INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

ISSUER DETAILS NAME OF ISSUER MONTELLO RESOURCES LTD.			FOR QUARTER ENDED Y M D 04 10 31	DATE OF REPORT Y M D 04 12 22
ISSUER ADDRESS SUITE 2833 – 595 BURRARD STREET, P.O. BOX 49057				
CITY/ VANCOUVER	PROVINCE BC	POSTAL CODE V7X 1C4	ISSUER FAX NO. 604-689-8199	ISSUER TELEPHONE NO. 604-689-1799
CONTACT PERSON PATRICK POWER		CONTACT'S POSITION PRESIDENT		CONTACT TELEPHONE NO. 604-689-1799
CONTACT EMAIL ADDRESS ir@montello.com		WEB SITE ADDRESS www.montello.com		
DIRECTOR'S SIGNATURE ***"PATRICK POWER"***		PRINT FULL NAME PATRICK POWER		DATE SIGNED Y M D 04 12 22
DIRECTOR'S SIGNATURE ***"JEANNINE DAVIES"***		PRINT FULL NAME JEANNINE DAVIES		DATE SIGNED Y M D 04 12 22

MONTELLO RESOURCES LTD.

INTERIM FINANCIAL STATEMENTS

OCTOBER 31, 2004

(Unaudited – Prepared by Management)

Montello Resources Ltd.
#2833 – 595 Burrard Street
P.O. Box 49057
Vancouver, B.C.
V7X 1C4

NOTICE TO USERS

December 22, 2004

The accompanying interim financial statements have not been reviewed by an auditor.

“MONTELLO RESOURCES LTD.”

Montello Resources Ltd.
Balance Sheet
As at October 31, 2004
(Unaudited – Prepared by Management)

ASSETS		October 31, 2004		July 31, 2004
Current				
Cash	$	61,679	$	-
Marketable securities (Note 4)		19,163		10,163
Accounts receivable		19,943		17,841
		100,785		28,004
Investment (Note 5)		9,004		18,004
Resource properties (Note 7)		202,337		2,698
	$	312,126	$	48,706

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

		October 31, 2004		July 31, 2004
Current				
Bank indebtedness	$	-	$	2,853
Accounts payable and accrued liabilities (Note 9 (d))		534,804		525,008
Advances from related party (Note 9 (e))		6,297		6,297
		541,101		534,158
Accounts payable (Note 16 (a))		65,000		65,000
Advances from affiliated company (Note 6)		635,552		313,412
		1,241,653		912,570
Shareholders' deficiency				
Share capital (Notes 8 and 16)		14,208,680		14,208,680
Deficit, per accompanying statement		(15,138,207)		(15,072,544)
		(929,527)		(863,864)
	$	312,126	$	48,706

Continuing operations (Note 1)

Contingent liability (Note 12)

Approved by the directors:

"Patrick Power"
Director – Patrick Power

"Jeannine Davies"
Director – Jeannine Davies

See accompanying notes.

Montello Resources Ltd.
Interim Statement of Operations and Deficit
Three Months Ended October 31, 2004
(Unaudited – Prepared by Management)

	2004	2003
Expenses		
Accounting and audit	$ 3,805	$ 1,427
Bank charges and interest	546	189
Consulting fees	15,000	15,000
Filing fees	1,425	-
Interest on long-term debt	-	4,228
Legal fees	984	1,398
Management fees	15,000	15,000
Office	48	276
Property examination	15,988	-
Rent	7,500	7,069
Transfer agent fees	1,279	1,125
Travel and public relations	-	311
Website hosting	525	-
	62,100	46,023
Loss before undernoted items	(62,100)	(46,023)
Interest income	7	2
Foreign exchange	(3,570)	-
Write-off of resource property	-	(2,347)
Loss for the period	(65,663)	(48,368)
Deficit, beginning of period	(15,072,544)	(13,767,118)
Deficit, end of period	$ (15,138,207)	$ (13,815,486)
Loss per share	$ (0.01)	$ (0.01)

See accompanying notes.

