

ENERNORTH INDUSTRIES INC  
Form 6-K  
February 14, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE  
SECURITIES EXCHANGE ACT OF 1934

For the month of February 2007

Commission File Number 0-29586

*ENERNORTH INDUSTRIES INC.*

1 King Street West, Suite 1502, Toronto, Ontario, M5H 1A1, Canada  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes  No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)

Yes  No

**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3- 2(b):

82- \_\_\_\_\_ -

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

*ENERNORTH INDUSTRIES INC.*

Date: February 14, 2006

Sandra J. Hall,

President, Secretary & Director

By:           "Sandra J. Hall"

*EnerNorth Industries Inc.*

**Management's Discussion and Analysis  
of Financial Condition and Operating Results  
Second Quarter  
December 31, 2006  
(unaudited)**



## Management's Discussion & Analysis of Financial Condition and Operating Results

*The following discussion and analysis of EnerNorth Industries Inc. ("EnerNorth" or the "Company") should be read in conjunction with the Company's Unaudited Audited Consolidated Financial Statements and notes thereto for the six and three month period ended December 31, 2006 and the Company's Audited Consolidated Financial Statements for the fiscal years ended June 30, 2006, 2005 and 2004 and notes thereto. This Management Discussion and Analysis ("MD&A") is dated February 13, 2007. Unless otherwise indicated, the following discussion is based on Canadian dollars and presented in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").*

*Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"), which reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Company. The Company has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect" and similar expressions. These statements reflect the current beliefs of management of the Company, and are based on current available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors which could cause the actual results, performance or achievements of the Company to differ materially from those expressed in, or implied by, these statements. (See the Company's Annual Information Form and Annual Form 20 F for Risk Factors). The Company is not obligated to update or revise these "forward-looking statements" to reflect new events or circumstances unless required by securities law.*

*The Company's public filings can be accessed and viewed through the Company's website, [www.enernorth.com](http://www.enernorth.com) under the heading "Investor Relations", and by clicking on "Corporate Filings". A link to the Company's Canadian Securities Commissions filings can be viewed via the System for Electronic Data Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com), and the Company's United States Securities and Exchange Commission filings can be viewed through the Electronic Data Gathering Analysis and Retrieval System (EDGAR) at [www.sec.gov](http://www.sec.gov).*

*Certain measures in this Management Discussion and Analysis do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles such as netback and other production figures and therefore are considered non-GAAP measures. Therefore these measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations.*

*Disclosure Controls and Procedures. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of EnerNorth's disclosure controls and procedures as of December 31, 2006 and have concluded that such disclosure controls and procedures were effective.*

*Financial Controls and Procedures. Management has assessed the effectiveness of the Company's financial reporting disclosure controls and procedures as at December 31, 2006, and has concluded that such financial reporting disclosure controls and procedures were effective as at that date.*

## OVERVIEW

The Company is a corporation amalgamated under the laws of the Province of Ontario and is provincially registered in the Provinces of Alberta, British Columbia and Newfoundland. The Company's primary activities are investment in, exploration and development and production of oil and gas carried out directly and through its wholly owned subsidiary Great Northern Oil & Gas Inc. ("Great Northern") a company incorporated in Alberta which is the entity formed after the amalgamation on June 30, 2006 of two wholly owned subsidiaries, Sawn lake Resources Ltd. and

Great Northern Oil & Gas Inc.

Through its wholly owned subsidiary CanPower Development Corp. (“CanPower”) a company incorporated in Barbados, the Company holds an investment in Konaseema Gas Power Limited (“KGPL”) a company incorporated in India that is developing a power project in Andhra Pradesh, India, and has a 12% equity interest in Euro India Power Canara Limited (“EIPCL”) a company incorporated in India. The unaudited consolidated financial results for the six and three month period ending December 31, 2006 include the accounts of the Company, CanPower, Great Northern and EPS Karnataka Power Corp. (“EPS Karnataka”) a company incorporated in Ontario.

The unaudited consolidated financial statements have been prepared on the basis of a “going concern”, which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business.

The Company’s ability to continue as a going concern is primarily dependent upon the Company’s ability to negotiate a favorable proposal with its creditors (see Note 5, 6, 8(ii) and (iv) of the unaudited consolidated financial statements). If the proposal is not accepted by its creditors then the Company may become insolvent and placed into receivership and as a result the liquidation value of the Company’s assets may differ materially from the stated values.

The Company’s consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company not be able to continue in the normal course of operations. If the “going concern” assumption is not appropriate for the consolidated financial statements then adjustments may be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

## GLOSSARY OF ABBREVIATIONS

Bbl barrel  
 Bbl/d barrels per day  
 Boe barrels of oil equivalent (6 thousand cubic feet of gas is equivalent to one barrel of oil) <sup>(1)</sup>  
 Boe/d barrels of oil equivalent per day  
 Mcf 1,000 cubic feet of natural gas  
 Mcf/d 1,000 cubic feet of natural gas per day  
 NGL’s Natural Gas Liquids  
 NGL’s/d Natural Gas Liquids per day

### TO CONVERT

| <b>From</b>  | <b>To</b>    | <b>Multiply By</b> |
|--------------|--------------|--------------------|
| Mcf          | cubic meters | 28.317             |
| Meters       | cubic feet   | 35.494             |
| Bbls         | cubic meters | 0.159              |
| Cubic meters | Bbls         | 6.289              |
| Hectares     | Acres        | 2.471              |

(1) A BOE conversion ratio of 6 Mcf: 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation.

## RISKS AND UNCERTAINTIES

On December 12, 2006 the Company announced that it received notice from the American Stock Exchange (“AMEX”) that the Company does not meet certain continued listing standards. On January 12, 2007 the Company submitted a

plan of compliance to AMEX. If AMEX accepts the plan, the Company may be able to continue its listing during the plan period of up to eighteen months (June 11, 2008), during which time the Company will be subject to periodic review. If AMEX does not accept the Company's plan or if the Company does not make progress consistent with the plan during the plan period or if the Company is not in compliance with the continued listing standards at the end of the plan period, AMEX may then initiate delisting proceedings. As of the date of this MD&A the Company has not received a decision from AMEX with respect to the plan and continued listing. There can be no assurance that the Company can maintain its AMEX listing or marketability of its common shares.

On January 18, 2007 the Company announced that the Supreme Court of Canada dismissed with costs the Company's application for leave to appeal its ongoing litigation with Oakwell Engineering Limited of Singapore ("Oakwell"). EnerNorth is required to satisfy a judgment in favour of Oakwell for approximately CDN \$6.8 million in addition to the \$1.5 million posted as security on September 7, 2006. The Company also has obligations to secured and unsecured creditors. The Company also announced that it has engaged an investment banker to assist the Company in selling its oil and gas assets.

On February 9, 2007 the Company announced that it filed a Notice of Intention to make a proposal to its creditors under the Bankruptcy and Insolvency Act (Canada) ("BIA"). The BIA stays all actions against the Company to give it time to make a proposal to its creditors to satisfy their claims without bankruptcy. The Company has appointed Zwaig Associates Inc., ("Zwaig"), a licensed trustee, to act as trustee under the proposal. On February 9, 2007 the Superior Court of Justice for the Province of Ontario also appointed Zwaig Interim Receiver of the Company. Zwaig's appointment as Interim Receiver will ensure that the Company's assets are effectively managed during the proposal period. No assurances can be made that a proposal under the Notice of Intention will be accepted by the Company's creditors.

