrying value over fair value. Fair value is determined using proven and probable reserves together with undeveloped land, and is based on the present value of expected future cash flows discounted at a risk-free rate of interest.

**(b) Depletion and depreciation**

Depletion and depreciation of petroleum and natural gas properties and equipment will be provided once commercial production is attained using the unit-of-production method and proved reserves. Expenditures on undeveloped properties are excluded from the depletion provision until related reserves are proven, or impairment is recognized. Volumes are converted to equivalent units on the basis that one barrel of oil is equivalent to six mcf of natural gas.

**(c) Asset retirement obligations**

The Company is in the early stages of evaluating its petroleum and natural gas properties, and as such has not yet determined the present value of future abandonment and reclamation costs that may be incurred.

**(d) Joint ventures**

The Company conducts all of its exploration, development and production activities with partners, and accordingly these consolidated financial statements reflect only the Company's proportionate interest in such activities.

**(e) Financial instruments—recognition and measurement**

The Company measures financial instruments at their fair value and recognizes changes in fair value as gains or losses in the periods in which they arise. The Company's marketable securities are designated as held for trading, and accordingly unrealized gains or losses related thereto are reflected in the statement of operations. This is a change in accounting policy and is being adopted prospectively effective as of October 1, 2006. Previously, the Company carried such investments at cost.

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**2. Summary of significant accounting policies (continued)**

**(f) Comparative amounts**

Certain comparative amounts have been reclassified to conform to the current period's presentation.

**3. Other assets**

	<u>December 31, 2006</u>	<u>September 30, 2006</u>
Restricted cash (not available for general corporate purposes)		
(a) Provided as security for bank guarantees to the Government of Pakistan for exploration and development expenditure commitments made pursuant to the granting of petroleum exploration licences	\$ 3,596,944	\$ 3,449,721
(b) Held pursuant to a trust agreement for Company indemnities provided to certain present and past directors and officers (see Note 10 (d)).	500,000	500,000
	\$ 4,096,944	\$ 3,949,721

**4. Property and equipment**

	<u>December 31, 2006</u>	<u>September 30, 2006</u>
Petroleum and natural gas properties	\$ 46,870,293	\$ 45,313,221
Office and computer equipment	328,711	325,370
Leasehold improvements	327,232	327,232
	47,526,236	45,965,823
Accumulated depletion, depreciation and amortization	(516,793)	(516,365)
	\$ 47,009,443	\$ 45,449,458

No depletion expense has been provided to December 31, 2006 or September 30, 2006 as the Company's petroleum and natural gas properties have not yet attained commercial production.

Included in petroleum and natural gas properties are deposits in the amount of \$686,650 made to the vendors of the shares of Pyramid Energy International Inc.—a company whose primary assets are petroleum and natural gas properties (see Note 12).

Included in petroleum and natural gas property expenditures for the three month period ended December 31, 2006 are capitalized general and administrative costs in the amount of \$333,967 (Year ended September 30, 2006: \$577,254).

**5. Notes payable**

	<u>December 31, 2006</u>	<u>September 30, 2006</u>
Note payable, unsecured. (see Note 10(a))	\$ 650,000	\$ 650,000
Sundry	-	213,426
	\$ 650,000	\$ 863,426

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**6. Share capital**

**(a) Authorized**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series with the Board of Directors authorized to fix the number of shares in each series together with the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

**(b) Issued**

Common shares issued:

	Number of shares		Stated value
Balance, September 30, 2005	59,835,356	\$	142,319,358
Issuance of shares upon acquisition of petroleum and natural gas properties	14,958,838		23,186,199
Private placement, net of costs of issuance	15,000,000		13,379,001
Balance, September 30, 2006	89,794,194		178,884,558
Share issuance costs	-		(919)
Balance, December 31 and September 30, 2006	89,794,194	\$	178,883,639

Pursuant to the acquisition of petroleum and natural gas properties in June 2006, the Company agreed to issue an additional 500,000 of its common shares for each 100 billion cubic feet of reserves of natural gas proven for these properties during the five years following June 2, 2006, to a maximum of an additional 7,681,918 common shares. The issuance of these additional common shares will be subject to regulatory approval. If regulatory approval is not obtained, the Company will pay an equivalent amount in cash, based upon the volume weighted average trading price of the common shares in lieu thereof.