Montello Resources Ltd.
Interim Statement of Cash Flows
Three Months Ended October 31, 2004
(Unaudited – Prepared by Management)

	2004	2003
Cash provided by (used in)		
Operating activities		
Loss for the period	$ (65,663)	$ (48,368)
Item not affecting cash:		
Write-off of resource property	-	2,347
	(65,663)	(46,021)
Changes in non–cash working capital items, net	7,694	31,967
	(57,969)	(14,054)
Investing activity		
Resource property expenditures	(199,639)	(2,347)
	(199,639)	(2,347)
Financing activity		
Advances from affiliated company	322,140	16,098
	322,140	16,098
Increase (decrease) in cash during the period	64,532	(303)
Cash (bank indebtedness), beginning of period	(2,853)	303
Cash, end of period	$ 61,679	$ -
Changes in non-cash working capital items consist of:		
Decrease (increase) in accounts receivable	(2,102)	(2,385)
Increase (decrease) in accounts payable and accrued liabilities	9,796	34,352
	$ 7,694	$ 31,967

Supplemental disclosure with respect to cash flows (Note 10)

See accompanying notes.

1. **Continuing Operations**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. Realization values may be substantially different from the carrying values as shown in the interim financial statements should the Company be unable to continue as a going concern.

2. **Nature of Operations**

The Company in the process of exploring its mineral properties and oil and gas properties and has not determined whether these properties contain reserves which are economically recoverable.

The recoverability of amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and future profitable production from the properties or proceeds from disposition.

3. **Significant Accounting Policies**

(a) **Resource properties**

(i) **Mineral properties**

Acquisition costs of mineral properties together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained these costs will be amortized. When deferred expenditures on individual producing properties exceed the estimated net realizable value, the properties are written down to the estimated value. Costs relating to properties abandoned are written off when the decision to abandon is made.

(ii) **Oil and Gas Properties**

The Company follows the full cost method of accounting for oil and gas operations in accordance with Canadian guidelines. Under this method, all costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, geological and geophysical studies, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on proved or estimated reserves, before royalties, as determined by management of the Company or independent consultants. Sales or dispositions of oil and gas properties are credited to the respective cost centers and any gain or loss is recognized when all properties in a cost center have been disposed of, unless such sale or disposition significantly alters the relationship between capitalized costs and proved reserves of oil and gas attributable to the cost center. Costs of abandoned oil and gas properties are accounted for as adjustments of capitalized costs and written off to expense.

3. **Significant Accounting Policies** (continued)

A ceiling test is applied to each cost center and to the aggregate of all cost centers by comparing the net capitalized costs to the estimated future net revenues from production of proved reserves without discount, plus the costs of unproved properties net of impairment. In addition, the ceiling test for the aggregate of all cost centers is required to include the effects of future site restoration costs, general and administrative expenses, financing costs and income taxes. Any excess capitalized costs are written off in the current period as additional depletion. The calculation of future net revenues is based upon prices, costs and regulations in effect at each period-end.

The Company may write off an unproved property under one or more of the following conditions:

(i) there are no firm plans for further drilling on the unproved property;
(ii) negative results were obtained from studies of the unproved property;
(iii) negative results were obtained from studies conducted in the vicinity of the unproved property;
(iv) the remaining term of the unproved property does not allow sufficient time for further studies or drilling; or
(v) unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience.

(b) **Values**

The amounts shown for oil and gas properties, mineral properties, and deferred exploration costs represent costs to date, and do not necessarily represent present or future values, as they are entirely dependent upon the economic recovery of current and future reserves.

(c) **Cost of maintaining resource properties**

The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

(d) **Marketable securities**

Marketable securities are stated at lower of cost or market.

(e) **Investments**

The Company accounts for its investments using the cost method. Where in management's opinion there has been a loss in value that is other than a temporary decline, the carrying value is reduced to the estimated realizable value.

(f) **Property and equipment**

Property and equipment are reported at cost. Amortization is provided using the declining balance method at the rate of 20% per annum. Only one-half of the rate is used in the year of acquisition.