The Company's oil and gas operations are located in Alberta, British Columbia, Saskatchewan and Ontario, Canada. The Company's financial results are influenced by its business environment. Risks include, but are not limited to: crude oil and natural gas prices; cost to find, develop, produce and deliver crude oil and natural gas; demand for and ability to deliver natural gas; government regulations and cost of capital. The Company's producing wells are subject to normal levels of decline and unavoidable changes in operating conditions in facilities operated by third parties. The Company's production revenue is subject to commodity price fluctuations over which the Company has no control. Some of the business risks could include:

- volatility in market prices for oil and natural gas;
  - reliance on third party operators;
- ability to find or produce commercial quantities of oil and natural gas;
  - liabilities inherent in oil and natural gas operations;
  - dilution of interests in oil and natural gas properties;
- uncertainties associated with estimating oil and natural gas reserves;
  - new prospects and exploration activities may have inherent risks;
- competition for, among other things, financings, acquisitions of reserves, undeveloped lands and skilled personnel;
  - governmental regulation and environmental legislation; and
    - weather conditions

### OVERALL PERFORMANCE

The Company's overall performance for the six months ended December 31, 2006 can be highlighted by the following: The Company's gross oil and gas revenue of \$784,657 for the six month period ending December 31, 2006 increased by 11% from \$705,112 for the comparative six month period ending December 31, 2005. During the six month period ending December 31, 2006, commodity prices decreased by 31% to an average of \$42.66 per boe compared to \$62.03 per boe for the six month period in 2005. Average production volumes increased 65% to 102 boe/d compared to 62

boe/d for the same six month period in 2005. For the six month period revenue growth was driven by increases in production volumes from the acquisition of Great Northern offset by a decrease in commodity prices received.

Net loss for the period increased to \$1,818,643 for the six month period ended December 31, 2006 compared to a net loss of \$163,583 for the six month period ending December 31, 2005. The increase in net loss was primarily caused by increased administrative costs, the write down marketable securities, costs related to the Oakwell Claim and a decrease in interest income.

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## SUMMARY OF INTERIM FINANCIAL INFORMATION

|                                    | As of and for the               |            |          | As of and for the Three     |            |          |
|------------------------------------|---------------------------------|------------|----------|-----------------------------|------------|----------|
|                                    | Six Month Period Ended Dec. 31, |            |          | Month Period Ended Dec. 31, |            |          |
|                                    | 2006                            | 2005       | % Change | 2006                        | 2005       | % Change |
| <b>FINANCIAL INFORMATION:</b>      |                                 |            |          |                             |            |          |
| Oil and gas revenue                | \$784,657                       | \$705,112  | 11%      | \$385,655                   | \$379,865  | 2%       |
| Less: royalties                    | 160,393                         | 91,916     | 74%      | 69,698                      | 53,751     | 30%      |
| Net revenue                        | 624,264                         | 613,196    | 2%       | 315,957                     | 326,114    | -3%      |
|                                    |                                 |            |          |                             |            |          |
| Net loss for the period            | (1,818,643)                     | (163,583)  | 1012%    | (857,845)                   | (158,974)  | 440%     |
| Net loss per share                 | (\$0.43)                        | (\$0.04)   | 956%     | (\$0.21)                    | (\$0.04)   | 440%     |
| Total assets                       | 14,730,077                      | 15,538,336 | -5%      | 14,730,077                  | 15,538,336 | -5%      |
| Total financial liabilities        | 11,976,477                      | 8,621,945  | 39%      | 11,976,477                  | 8,621,945  | 39%      |
| <b>OPERATIONS:</b>                 |                                 |            |          |                             |            |          |
| Average Daily Production           |                                 |            |          |                             |            |          |
| Natural gas (mcf per day)          | 469                             | 211        | 122%     | 494                         | 212        | 133%     |
| Natural gas liquids (bbls per day) | 11                              | 15         | -27%     | 16                          | 16         | 0%       |
| Crude oil (bbls per day)           | 13                              | 11         | 18%      | 13                          | 11         | 18%      |
| Total (boe per day)                | 102                             | 62         | 65%      | 112                         | 62         | 81%      |
|                                    |                                 |            |          |                             |            |          |
| Average Commodity Prices           |                                 |            |          |                             |            |          |
| Natural gas (\$/mcf)               | \$6.17                          | \$11.23    | -45%     | \$5.79                      | \$12.95    | -55%     |
| Natural gas liquids (\$/bbl)       | \$53.49                         | \$46.14    | 16%      | \$34.06                     | \$45.52    | -25%     |
| Crude oil (\$/bbl)                 | \$67.56                         | \$67.28    | 0%       | \$65.23                     | \$67.28    | -3%      |
| Total (\$/boe)                     | \$42.66                         | \$62.03    | -31%     | \$38.24                     | \$66.32    | -42%     |
|                                    |                                 |            |          |                             |            |          |
| Royalties                          |                                 |            |          |                             |            |          |
| Natural gas (\$/mcf)               | \$1.39                          | \$1.20     | 16%      | \$1.14                      | \$1.42     | -20%     |
| Natural gas liquids (\$/bbl)       | \$11.22                         | \$10.83    | 4%       | \$6.67                      | \$11.39    | -41%     |
| Crude oil (\$/bbl)                 | \$8.80                          | \$7.01     | 26%      | \$7.54                      | \$8.61     | -12%     |
| Total royalties (\$/boe)           | \$8.72                          | \$8.09     | 8%       | \$6.91                      | \$9.38     | -26%     |
|                                    |                                 |            |          |                             |            |          |
| Production costs                   |                                 |            |          |                             |            |          |
| Natural gas (\$/mcf)               | \$2.51                          | \$3.28     | -23%     | \$2.38                      | \$3.15     | -24%     |
| Natural gas liquids (\$/bbl)       | \$9.61                          | \$6.61     | 45%      | \$9.87                      | \$7.34     | 34%      |
| Crude oil (\$/bbl)                 | \$24.19                         | \$25.14    | -4%      | \$16.83                     | \$26.49    | -36%     |
| Total production costs (\$/boe)    | \$15.61                         | \$17.39    | -10%     | \$13.93                     | \$16.98    | -18%     |
|                                    |                                 |            |          |                             |            |          |
| Netback by Product                 |                                 |            |          |                             |            |          |

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|                              |         |         |      |         |         |      |
|------------------------------|---------|---------|------|---------|---------|------|
| Natural gas (\$/mcf)         | \$2.27  | \$6.75  | -66% | \$2.27  | \$8.38  | -73% |
| Natural gas liquids (\$/bbl) | \$32.66 | \$28.70 | 14%  | \$17.52 | \$26.79 | -35% |
| Crude oil (\$/bbl)           | \$34.57 | \$35.13 | -2%  | \$40.86 | \$32.18 | 27%  |
| Netback (\$/boe)             | \$18.33 | \$36.55 | -50% | \$17.40 | \$39.96 | -56% |

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## OPERATING RESULTS

### First Quarter 2006 versus First Quarter 2005

**Production Volumes.** For the six month period ending December 31, 2006 average production volumes increased 65% to 102 boe/d compared to 62 boe/d for the same six month period in 2005. For the three month period ending December 31, 2006 average production volumes increased 81% to 112 boe/d compared to 62 boe/d for the same three month period in 2005. Increases were primarily related to the addition of production from the Great Northern acquisition.