**(c) Stock Options**

The Company's Stock Option Plan permits the Company to grant options to its directors, officers, and employees to a maximum of 5,983,534 common shares. The granting of options, exercise price, vesting, and terms of the option agreement are determined by the Board of Directors. The exercise price cannot be at a discount to the market price of the common shares on the last day preceding the grant of the option.

The Company's shareholders will be asked to approve an amended and restated stock option plan at the next Annual General Meeting of shareholders. Amendments to the stock option plan are being made to reflect the current requirements of the Toronto Stock Exchange regarding security based compensation arrangements, and include:

- Revising the limit on the aggregate number of shares to be issued under the stock option plan to 10% of the Commons Shares outstanding from time to time, and
- The exercise price for options issued under the plan will be set by the Board of Directors, and cannot be less than the market price of the shares at the time of the grant calculated in accordance with the Toronto Stock Exchange's rules.

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**6. Share Capital (continued)**

**(c) Stock Options (continued)**

Share purchase options outstanding are as follows:

	Number	Option price per share <sup>(1)</sup>
Balance outstanding, September 30, 2006	5,920,000	\$1.31
Granted on December 13, 2006, and subject to approval of an amended and restated stock option plan by shareholders to be sought on March 14, 2007.	<u>2,140,000</u>	\$1.00
Provisional balance outstanding, December 31, 2006	<u>8,060,000</u>	

(1) *weighted average*

**(d) Common Share Purchase Warrants**

Share purchase warrants outstanding are as follows:

	Number	Exercise price per share
Exercisable for one year from August 9, 2006, subject to acceleration of the expiry date in the event that the Company's common shares trade at \$2.50 per share or higher for 20 consecutive days after December 9, 2006.	15,000,000	\$1.50
Exercisable for two years from August 9, 2006	<u>900,000</u>	\$1.00
Balance outstanding, December 31, 2006 and September 30, 2006	<u>15,900,000</u>	

**7. Contributed surplus**

	December 31, 2006	September 30, 2006
Balance, beginning of year	\$ 20,170,769	\$ 15,724,319
Stock based compensation, share purchase options	6,210	4,012,878
Broker warrants	<u>-</u>	<u>433,572</u>
Balance, end of period	<u>\$ 20,176,979</u>	<u>\$ 20,170,769</u>

**8. Commitments**

The Company has leased office space in Calgary, Alberta with an expiry date of July 31, 2008. The lease agreement contains an early termination clause stating that after July 31, 2007 either the landlord or the Company can cancel the lease upon ninety days prior written notice. The estimated cost remaining under the lease obligation reflected in the commitment table below assumes no early termination.

The Company has leased office space in Islamabad, Pakistan for a two year term expiring on June 14, 2008. The lease agreement contains an early termination clause stating that either the landlord or the Company can cancel the lease upon sixty days prior written notice. The estimated cost remaining under the lease obligation reflected in the commitment table below assumes no early termination.

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**8. Commitments (continued)**

A summary of the Company's above commitments for the next five calendar years:

		<u>Leased Premises</u>
2007	\$	202,162
2008		112,898
thereafter		<u>-</u>
	\$	<u><u>315,060</u></u>

At present, the Company's formal commitments amount to \$3.6 million (US\$3.1 million) for exploration and development commitments made pursuant to the granting of petroleum exploration licences by the Government of Pakistan. The Company has pledged this amount in cash as security against the guarantee (see Note 3 (a)).

**9. Financial instruments**

**Financial risk management**

The Company as part of its operations carries a number of financial instruments including cash and short-term deposits, accounts receivable, prepaid expenses and deposits, marketable securities, accounts payable and accrued liabilities and notes payable. The Company is exposed to the following risks related to financial assets and liabilities:

**(a) Interest rate risk**

The Company maintains its short-term deposits in instruments that are redeemable after 30 days without penalty, thereby reducing its exposure to interest rate fluctuations thereon. Other interest rate risks on the Company's obligations are not considered material.

**(b) Credit risk**

The Company's accounts receivable will be primarily from joint venture partners, government agencies and customers operating within the international petroleum and natural gas industry, and are subject to credit and political risks that would be considered normal in this environment.

**(c) Foreign currency exchange risk**

The Company is exposed to risks arising from fluctuations in currency exchange rates between Canadian dollars, United States dollars and Pakistani rupees. At December 31, 2006 the Company's primary exposures relate to U.S. dollars held on deposit for the Government of Pakistan and for deposits and advances related to expenditures on petroleum and natural gas properties.

**(d) Fair Value**

The recorded value of the majority of the Company's financial assets and liabilities approximate their fair values due to their demand nature, or because of their relatively short term to maturity.