3. **Significant Accounting Policies** (continued)

(g) **Stock-based compensation plan**

The Company accounts for options granted under its fixed stock option plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(h) **Environmental expenditures**

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

(i) **Use of estimates**

The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

(j) **Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For diluted loss per share, the dilutive effect has not been presented separately as it proved to be anti-dilutive.

Loss per share is calculated using the weighted-average number of shares outstanding during the period.

(k) **Income taxes**

Future income taxes are recorded using the asset and liability method. Using the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not a future tax asset will be recovered, it provides a valuation allowance against the excess.

3. **Significant Accounting Policies** (continued)

(l) **Foreign currency translation**

Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in loss for the period.

4. **Marketable Securities**

Marketable securities consist of shares in a public company related by a common director, which as at October 31, 2004 had a quoted market value of $153,307 (July 31, 2004: $106,709).

5. **Investment**

During the year ended July 31, 2001, the Company received 1,500,000 special warrants of Arctic Star Diamond Corp. ("Arctic Star"), a company related by a common director, at a deemed value of $60,000 as part of the consideration for the sale of a resource property. During the year ended July 31, 2002, the Company exchanged these special warrants, for no additional consideration, into 1,500,000 common shares of Arctic Star (Notes 4 and 6). As at October 31, 2004, the Company has sold 796,000 (July 31, 2004: 796,000) of these shares.

6. **Advances from Affiliated Company**

Advances from affiliated company, related by a common director and in which the Company holds a minority interest, are non-interest bearing and have no specified terms of repayment.

7. **Resource Properties**

	October 31, 2004	July 31, 2004
Morgan and Scott, Tennessee	$ 199,639	$ -
Fentress, Tennessee	2,698	2,698
	$ 202,337	$ 2,698

7. **Resource Properties** (continued)

Acquisition costs and deferred exploration and development expenditures during the three months ended October 31, 2004 and the year ended July 31, 2004 were as follows:

	October 31, 2004	July 31, 2004
Property acquisition costs		
Balance, beginning of period	$ -	$ 162,240
During period		
Additions	172,833	20,772
Written off	-	(183,012)
Balance, end of period	172,833	-
Deferred exploration expenditures		
Balance, beginning of period	2,698	1,024,000
During period		
Camp	9,904	7,413
Consulting fees	16,902	-
Drilling (recovery)	-	(3,642)
Written off	-	(1,025,073)
Balance, end of period	29,504	2,698
Total resource properties costs	$ 202,337	$ 2,698

(a) Morgan and Scott, Tennessee

During the three months ended October 31, 2004, the Company paid $172,833 toward the acquisition of various oil and gas leases covering lands and equipment located in Morgan and Scott Counties, Tennessee.

The various oil and gas leases are subject to a 5% production royalty.

(b) Fentress, Tennessee

During the year ended July 31, 2003, the Company acquired a five-year oil and gas lease covering lands located in Fentress County, Tennessee. To acquire the lease the Company paid US $1,880 (Cdn $2,698).

The property is subject to a 12.5% production royalty.

(c) Tennessee Gas Project, Tennessee

During the year ended July 31, 2001, the Company entered into agreements with Capital East Ventures ("Capital") whereby the Company could earn a 66.6% interest, subject to a 15% overriding royalty, in two separate properties. The properties are certain oil and gas leases in Rogersville and Sneedville in Eastern Tennessee. For each property, the Company advanced US$18,000 for seismic surveys, and was required to spend an additional US$350,000 in drilling costs and additional completion costs to earn the 66.6% interest.

7. **Resource Properties** (continued)

During the year ended July 31, 2002, the Company earned its interest in the Rogersville lease by incurring the required expenditures.

During the year ended July 31, 2003, the Company elected not to proceed with the Sneedville lease and wrote off the associated costs of $38,081. During the year ended July 31, 2004, the Company abandoned the Rogersville lease and wrote off the associated costs of $1,083,364.