For the six month period ending December 31, 2006 average gas production increased 122% to 469 mcf/d compared to 211 mcf/d for the same six month period in 2005. For the three month period ending December 31, 2006 average gas production increased 133% to 494 mcf/d compared to 212 mcf/d for the same three month period in 2005. Increased gas production was primarily a result of additional production from the acquisition of Great Northern.

For the six month period ending December 31, 2006 average natural gas liquids production decreased 27% to 11 bbls/d compared to 15 bbls/d for the same six month period in 2005. For the three month period ending December 31, 2006 average natural gas liquids production remained constant at 16 bbls/d compared to 16 bbls/d for the same six month period in 2005. Decreases in natural gas liquids for the six month period ending December 31, 2006 was primarily attributed to the shut-in of the Company's Bigstone, Alberta well which occurred in the second quarter of 2005.

For the six month period ending December 31, 2006 average oil production increased 18% to 13 bbls/d compared to 11 bbls/d for the same six month period in 2005. For the three month period ending December 31, 2006 average oil production increased 18% to 13 bbls/d compared to 11 bbls/d for the same six month period in 2005. Increased oil production was due to production increases from the acquisition of Great Northern.

**Commodity Prices.** During the six month period ending December 31, 2006, commodity prices decreased by 31% to an average of \$42.66 per boe compared to \$62.03 per boe for the six month period in 2005. For the three month period ending December 31, 2006 commodity prices decreased by 42% to an average of \$38.24 per boe compared to \$66.32 per boe for the three month period in 2005. These price decreases reflect general price decreases in natural gas which accounts for 76% of the Company's production volume.

Average gas prices per mcf decreased by 45% to \$6.17 during the six month period ending December 31, 2006 compared to \$11.23 per mcf for the six month period ending in 2005. For the three month period ending December 31, 2006 average gas prices per mcf decreased by 55% to \$5.79 compared to \$12.95 per mcf for the three month period ending in 2005.

Average natural gas liquids prices per barrel increased by 16% to \$53.49 during the six month period ending December 31, 2006 compared to \$46.14 per barrel for the six month period ending December 31, 2005. For the three month period ending December 31, 2006 average natural gas liquids prices per barrel decreased by 25% to \$34.06 compared to \$45.52 per barrel for the three month period ending December 31, 2005.

Average oil prices per barrel increased slightly to \$67.56 during the six month period ending December 31, 2006 compared to \$67.28 per barrel for the six month period ending December 31, 2005. For the three month period ending December 31, 2006 average oil prices per barrel decreased by 3% to \$65.23 compared to \$67.28 per barrel for the three month period ending December 31, 2005.

**Gross oil and gas revenue.** The Company's gross oil and gas revenue of \$784,657 for the six month period ending December 31, 2006 increased by 11% from \$705,112 for the comparative six month period ending December 31, 2005. Gross oil and gas revenue of \$385,655 for the three month period ending December 31, 2006 increased by 2% compared to \$379,865 for the same three month period in 2005. For the six and three month periods revenue growth was driven by increases in production volumes which was offset by lower commodity prices.

**Royalties.** Royalties increased by 74% to \$160,393 for the six month period ending December 31, 2006 compared to \$91,916 for the six month period ended December 31, 2005. For the six month period royalties increased by 8% to \$8.72 per boe compared to \$8.09 per boe in 2005. For the three month period ending December 31, 2006 royalties increased by 30% to \$69,698 compared to \$53,751 for the three month period in 2005. For the three month period ending December 31, 2006 royalties decreased by 26% to \$6.91 per boe compared to \$9.38 per boe for the three month period in 2005.

**Net Revenue.** The Company's net revenue for the six month period ending December 31, 2006 increased by 2% to \$624,264 compared to \$613,196 for the comparative six month period ending December 31, 2005. For the three month period ending December 31, 2006 net revenue decreased by 3% to \$315,957 compared to \$326,114 for the comparative three month period in 2005.

**Operating and transportation.** Operating and transportation costs were \$287,237 for the six month period ending December 31, 2006, 45% higher than operating and transportation costs of \$197,681 during the comparable six month period in 2005. During the six month period ended December 31, 2006 production costs per boe were 10% lower at \$15.61 compared to \$17.39 per boe during the same period in 2005. For the three month period ending December 31, 2006 operating and transportation costs were \$140,516, 44% higher compared to \$97,248 for the same three month period in 2005. During the three month period ended December 31, 2006 production costs per boe were 18% lower at \$13.93 compared to \$16.98 per boe during the same period in 2005. Higher costs were a result of increased production volumes.

**Depletion and Accretion.** For the six month period ending December 31, 2006, depletion and accretion expense was \$656,762, 68% higher compared to \$390,480 for the six month period in 2005. For the three month period ending December 31, 2006 depletion and accretion expense was \$388,948, 91% higher compared to \$204,062 for the three month period in 2005. The increased depletion and accretion was a result of increased production.

**Administrative Expenses.** Administrative expenses of \$1,077,125 for the six month period ending December 31, 2006 were 46% higher than administrative expenses of \$736,997 the previous year. Administrative expenses for the three month period ending December 31, 2006 were \$442,975, 42% higher than \$311,540 for the comparable period in 2005. The primary variance in administrative expenses for the six month period ending December 31, 2006 was related to litigation expenses of \$464,949 versus \$233,634 for the previous six month period ending December 31, 2005.

**Foreign Exchange.** For the six month period ending December 31, 2006 the gain on foreign exchange was \$417 compared to a foreign exchange gain of \$152,440 for the six month period in 2005. For the three month period ending December 31, 2006 the gain on foreign exchange was \$6,446 compared to a foreign exchange loss of \$96,311 for the three month period in 2005. The foreign exchange gains and loss during the periods was partially attributed the affect of foreign currency fluctuations on the Company's US denominated cash balances and to the foreign exchange changes relating to Company's investment in KGPL. During the current year the foreign exchange rates remained virtually constant, thus there was little effect on the unrealized foreign exchange component.

**Oakwell Claim.** For the six month period ending December 31, 2006 the provision on the Oakwell Claim was \$138,976 versus \$197,961 for the six month period ending December 31, 2005. For the three month period ending December 31, 2006 the provision on the Oakwell Claim was \$42,311 versus \$99,388 for the comparable three month period in 2005. The increase related to interest and court awarded costs on the Singapore Judgment. (See "Critical

*Accounting Estimates - Oakwell Claim*" below).

**Interest income.** For the six month period ending December 31, 2006 interest income was \$3,044, 99% lower compared to \$203,383 for the comparable six month period in 2005. For the three month period ending December 31, 2006 interest income was \$2,294, 98% lower compared to \$97,534 for the three month period in 2005. Interest income was related to interest earned on cash held in short term investments and in 2005 the Company accrued interest on its investment in KGPL.