**10. Litigation and contingencies**

The Company is involved in a number of lawsuits that remain outstanding from its former business activities as a merchant bank—as plaintiff in some cases and as defendant in others. The Company assesses each lawsuit on an action by action basis as to the probability that a claim will be successful. Claims are not reflected as an asset or liability, or as an expense or recovery in the consolidated financial statements until such time as there is a high degree of probability that the claim will be successful, taking into consideration all avenues of appeal and settlement.

Detailed information for each legal action is presented in the Company's annual consolidated financial statements for the year ended September 30, 2006; summary information for certain legal claims is as follows:

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**10. Litigation and contingencies (continued)**

**Litigation**

**(a) Hotel property foreclosure**

A Company subsidiary was sued by the first mortgage holder on a hotel property to recover \$2,814,969, being the claimed shortfall between the net proceeds from the judicial sale of the foreclosed property and the outstanding debt secured by the property plus additional interest and costs from the defendants. The Company believes it has valid defenses to this claim.

The former unit-holders and shareholders of the subsidiary commenced an action against the Company for non-performance on a \$650,000 note payable due in respect of the acquisition of the subsidiary. The Company believes it has valid defenses to this claim, however the principal amount of the obligation is still recorded as a note payable (see Note 5).

**(b) Former auditors**

The Company brought an action in September 2003 against the former auditors of the Company, alleging breach of contract, negligence, and breach of statutory duty in the performance of its audit of the Company's financial statements for the fiscal years 1998 to 2001, inclusive. The Company intends to vigorously pursue this claim.

**(c) Other**

Various other legal actions remain unresolved however the outcome of the actions is considered unlikely to have any material effect on amounts presently recorded in the Company's financial statements.

**Contingency**

**(d) Directors and officers contingency**

The Company has provided indemnity agreements to certain present and former officers and directors, and to its directors, officers and employees pursuant to the Company's by-laws and the *Canada Business Corporations Act*. In furtherance of the Company's indemnification to certain present and former directors and officers against claims and liabilities that may arise as a result of their association with the Company, the Company has placed \$500,000 in trust, and reflects these funds as restricted cash deposits in the consolidated balance sheet (see Note 3(b)).

**11. Related party transactions**

- a) For the three months ended December 31, 2006 the Company expensed \$32,710 (2005 - \$289,482) for Directors fees and other services. Included in this figure is \$5,710 (2005 - \$95,857) relating to the imputed fair value of compensation expense for stock options. At December 31, 2006, \$12,000 (September 30, 2006 - \$20,000) was due to these Directors and included in accounts payable and accrued liabilities on the consolidated balance sheet.
- b) For the three months ended December 31, 2006, the Company charged \$nil (2005 - \$31,995) for administrative and other services provided to a former subsidiary company for which certain directors and officers are also Directors and Officers of the Company.
- c) A company related to the company through a common Director provides loan syndication services for which it earns fees and other charges from borrowers. For the three months ended December 31, 2006, the Company paid \$nil (2005 - \$8,181) in fees and other charges pertaining to loans provided by the related company.
- d) In connection with its Pakistan operations, the Company shares certain office facilities, personnel, and other overheads with a company for which certain officers and a director are also Officers and a Director of the Company. For the three months ended December 31, 2006, the Company's shared costs and advances received from the related company amounted to \$6,531 (2005 - \$nil). The advances were non-interest bearing and have been repaid.

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**12. Subsequent event**

**Purchase of Pyramid Energy International Inc.**

On November 3, 2006, the Company, together with Petroleum Exploration (Pvt.) Limited ("PEL"), signed a Share Purchase Agreement to acquire all of the issued and outstanding common, voting shares of Pyramid Energy International Inc. ("Pyramid"). Pursuant to the terms of the agreement, Jura will acquire 66.665% of the shares of Pyramid and PEL will acquire 33.335% of the Pyramid shares.

Pyramid's only petroleum and natural gas property is a 15.7895% interest in a concession situated in the Central Gas Basin in Pakistan. The concession area currently has natural gas wells on production, and includes additional acreage which is being evaluated for further development.

The conditions to which the agreement was subject have all been met, and the acquisition closed on January 3, 2007, with this being deemed the effective date of the acquisition for accounting purposes. Accordingly, the Company's Statement of Operations for the three months ended December 31, 2006 does not reflect Jura's proportionate share of any of Pyramid's revenues or expenses.