The Company agreed to pay a finder's fee of 5% of the funds expended by the Company on the exploration of each property, and the issuance of 200,000 common shares. During the year ended July 31, 2002, the Company issued the 200,000 shares at a deemed value of $20,000 and paid $23,632. As at October 31, 2004, the Company has accrued a liability of $29,379 (July 31, 2004: $29,379) for the remaining cash portion due.

(d) Otish Mountain, Quebec

During the year ended July 31, 2002, the Company entered into an agreement to acquire a 50% joint venture interest in certain mineral claims located in Quebec. The Company acquired its interest by paying cash of $100,000.

During the year ended July 31, 2003, the agreement was amended such that the Company could earn an additional 40% interest (90% total interest) in the property by payment of a further $40,000 (not paid as at July 31, 2003).

During the year ended July 31, 2004, the claims lapsed and the Company wrote off all associated costs.

(e) Valemont, British Columbia

During the year ended July 31, 2001, the Company entered into two agreements with Commerce Resources Corp. whereby the Company could acquire a 100% interest in four mineral claims located in the Cariboo and Kamloops Mining Division, British Columbia. To acquire the interest the Company was required to pay cash of $25,000 (paid) and staking costs of approximately $35,000, and issue 400,000 shares. During the year ended July 31, 2002, the Company issued the 400,000 shares at a deemed value of $28,000.

During the year ended July 31, 2003, the claims lapsed and the Company wrote off all associated costs. The Company reimbursed $20,000 of staking costs during the year ended July 31, 2004, and wrote off the amount during the year then ended.

8. **Share Capital**

		October 31, 2004		July 31, 2004
Authorized:				
100,000,000 Common shares without par value				
Issued:				
65,407,130 Common shares	$	14,208,680	$	14,208,680

(a) Changes in issued common shares during the three months ended October 31, 2004 and the year ended July 31, 2004 were as follows:

	October 31, 2004		July 31, 2004	
	Number of Shares	$ Amount	Number of Shares	$ Amount
Beginning of period	65,407,130	14,208,680	65,407,130	14,208,680
Shares issued during period	-	-	-	-
End of period	65,407,130	14,208,680	65,407,130	14,208,680

(b) During the year ended July 31, 2003, the Company issued 409,500 units for cash of $49,140 pursuant to a private placement. Each unit consisted of one share and one non-transferable share purchase warrant. Each warrant entitled the holder to purchase an additional share at a price of $0.14 per share, exercisable until August 19, 2004. During the three months ended October 31, 2004, the warrants expired unexercised.

(c) As at October 31, 2004, outstanding warrants are as follows:

Number of warrants	Exercise price	Expiry date
3,449,666	$0.15	February 8, 2006

During the year ended July 31, 2004, the Company agreed to extend the expiry date of 3,449,666 warrants initially expiring on February 8, 2004 by a period of two years to February 8, 2006.

8. **Share Capital** (continued)

(d) (i) As at October 31, 2004, outstanding stock options to directors, consultants, and employees are as follows:

Number of shares	Exercise price	Expiry date
400,000	$0.10	November 16, 2004
2,000	$0.10	December 15, 2004
2,372	$0.10	June 15, 2005
266,000	$0.16	November 16, 2005
3,725,000	$0.14	July 18, 2006

(ii) A summary of the Company's stock options as at October 31, 2004 and the changes for the three months then ended is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, beginning of period	4,395,372	$0.14	1.74 years
Expired/Exercised	-		
Balance, end of period	4,395,372	$0.14	1.49 years
Number of options exercisable, end of period	4,395,372	$0.14	1.49 years

9. **Related Party Transactions**

(a) During the three months ended October 31, 2004, the Company incurred management fees of $15,000 (2003: $15,000) with a director of the Company. Additionally, the Company incurred automobile expenses of $Nil (2003: $311) with a director of the Company.

(b) During the three months ended October 31, 2004, the Company incurred office rent of $7,500 (2003: $7,069) with a company related by a director in common.

(c) During the three months ended October 31, 2004, the Company incurred accounting fees of $3,805 (2003: $1,678) with an officer of the Company.