**Cash distributions from marketable securities.** At December 31, 2006 the Company held a portfolio of marketable securities, which contains a portion of oil and gas related trust units. These trust units have a fixed yield distribution to owners of the units. For the six month period ending December 31, 2006 the Company earned \$95,273 in cash distributions from trust units versus \$109,647 for the previous six month period in 2005. For the three month period ending December 31, 2006 the Company earned \$43,740 in cash distributions from trust units versus \$59,463 for the previous three month period in 2005

**Gain on sale of marketable securities.** For the six month period ending December 31, 2006 the Company sold a portion of its portfolio of marketable securities resulting in a gain on disposition of \$62,293 compared to a gain of \$282,137 for the same six month period in 2005. For the three month period ending December 31, 2006 the Company sold a portion of its portfolio of marketable securities resulting in a loss on disposition of \$18,302 compared to a gain of \$167,110 for the same three month period in 2005.

**Write down of marketable securities.** Marketable securities are valued at the lower of cost or market on a portfolio basis. At December 31, 2006 the cost of the Company's marketable securities was greater than market value and as a result a provision of \$377,185 was applied compared to Nil for six month period ended December 31, 2005. For the three month period ending December 31, 2006 the Company recorded a provision of \$134,449 compared to NIL for the same three month period in 2005.

**Net loss.** As a result of the above factors the net loss was \$1,818,643 for the six month period ending December 31, 2006 compared to a loss of \$163,583 for the comparable six month period ending December 31, 2005. For the three month period ending December 31, 2006 the net loss was \$857,845 compared to a net loss of \$158,974 for the comparable three month period in 2005.

**Net loss per share.** Net loss per share for the six month period ending December 31, 2006 increased to \$0.43 per share compared to \$0.04 per share for the same six month period in 2005. Net loss per share for the three month period ending December 31, 2006 increased to \$0.21 per share compared to \$0.04 per share for the same three month period in 2005. Fully diluted loss per share is not presented it is antidilutive.

**Capital Expenditures.** Capital expenditures totaled negative \$368,889 for the six month period ended December 31, 2006 compared to \$2,137,395 for the six month period ended December 31, 2005. During the six month period ending December 31, 2006 the primary cause for the negative expenditure related to the Company selling a portion of its interest in the Buick Creek property for proceeds of \$825,000.

## UNAUDITED SUMMARY OF QUARTERLY RESULTS

|  | Fiscal 2007 |             | Fiscal 2006   |            |             |             | Fiscal 2005 |              |
|--|-------------|-------------|---------------|------------|-------------|-------------|-------------|--------------|
|  | Dec. 31/06  | Sept. 30/06 | June 30/06    | Mar. 31/06 | Dec. 31/05  | Sept. 30/05 | June 30/05  | Mar. 31/05   |
| <b>Financial Information:</b>                      |             |             |               |            |             |             |             |              |
| Net oil and gas revenue                            | \$ 315,957  | \$ 308,307  | \$ 200,131    | \$ 166,941 | \$ 326,114  | \$ 287,082  | \$ 149,274  | \$ 206,044   |
| Income (loss) from continuing operations           | \$(857,845) | \$(960,798) | \$(3,213,485) | \$ 368,323 | \$(158,974) | \$(4,609)   | \$(741,216) | \$(771,886)  |
| Net income (loss)                                  | \$(857,845) | \$(960,798) | \$(3,213,485) | \$ 368,323 | \$(158,974) | \$(4,609)   | \$(891,216) | \$ 1,188,123 |
| Income (loss) from continuing operations per share | \$ (0.21)   | \$ (0.22)   | \$ (0.76)     | \$ 0.09    | \$ (0.04)   | \$(0.001)   | \$ (0.18)   | \$ (0.19)    |
| Net income (loss) per share                        | \$ (0.21)   | \$ (0.22)   | \$ (0.76)     | \$ 0.09    | \$ (0.04)   | \$(0.001)   | \$ (0.22)   | \$ 0.29      |
| Fully diluted net income (loss) per share          | \$ (0.21)   | \$ (0.22)   | \$ (0.76)     | \$ 0.08    | \$ (0.04)   | \$(0.001)   | \$ (0.22)   | \$ 0.26      |
| <b>Operating Information:</b>                      |             |             |               |            |             |             |             |              |
| Average Daily Production                           |             |             |               |            |             |             |             |              |
| Natural gas (mcf per day)                          | 494         | 444         | 323           | 123        | 212         | 231         | 270         | 233          |
| Natural gas liquids (bbls per day)                 | 16          | 6           | 3             | 4          | 16          | 13          | 10          | 14           |
| Crude oil (bbls per day)                           | 13          | 12          | 10            | 15         | 11          | 11          | 13          | 14           |
| Total (boe per day)                                | 112         | 92          | 66            | 39         | 62          | 62          | 69          | 66           |
| Average Commodity Prices                           |             |             |               |            |             |             |             |              |
| Natural gas (\$/mcf)                               | \$ 5.79     | \$ 7.38     | \$ 9.08       | \$ 8.71    | \$ 12.95    | \$ 9.73     | \$ 7.41     | \$ 7.97      |
| Natural gas liquids (\$/bbl)                       | \$ 34.06    | \$ 47.34    | \$ 48.05      | \$ 48.17   | \$ 45.52    | \$ 47.01    | \$ 41.81    | \$ 32.67     |

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|                                 |          |          |          |          |          |          |          |          |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Crude oil (\$/bbl)              | \$ 65.23 | \$ 70.48 | \$ 67.01 | \$ 66.51 | \$ 67.28 | \$ 68.30 | \$ 65.76 | \$ 52.71 |
| Total (\$/boe)                  | \$ 38.24 | \$ 48.01 | \$ 55.99 | \$ 57.30 | \$ 66.32 | \$ 57.67 | \$ 48.15 | \$ 45.68 |
|                                 |          |          |          |          |          |          |          |          |
| Royalties                       |          |          |          |          |          |          |          |          |
| Natural gas (\$/mcf)            | \$ 1.14  | \$ 1.62  | \$ 1.38  | \$ 1.74  | \$ 1.42  | \$ 0.98  | \$ 1.69  | \$ 1.18  |
| Natural gas liquids (\$/bbl)    | \$ 6.67  | \$ 19.11 | \$ 11.27 | \$ 12.88 | \$ 11.39 | \$ 10.84 | \$ 9.48  | \$ 10.03 |
| Crude oil (\$/bbl)              | \$ 7.54  | \$ 14.23 | \$ 9.68  | \$ 9.33  | \$ 8.61  | \$ 4.95  | \$ 8.55  | \$ 9.07  |
| Total royalties (\$/boe)        | \$ 6.91  | \$ 10.91 | \$ 9.08  | \$ 10.27 | \$ 9.38  | \$ 6.77  | \$ 9.75  | \$ 8.07  |
|                                 |          |          |          |          |          |          |          |          |
| Production costs                |          |          |          |          |          |          |          |          |
| Natural gas (\$/mcf)            | \$ 2.38  | \$ 2.74  | \$ 3.28  | \$ 3.89  | \$ 3.15  | \$ 3.36  | \$ 2.80  | \$ 1.60  |
| Natural gas liquids (\$/bbl)    | \$ 9.87  | \$ 15.56 | \$ 8.22  | \$ 16.69 | \$ 7.34  | \$ 5.71  | \$ 7.28  | \$ 5.86  |
| Crude oil (\$/bbl)              | \$ 16.83 | \$ 25.79 | \$ 25.19 | \$ 26.35 | \$ 26.49 | \$ 24.07 | \$ 37.00 | \$ 21.12 |
| Total production costs (\$/boe) | \$ 13.93 | \$ 17.65 | \$ 18.90 | \$ 23.84 | \$ 16.98 | \$ 17.81 | \$ 19.24 | \$ 10.99 |
|                                 |          |          |          |          |          |          |          |          |
| Netback by Product              |          |          |          |          |          |          |          |          |
| Natural gas (\$/mcf)            | \$ 2.27  | \$ 3.02  | \$ 4.42  | \$ 3.08  | \$ 8.38  | \$ 5.39  | \$ 2.92  | \$ 5.19  |
| Natural gas liquids (\$/bbl)    | \$ 17.52 | \$ 12.67 | \$ 28.56 | \$ 18.60 | \$ 26.79 | \$ 30.46 | \$ 25.05 | \$ 16.78 |
| Crude oil (\$/bbl)              | \$ 40.86 | \$ 30.46 | \$ 32.14 | \$ 30.83 | \$ 32.18 | \$ 39.28 | \$ 20.21 | \$ 22.52 |
| Netback (\$/boe)                | \$ 17.40 | \$ 19.45 | \$ 28.01 | \$ 23.19 | \$ 39.96 | \$ 33.09 | \$ 19.16 | \$ 26.62 |