The cost to the Company for its interest in Pyramid amounts to \$6,685,035 with consideration consisting of a cash payment of \$5,452,465 (US\$4,695,543 converted to Canadian currency at 1.1612) and the issuance of 1,608,889 common shares valued at \$1,232,570. The valuation of the Company's common shares issued was based on the weighted average closing price of the Company's shares on the TSX for the four day period ended January 5, 2007.

A summary balance sheet showing the allocation of the purchase consideration is as follows:

Current assets			
Cash	\$		228,879
Accounts receivable			356,452
Petroleum and natural gas properties			9,581,387
Current liabilities			
Accounts payable and accrued liabilities			(41,305)
Due to (former) shareholders			(94,163)
Future income tax liability			(2,577,000)
Minority interest			(769,215)
	\$		6,685,035

In connection with this proposed purchase, the Company has agreed to lend \$3,368,785 (US\$2,901,124 converted to Canadian currency at 1.1612) to PEL, representing PEL's purchase consideration for its interest in Pyramid. This loan will be secured by the shares PEL holds in Pyramid and a promissory note from PEL, and will bear interest at LIBOR plus 1.5%. The loan will be repaid by set-off against anticipated capital amounts payable to PEL (as operator) relating to the Company's other Pakistan petroleum and natural gas interests.

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**13. Segmented information**

The Company has two reportable business segments, being its (a) oil and gas operations carried out in Pakistan, and (b) its remaining merchant bank operations, carried out in Canada and the United States.

	December 31, 2006			
	Canada	USA	Pakistan	Consolidated
Total revenues	\$ 230,179	\$ 1,700	\$ -	\$ 231,879
Expenses				
General and administrative	698,147	-	-	698,147
Recoveries	-	(369,624)	-	(369,624)
Depreciation	427	-	-	427
Net loss for the period	<u>\$ (468,395)</u>	<u>\$ 371,324</u>	<u>\$ -</u>	<u>\$ (97,071)</u>
Total assets, by segment	\$ 20,668,614	\$ 347,825	\$ 50,074,301	\$ 71,090,740
Petroleum and natural gas properties, by segment	\$ -	\$ -	\$ 46,870,293	\$ 46,870,293
	December 31, 2005			
	Canada	USA	Pakistan	Consolidated
Total revenues	\$ 462,593	\$ 495,132	\$ -	\$ 957,725
Expenses				
Rental	4,371	-	-	4,371
General and administrative	859,543	841,226	-	1,700,769
Depreciation	2,706	-	-	2,706
Net loss for the period	<u>\$ (404,027)</u>	<u>\$ (346,094)</u>	<u>\$ -</u>	<u>\$ (750,121)</u>
Total assets, by segment	\$ 32,581,212	\$ 362,151	\$ -	\$ 32,943,363
Petroleum and natural gas properties, by segment	\$ -	\$ -	\$ -	\$ -

## Corporate Information

### Directors

**Stephen C. Akerfeldt**  
Chairman  
Toronto, Ontario

**Robert D. Cudney**  
Toronto, Ontario

**Frank L. Davis**  
Toronto, Ontario

**Graham S. Garner**  
Calgary, Alberta

**Nigel R. McCue**  
Dubai, United Arab Emirates

**A. Murray Sinclair**  
Vancouver, British Columbia

### Officers

**Nigel R. McCue**  
President & Chief Executive Officer  
Dubai, United Arab Emirates

**Graham S. Garner**  
Executive Vice President  
Calgary, Alberta

**Paul H. Rose**  
Vice President Finance &  
Chief Financial Officer  
Calgary, Alberta

**Michael D. Noble**  
Vice President Exploration  
Dubai, United Arab Emirates

**Shirley J. Farr**  
Corporate Secretary  
Calgary, Alberta

### Banker

HSBC  
407 – 8<sup>th</sup> Avenue SW  
Calgary Alberta

### Legal Counsel

Stikeman Elliott LLP  
5300 Commerce Court West  
199 Bay Street  
Toronto, Ontario

### Auditors

PricewaterhouseCoopers LLP  
Suite 3100  
111 – 5<sup>th</sup> Avenue SW  
Calgary, Alberta

### Transfer Agent

Computershare Trust Company of Canada  
Suite 600  
530 – 8<sup>th</sup> Avenue SW  
Calgary, Alberta

### Stock Exchange Listing

The Toronto Stock Exchange  
Trading Symbol: **JEC**

### Investor Relations

Graham S. Garner  
Executive Vice President

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