(d) As at October 31, 2004, accounts payable and accrued liabilities include $195,124 (July 31, 2004: $180,124) due to directors and $3,745 (July 31, 2004: $26,837) due to an officer of the Company.

(e) As at October 31, 2004, advances from related party of $6,297 (July 31, 2004: $6,297) is due to a company related by a common director.

10. **Supplemental Disclosure of Non-Cash Operating, Investing and Financing Activities**

There were no significant non-cash transactions during the three months ended October 31, 2004 and 2003.

11. **Income Taxes**

A reconciliation of income taxes for the three months ended October 31, 2004 at Canadian statutory rates with the reported income taxes is as follows:

		October 31, 2004		October 31, 2003
Loss for the period	$	(65,663)	$	(48,368)
Income tax recovery at statutory rate of 35.62%	$	(23,389)		(17,229)
Non-deductible expenses		5,928		5,301
Unrecognized benefits of non-capital losses		17,782		13,396
Other		(321)		(1,468)
Total income tax recovery	$	-	$	-

The significant components of the Company's future income tax assets are as follows:

		October 31, 2004		July 31, 2004
Future income tax assets				
Non-capital losses available for future periods	$	1,224,072	$	1,206,290
Resource deductions		1,747,913		1,676,801
		2,971,985		2,883,091
Valuation allowance		(2,971,985)		(2,883,091)
	$	-	$	-

As at October 31, 2004, the Company has not recorded the potential future income tax benefits of approximately $3,436,000 (July 31, 2004: $3,387,000) in non-capital losses which, if unutilized, expire through 2015.

Subject to certain restrictions, as at October 31, 2004, the Company has resource development and exploration expenditures of approximately $4,907,000 (July 31, 2004: $4,700,000) available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these interim financial statements and have been offset by a valuation allowance.

As at October 31, 2004, the Company also has $140,828 (July 31, 2004: $140,828) in capital loss carryforward.

12. **Contingent Liability**

During the year ended July 31, 1997, the Company with other parties (the "Companies"), entered into an agreement with Supra Oil and Gas Corporation ("Supra") whereby the Companies were allowed to view certain geophysical data pertaining to various properties in Alberta.

If the Companies decided to proceed to field operations, consideration was to be paid in two stages. Upon notification that they intended to go forward, the Companies would have to issue collectively $150,000 of their shares pro-rata based on the October 29, 1997 closing market price of each of the Companies' shares and fund (pro-rata) a $250,000 exploration program which was to include drilling. Upon completing the drill program, had the Companies wished to continue work on the properties, they were to issue a further collective $450,000 of their shares (pro-rata) and transfer a 10% interest in the properties to the private corporation.

During the year ended July 31, 1998, Supra filed a claim in the amount of $150,000 and further damages against the Companies for payments not yet received. The Companies claim that the geophysical data was misrepresentational and induced the Companies to expend considerable costs in developing the properties. The Company has filed a Statement of Defence denying any liability. As at October 31, 2004, the lawsuit is still ongoing and the merit of the claim cannot be assessed.

13. **Segmented Information**

The Company operates in one segment. As at October 31, 2004, the Company has resource properties totalling $202,337 (July 31, 2004: $2,698) located in the United States. All other assets and operations are in Canada.

14. **Environmental Protection Practices**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

15. **Financial Instruments**

The Company's financial instruments consist of cash, marketable securities, accounts receivable, accounts payable and accrued liabilities, and advances. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. As at October 31, 2004 and July 31, 2004, the fair value of receivables and payables approximate their carrying value due to the immediate short-term maturity of these instruments.

16. **Subsequent Events**

Subsequent to October 31, 2004:

(a) The Company issued 1,300,000 common shares at a deemed price of $0.05 per share in settlement of accounts payable totalling $65,000;

(b) The Company agreed to issue 12,730,000 units at a price of $0.05 per unit pursuant to a private placement. Each unit will consist of one common share and one non-transferable share purchase warrant. Each warrant will entitle the holder to purchase an additional common share at an exercise price of $0.10 per share, exercisable for a period of two years; and,

(c) Options to purchase 400,000 common shares exercisable until November 16, 2004 and 2,000 common shares exercisable until December 15, 2004, both at an exercise price of $0.10 per share, expired unexercised.