Net revenues from the Company's oil and gas operations have generally increased over the past eight quarters due to general increases in production rates and commodity prices (See "Trend Information" below). Earnings have tended to recede during the fourth quarter of fiscal 2006 and the third and fourth quarter of 2005 due to increased litigation expenditures and costs related to the Oakwell Claim. During the fourth quarter of 2006 the Company recorded a write down of its oil and gas properties. The expenditures and costs related to the Oakwell Claim were tied to the timing of court hearings and decisions and do not represent a normal business trend.

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of December 31, 2006 was \$38,160 compared to \$67,315 at June 30, 2006. During the six month period ending December 31, 2006 the Company's cash flows used from operating activities was \$1,400,596 versus cash used from operating activities of \$848,911 during the comparable six month period in 2005.

The Company realized \$368,889 related to oil and gas assets during the six month period ended December 31, 2006 versus expenditures of \$2,137,395 during the previous six month period ending December 31, 2005. During the six month period ending December 31, 2006 the primary component of the amount realized came from the sale of a portion of its interest in the Buick Creek property for proceeds of \$825,000.

The Company also had net proceeds on disposition of marketable securities of \$521,820 during the six month period ending December 31, 2006 versus purchases of nil in the previous period.

The Company currently has a working capital deficit and does not have the resources to meet its present working capital requirements. The Company filed a Notice of Intention to make a proposal to its creditors under the Bankruptcy and Insolvency Act. If the plan is accepted then the Company anticipates that it will have the resources to meet future working capital requirements. (See "*Oakwell*" below and Notes 5, 6 and 8 (ii) and (iv) of the unaudited consolidated financial statements).

The Company's primary sources of liquidity and capital resources historically have been cash flows from the operations of oil and gas operations, the issuance of share capital, proceeds on sale of marketable securities, advances from shareholders and cash flows from discontinued operations. During fiscal 2007, it is expected that primary sources of liquidity and capital resources will be derived from the oil and gas operations. The Company also anticipates that it will eventually dispose of its interest in KGPL. (See "*Critical Accounting Estimates - Valuation of the Company's Investment in KGPL*" below).

With respect to specific estimates that could have a material affect on future operations and cash flows (See "*Critical Accounting Estimates - Oakwell Claim and the Valuation of the Company's Investment in KGPL*" below).

#### ***Outlook and Prospective Capital Requirements.***

The Company's oil and gas operations have steadily increased since its inception in 2001. At present, the Company intends to apply cash to fund current liabilities and economic oil and gas opportunities. Any amounts expended on future oil and gas exploration and development is dependent on the nature of future opportunities evaluated by the Company. These expenditures could be funded through cash flow from operations. Any expenditure which exceeds available cash flow will be required to be funded by additional share capital or debt issued by the Company, or by other means. With respect to other potential expenditures of the Company (See "*Critical Accounting Estimates - Oakwell Claim*" below).

The Company's long-term profitability will depend upon its ability to successfully negotiate a plan with its creditors and successfully implement its business plan. If the Company is unable to negotiate a plan with its creditors then there will be a material and adverse impact on the Company's financial position, operations may be curtailed and assets of the Company may be liquidated.

### **TREND INFORMATION**

#### ***Seasonality***

The Company's oil and gas operations is not a seasonal business, but increased consumer demand or changes in supply in certain months of the year can influence the price of produced hydrocarbons, depending on the circumstances. Production from the Company's oil and gas properties is the primary determinant for the volume of sales during the year.

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business. The first trend is the volatility of commodity prices. Natural gas is a commodity influenced by factors within North America. The continued tight supply demand balance for natural gas is causing significant elasticity in pricing. Despite record drilling activity, a strong economy, weather, fuel switching and demand for electrical generation there still exists a tight supply causing prices to remain high.

Crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. Recently crude oil prices have been kept high by political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East.

Political events trigger large fluctuations in price levels. The impact on the oil and gas industry from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active



exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline.

A second trend within the Canadian oil and gas industry is recent growth in the number of private and small junior oil and gas companies starting up business. These companies often have experienced management teams from previous industry organizations that have disappeared as a part of the ongoing industry consolidation. Many are able to raise capital and recruit well qualified personnel.

A third trend currently affecting the oil and gas industry is the impact on capital markets caused by investor uncertainty in the North American economy. The capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact that the Kyoto Protocol will have on the sector. Generally during the past year, the economic recovery combined with increased commodity prices has caused an increase in new equity financings in the oil and gas industry. The Company must compete with the numerous new companies and their new management teams and development plans in its access to capital. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. Some companies will have to rely on internally generated funds to conduct their exploration and developmental programs.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND NEWLY ADOPTED ACCOUNTING POLICIES**

The Company's significant accounting policies, estimates and changes to accounting policies are also described in the Notes to the Audited Consolidated Financial Statements for the fiscal years ended June 30, 2006, 2005, 2004. It is increasingly important to understand that the application of generally accepted accounting principles involves certain assumptions, judgments and estimates that affect reported amounts of assets, liabilities, revenues and expenses. The application of principles can cause varying results from company to company.

The most significant accounting policies that impact the Company relate to oil and gas accounting and reserve estimates, future income tax assets and liabilities, and stock based compensation.

The most significant accounting estimates that impact the Company and its subsidiaries relate to the Oakwell Claim, the valuation of the Company's investment in KGPL and the valuation of the convertible debenture of face value CDN \$191,000.

During fiscal 2005 the Company adopted the recommendations of the new CICA Handbook Section 3870, stock-based compensation and other stock-based payments. The only new accounting policy that was adopted by the Company during the 2004 fiscal year was a new accounting policy guideline for oil and gas accounting according to the new Canadian Institute of Chartered Accountants ("CICA") Handbook guideline ACG-16.

### **CRITICAL ACCOUNTING POLICIES**

***Oil and gas accounting and reserve estimates.*** The Company follows the full cost method of accounting for oil and gas operations under which all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Under the full cost method all of the costs noted above are capitalized, together with the costs of production equipment, and are depleted on the unit-of-production method based on the estimated gross proved reserves.

Petroleum products and reserves are converted to equivalent units of natural gas at 6,000 cubic feet to 1 barrel of oil.

Under the full cost method costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment in value has occurred. When reserves are identified as "proven" by independent engineers, or the property is considered to be impaired, then the cost of the property or the amount of the impairment is added to costs subject to depletion calculations. Impaired assets that are added to the depletion pool are not written down, instead they are amortized over the life of the other oil and gas properties.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion. Alberta Royalty Tax Credits are net against royalty costs.

In applying the full cost method, under Canadian GAAP, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and amortization from exceeding an amount equal to the estimated fair market value undiscounted value of future net revenues from proved and probable oil and gas reserves, as determined by independent engineers, based on sales prices achievable under forecast prices existing contracts and posted average reference prices in effect at the end of the year and forecast current costs, and after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes. For calculating the fair value the company utilizes a 10% discount factor.

As part of the ceiling test the Company also assesses the recoverability of the net book value of the investment in oil and gas properties against the undiscounted value of cash flows of proved reserves. The cash flows of proved reserves are derived from revenues from proved oil and gas reserves, as determined by independent engineers.

***Future Income Tax Assets and Liabilities.*** The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying amounts and their respective income tax bases (temporary differences). Management regularly reviews its tax assets for recoverability and establishes a valuation allowance based on (i) historical taxable income; (ii) projected future taxable income; and (iii) the accounting treatment reflected in Note 9 of the Company's Audited Consolidated Financial Statements for the fiscal year ended June 30, 2006. As a result of the Sawn Lake Resources Ltd. and Great Northern Oil & Gas Inc., acquisitions the Company recorded future tax liabilities of \$859,798 and \$656,683 respectively for a total liability due to a temporary timing differences of \$1,516,481. As of June 30, 2006 the Company had \$7,380,712 of non-capital losses, Cumulative Canadian oil and gas property expenses of \$11,545,106 and capital losses of \$10,594,718.

***Stock based compensation.*** The Company has established a stock option plan (the "Plan") for directors, officers, employees, consultants and service providers. During 2005, the Company adopted the recommendations of the new CICA Handbook Section 3870, stock-based compensation and other stock-based payments. The primary difference between this new accounting policy and the former policy is that the company calculates the fair value of stock options issued to directors and employees. The Company has chosen to adopt the recommendation prospectively.

As a result of adopting the new accounting policy the Company records compensation expense on all stock options granted. The fair value is recorded at their fair value at date of issuance and the amount is estimated using the Black-Scholes Option Pricing Model. During fiscal 2006 the Company recorded \$6,735 of compensation expense related to the issuance of stock options and during fiscal 2005 the Company recorded \$3,736 of compensation expense related to the issuance of stock options.

## CRITICAL ACCOUNTING ESTIMATES

### *Oakwell Claim*

In March 1997, Oakwell Engineering Limited (“Oakwell”) and the Andhra Pradesh State Electricity Board (“APSEB”) executed two identical Power Purchase Agreements (“PPAs”) providing for Oakwell to build, own and operate two identical 100 MW net capacity diesel generator barge mounted power plants, fueled by furnace oil (total 200 MW net capacity) and sell electricity to APSEB on a take-or-pay basis for 15 years (the Project). In June 1997, the Company and Oakwell formed an 87.5% - 12.5% joint venture and then incorporated an Indian company, EOPL (now known as KGPL), to implement the provisions of the PPAs. Disputes rose between the Company and Oakwell regarding the time taken to obtain financing for the Project and a Settlement Agreement was reached in December 1998 under which Oakwell sold the Company all of Oakwell's interest in the PPAs and in EOPL.

In July 2002, Oakwell claimed the Company was in breach of the Settlement Agreement over the same issue settled by the Settlement Agreement and in August 2002 the Company was named as a defendant in the High Court of Singapore, in the matter of Oakwell vs. the Company, Suit No. 997 of 2002/V. On October 16, 2003 the High Court of Singapore ordered the Company to pay Oakwell US \$5,657,000 (approximately CDN \$6,933,219 at June 30, 2005) plus costs (the “Judgment”). On November 13, 2003 the Company appealed the Judgment to the Court of Appeal of the Republic of Singapore (Civil Appeal No. 129 of 2003/Y). That Court, which is the final Court of Appeal for Singapore, dismissed the appeal from the bench on April 27, 2004.

On June 21, 2004, Oakwell filed an Application with the Ontario Superior Court of Justice seeking an order recognizing and enforcing the Judgment in Ontario (Court File No.04-CV-271121 CM3). On August 30, 2004, the Company filed an Application with the Ontario Superior Court of Justice for a declaration that the Judgment cannot be recognized and enforced in the Province of Ontario (Court File No.04-CV-274860 CM2) on the basis that Singapore does not adhere to the Rule of Law and that the Singapore litigation did not provide the Company with an independent and impartial judiciary and accordingly could not be given the full faith and credit of the Canadian courts. The Applications were heard on December 6-9, 2004.

On June 27, 2005 Justice Day released his decision, in which he granted Oakwell's Application with costs, and dismissed the Company's Application. The formal Order granting recognition and enforcement to the Judgment was issued August 2, 2005.

On July 13, 2005, the Company filed a Notice of Appeal with respect to Justice Day's decision with the Court of Appeal for the Province of Ontario (“Court of Appeal”) (Court of Appeal File Number C43898). The appeal was heard April 10, 2006. On June 9, 2006 the Court of Appeal rendered its decision, dismissing the Company's appeal with costs.

On July 18, 2006 the Company brought a motion before the Court of Appeal (Court of Appeal File Number: M33962) seeking a stay of execution of the decision of the Court of Appeal pending the Company's application to the Supreme Court of Canada for leave to appeal, and, should leave be granted, the appeal itself. On July 28, 2006 the Court of Appeal granted the Company's motion for a stay of execution on the condition that the Company pay \$1,500,000 into Court on or before September 8, 2006. The Company paid this amount into Court on September 7, 2006.

On September 8, 2006 the Company filed its application for leave to appeal to the Supreme Court of Canada (Supreme Court of Canada Court File Number: 31620). The Supreme Court of Canada will only grant leave if it is persuaded that the case raises issues of public importance. On January 18, 2007 the Supreme Court of Canada dismissed the Company's application for leave to appeal with costs.

On January 18, 2007 the Supreme Court of Canada dismissed with costs the Company's application for leave to appeal its ongoing litigation with Oakwell Engineering Limited of Singapore (“Oakwell”). EnerNorth is required to satisfy a judgment in favour of Oakwell for approximately CDN \$6.8 million in addition to the \$1.5 million posted as security on September 7, 2006. On January 19, 2007 the \$1.5 million posted as security was withdrawn by Oakwell.

On January 12, 2005, Oakwell filed an Execution Petition before the Hon'ble High Court of Delhi, India ("Delhi Court") which was served on February 14, 2005 against the Company for enforcement of the Singapore Judgment in India against certain assets of the Company alleged located in India (Execution Petition No. 22/2005) and an application for interim relief seeking attachment of certain assets of the Company including its Konaseema Gas Power Limited ("KGPL") shares.

On May 23, 2005, the Delhi High Court ordered that if VBC Ferro Alloys Ltd. ("VBC") purchases the Company's KGPL shares the sale proceeds shall be kept in India and on September 9, 2005 the Delhi Court further ordered that if the Company receives any payments from VBC from the sale of its KGPL shares, then the proceeds shall be deposited in the Company's account held in a Public Sector Bank in India or invested only in Government of India securities until the disposal of Oakwell's Execution Petition. This order became infructuous upon the Company withdrawing its Execution Petition against VBC and not otherwise receiving any payment from VBC by way of sale of KGPL shares.

On August 29, 2006 the Delhi Court dismissed the objections filed by the Company (Execution Application No. 385/2005) as to the maintainability of the Execution Petition and questioning the Jurisdiction of Delhi Court. The Company filed a Review Petition (Execution Application 474/2006) and a Stay Petition (Execution Application 475/2006) against the Order of August 29, 2006 and on December 1, 2006 the Petitions were dismissed.

On September 07, 2006 Oakwell filed (Execution Application 482/2006) for interim relief, seeking restraint on the disposal of the Company's KGPL shares and other assets. On September 18, 2006 the Delhi Court ordered that the Company shall not deal with, transfer or alienate the KGPL shares or other assets. The date of next hearing is scheduled for July 9, 2007. The Company has filed Letter Patents appeal before the Division Bench of the Delhi Court against the Order of September 18, 2006 and a hearing is pending.

The Execution Petition and related applications are ongoing.

A provision of CDN \$7,825,946 at December 31, 2006 has been made to the Company's financial statements in relation to the Judgment.

***HB Capital contingent liability.*** A statement of claim has been filed in the Supreme Court of Newfoundland and Labrador, Trial Division, Suit # 1998 St. J. No. 3233 against the Company by a former financial adviser alleging breach of contract. The plaintiff has claimed for special damages in the amount of approximately \$230,000 (US \$184,197) and a success fee equal to 1% of the gross debt/equity financing of the Andhra Pradesh project less up to 20% of any corporate contributions to the project by the Company or its affiliates. Management believes that the claim is without merit and has filed a counter claim. No correspondence or activity has occurred since 2000 and management believes that the plaintiff has abandoned the litigation. No provision has been made in the Company's Audited Consolidated Financial Statements for this claim.

The Company estimates the range of liability related to pending litigation where the amount and range of loss can be estimated. Where there is a range of loss, the Company records the minimum estimated liability related to those claims. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates accordingly. Revisions of our estimates of the potential liability could materially impact our results of future operations. If the final outcome of such litigation and contingencies differ adversely from those currently expected, it would result in a charge to earnings when determined.

***Valuation of the Company's Investment in KGPL.*** As of December 31, 2006 the Company owns 12,348,200 common shares, par value Indian Rupee ("INR") 10 (the "KGPL Shares") in Konaseema Gas Power Limited ("KGPL") formerly known as Konaseema EPS Oakwell Power Limited.

On August 6, 2006 the Company and VBC executed a Joint Memo for full satisfaction of a prior Arbitration Award ("Award") passed on October 11, 2003 stipulating as follows; (i) the Company waive the obligation that VBC purchase

11,348,200 KGPL shares and that the Company will retain its 11,348,200 KGPL shares; (ii) the Company and VBC comply with an order of Reserve Bank of India, such that the Company acquires the allotment of 500,000 KGPL shares rather than having such shares allotted at no cost, (iii) VBC acknowledge the right of the Company to purchase, on payment KGPL shares from VBC and/or its group companies at INR 10 per share free and clear of all claims, demand and encumbrances of any nature and kind; (iv) the Company waive payment of all unpaid interest by VBC under the Award,; (v) the Company, VBC and KGPL mutually undertake and agree to release each other against all and any claims, demand, assertions, petitions, decrees and litigation whatsoever that arose or may hereinafter arise in connection with any agreements, arrangements and understandings and agree that neither party will make any claims or demands against each other.

Pursuant to the Joint Memo, the Company acquired the 500,000 equity shares in KGPL previously allotted for no consideration under the Award by paying INR 5,000,000 (approximately CDN \$134,850 in February 2006) and the Company subscribed for a further 500,000 additional equity shares in KGPL at par value INR 5,000,000 (approximately CDN \$121,750 in August 2006).

As a result of the Joint Memo, the Company filed a fresh Execution Petition in the City Civil Court for such court to record and accept the Joint Memo as full satisfaction of the Award as agreed to by the Company and VBC. The fresh Execution Petition was listed by the City Civil Court on December 15, 2006 and was approved.

The investment in KGPL is recorded at the lower of cost or fair market value amount of CDN \$3,130,873 at December 31, 2006). Management of the Company assessed the fair market value based on (i) the number of the shares, (ii) an assessment KGPL's financial statements, (iii) financial closure of the KGPL project, (iv) prospects for a future public offering of securities and comparison to recent offerings from other power projects in India, (v) the pending legal proceedings, and (vi) the likelihood and timing of eventual sale of the underlying shares. The actual recoverable amount is dependent upon future events including foreign exchange fluctuations and could differ materially from the amount estimated by management.

**Valuation of Convertible Debenture.** On May 31, 2006 the Company issued two secured convertible debentures with a face value of \$100,000 each. The debentures carry an interest rate of 5% and are payable in quarterly installments of interest and principal. The debentures mature on November 30, 2011.

The principal and interest is repayable in cash or common shares at the option of the Company for the first two years. For the subsequent two year period the principal and interest is payable in cash or common shares at the option of the holder. The Company may repay the debentures 30 days after providing written notice. Prepayment may be made without penalty.

Under the terms of the debenture the price per share is calculated as the weighted average closing price for the 10 trading days preceding the payment date where such closing price does not exceed \$2.60 per common share or diminish lower than \$1.50 per share.

The holder of the debenture may convert into equity capital of the Company at their option after 10 days written notice to the Company. The outstanding principal and interest is then converted into equivalent Units consisting of one common share and one purchase warrant with a six year life equal to 115% of the Conversion Price. The Conversion Price is equal to 75% of the market price which is defined as the 10 day weighted average closing price but not higher than \$2.60 or lower than \$1.50.

Additionally there is an option for both the Company and the holders to reset the market range for the conversion feature.

1) The holder has the option to reset the market range on a one time basis by reducing the minimum price per common share to no lesser than \$0.75 if the market price remains below \$1.50 for 90 days.

2) The Company has the option to reset the market range on a one time basis by increasing the maximum price per common share to no more than \$3.25 if the market price remains above \$2.60 for 90 days.

### **RELATED PARTY TRANSACTIONS**

Transactions With Officers, Directors and Affiliates.

Mr. Cassina a director of the Company is also a director of Geocan Energy Inc. The Company and Geocan Energy Inc., each have working interests in certain oil and gas properties.

The Company entered into an agreement dated September 5, 2006 and a further amending agreement dated October 19, 2006 with 1211115 Alberta Ltd., ("1211115") and the shareholders of 1211115 to acquire all the issued and outstanding shares of 1211115. Under the amendment agreement the Company has agreed to issue to the shareholders of 1211115 an aggregate of 2,312,501 units of EnerNorth ("Units"), each Unit comprised of one common share; one-third of one Series A Warrant, with each whole Series A Warrant entitling the holder to purchase one common share of the Company at a price of \$1.00 from the date of issuance until March 31, 2007; one-third of one Series B Warrant, with each whole Series B Warrant entitling the holder to purchase one common share of the Company at a price of \$1.15 from January 1, 2007 until December 31, 2007; and one-third of one Series C Warrant, with each whole Series C Warrant entitling the holder to purchase one common share of the Company at a price of \$1.40 from March 31, 2007 until March 31, 2009. Under the terms of the agreement, 1211115 advanced \$650,000 to the Company upon execution of the agreement, which amount was converted to a promissory note due on demand with interest at a rate of 10% per annum calculated weekly in advance and the repayment of which is secured by the unencumbered assets of Company. Furthermore, in the event that the transaction does not close the promissory note is immediately repayable and 650,000 compensation warrants, each compensation warrant entitling the holder to purchase one common share of the Company at CDN \$1.40 for a period of three years from the date of issuance, will be issued to the shareholders of 1211115. James C. Cassina and Sandra J. Hall, directors of the Company, own 11.24% and 6.49%, respectively of the shares of 1211115. The Company's Board formed an independent committee of disinterested directors to the transaction to consider whether the transaction is in the best interests of the Company. The independent committee has concluded, on review of the amended transaction, an independent engineering report on the reserves of 1211115, and an updated fairness opinion on the amended transaction from an independent investment advisor, that the Company should complete the proposed transaction as it is in the best interest of the Company and improves its financial condition (see Subsequent Events and Defaults).

### **SUBSEQUENT EVENTS AND DEFAULTS**

On December 12, 2006 the Company received notice from the American Stock Exchange ("AMEX") that the Company does not meet certain continued listing standards, specifically Section 1003(a)(i) of the Company Guide with shareholders' equity of less than US\$2,000,000 and losses from continuing operations and/or net losses in two out of its three most recent fiscal years, and Section 1003(a)(ii) of the Company Guide with shareholders' equity of less than US\$4,000,000 and losses from continuing operations and/or net losses in three out of its four most recent fiscal years.

On January 12, 2007 the Company submitted a plan of compliance to AMEX outlining the action the Company has taken, or will take, that would bring it into compliance with the continued listing standards listed no later than June 11, 2008. If AMEX accepts the plan, the Company may be able to continue its listing during the plan period of up to eighteen months, during which time the Company will be subject to periodic review to determine whether it is making progress consistent with the plan. If AMEX does not accept the Company's plan or if the Company does not make progress consistent with the plan during the plan period or if the Company is not in compliance with the continued listing standards at the end of the plan period, AMEX may then initiate delisting proceedings. As of the date of this MD&A the Company has not received a decision from AMEX with respect to the plan and continued listing.

On January 18, 2007 the Supreme Court of Canada denied the Company's application for leave to appeal its ongoing litigation with Oakwell Engineering Limited of Singapore ("Oakwell"). EnerNorth is required to satisfy a judgment in favour of Oakwell for approximately CDN \$6.8 million in addition to the \$1.5 million posted as security on September 7, 2006. The Company also has obligations to secured and unsecured creditors. In the process of satisfying such, all or substantially all of the assets of the Company may be sold or pledged. The Company engaged Jennings Capital Inc. ("Jennings") to assist the Company with a sale of its oil and gas assets. In consideration of the services to be provided by Jennings the Company paid a work fee of \$25,000 upon execution of the agreement and will be required to pay a success fee of 2% of the sale price of the assets sold.

On February 9, 2007 the Company announced that it filed a Notice of Intention to make a proposal to its creditors under the Bankruptcy and Insolvency Act (Canada) ("BIA"). The BIA stays all actions against the Company to give it time to make a proposal to its creditors to satisfy their claims without bankruptcy. The Company has appointed Zwaig Associates Inc., ("Zwaig"), a licensed trustee, to act as trustee under the proposal. On February 9, 2007 the Superior Court of Justice for the Province of Ontario also appointed Zwaig Interim Receiver of the Company. Zwaig's appointment as Interim Receiver will ensure that the Company's assets are effectively managed during the proposal period.

As part of the acquisition of Great Northern Oil & Gas Inc., on May 31, 2006 the Company issued two secured convertible debentures with a face value of \$100,000 each. The debentures carry an interest rate of 5% and are payable in quarterly installments of interest and principal. The debentures mature on November 30, 2011. The Company has not satisfied the January 1, 2007 quarterly installments of principal and interest due to the debenture holders and is currently in default.

The Company has a secured debt instrument which is due to a service provider. The Company is currently in default of this secured instrument.

On January 25, 2007, 121115 demanded repayment of the Note plus accrued interest. The Company has not repaid the Note and is currently in default. EnerNorth received notice from 121115 Alberta Ltd. ("121115") in respect of the share purchase agreement made September 6, 2006, as amended (the "Agreement"). 121115 states in the notice that EnerNorth is not in a position to close under the terms of the Agreement, and accordingly 121115 is awaiting confirmation from EnerNorth it is releasing 121115 from its obligations under the Agreement. 121115 also indicated it expects the parties to execute a mutual release from the Agreement.

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**SHARE CAPITAL**

## Authorized:

Unlimited number of Common Shares, without par value

Unlimited number of Class A Preference Shares, Series I

Unlimited number of Class A Preference Shares, Series II

## Issued

| Common shares                                     | #         | Consideration |
|---|-----------|---------------|
| Balance, as at June 30, 2006                      | 4,272,009 | \$43,781,030  |
| Issued pursuant to terms of convertible debenture | 7,702     | 5,964         |
| Options exercised                                 | 12,800    | 11,001        |
| Balance, as at December 31, 2006                  | 4,292,511 | \$43,797,995  |

| Contributed Surplus                               | Value     |
|---|-----------|
| Balance, as at June 30, 2006                      | \$181,875 |
| Grant of options                                  | 6,735     |
| Issued pursuant to terms of convertible debenture | 5,590     |
| Balance, as at December 31, 2006                  | \$194,200 |

## Common share purchase options

| Exercise Price            | Expiry Date       | 2006 #  | 2005 #  |
|---------------------------|-------------------|---------|---------|
| US\$0.75                  | February 28, 2010 | 572,200 | 600,000 |
| US\$0.73                  | November 20, 2011 | 30,000  | -       |
| US\$1.77                  | July 15, 2008     | 15,000  | -       |
| Balance December 31, 2006 |                   | 630,000 | 600,000 |

Of the options priced at US\$1.77 5,000 vest on July 15, 2007.