FORM 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JULY 31, 2004

AND

FOR THE THREE MONTH PERIOD ENDED OCTOBER 31, 2004

ISSUER DETAILS			FOR QUARTER ENDED Y / M / D			DATE OF REPORT Y / M / D		
NAME OF ISSUER MONTELLO RESOURCES LTD.			04	10	31	04	12	22
ISSUER ADDRESS SUITE 2833 – 595 BURRARD STREET, P.O. BOX 49057								
CITY/ VANCOUVER	PROVINCE BC	POSTAL CODE V7X 1C4	ISSUER FAX NO. 604-689-8199			ISSUER TELEPHONE NO. 604-689-1799		
CONTACT PERSON PATRICK POWER		CONTACT'S POSITION PRESIDENT				CONTACT TELEPHONE NO. 604-689-1799		
CONTACT EMAIL ADDRESS ir@montello.com		WEB SITE ADDRESS www.montello.com						
DIRECTOR'S SIGNATURE ***"PATRICK POWER"***		PRINT FULL NAME PATRICK POWER				DATE SIGNED Y 04	M 12	D 22
DIRECTOR'S SIGNATURE ***"JEANNINE DAVIES"***		PRINT FULL NAME JEANNINE DAVIES				DATE SIGNED Y 04	M 12	D 22

MONTELLO RESOURCES LTD.

(“the Company”)

FORM 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JULY 31, 2004 (PART A)

AND

FOR THE THREE MONTH PERIOD ENDED OCTOBER 31, 2004 (PART B)

A. ANNUAL MANAGEMENT DISCUSSION AND ANALYSIS – FOR THE YEAR ENDED JULY 31, 2004

The following discussion and analysis, prepared as of December 15, 2004, should be read in conjunction with the annual audited financial statements for the years ended July 31, 2004 and 2003 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements.

Additional information related to the Company is available for view on the SEDAR website at www.sedar.com.

GENERAL DEVELOPMENT OF THE BUSINESS

The Company is engaged in the acquisition, exploration and development of natural resource (oil/gas and mineral) properties.

The Company does not have any subsidiaries.

Significant Acquisitions and Dispositions

Tennessee Oil and Gas Leases

Morgan and Scott Counties Property, Tennessee

In September and October 2004 (i.e. subsequent to July 31, 2004) the Company paid approximately $155,000 toward the acquisition of various oil and gas leases covering lands and equipment located in Morgan and Scott Counties, Tennessee.

The various oil and gas leases are subject to a 5% production royalty.

Rogersville Prospect, Tennessee

During the year ended July 31, 2004, the Company abandoned this property and wrote off all associated costs.

Mineral Property

Otish Mountain Property, Quebec

During the year ended July 31, 2004, the Company allowed the Otish Mountain claims to lapse and wrote off all associated costs.

Property Exploration Plans and Work Programs Status

The Company plans to continue exploration work on its currently held resource properties, subject to availability and timing of financing (including, where applicable, the ability to meet cash calls from the project operator) and data analysis from work programs.

See "SUBSEQUENT EVENTS" below for details of property acquisitions/dispositions subsequent to July 31, 2004.

For properties in which the company is the operator, results of exploration programs, including technical disclosure, are prepared by or under the supervision of a qualified person.

For properties in which the Company is not the operator, results of exploration programs are provided to the Company by the project operator.

The Company is the project operator for both of its currently held resource properties – the Morgan and Scott property, and the Fentress property – both are oil and gas projects located in Tennessee.

Technical reports and news releases discussing progress on the Company's properties can be viewed on the SEDAR website at www.sedar.com.

Use of Proceeds from Equity Financings

During the year ended July 31, 2004 and to the date of this report, there were no material differences in the actual use of proceeds from previous disclosure regarding the intended use of proceeds (no equity financings were completed during the above-noted period).

SELECTED FINANCIAL INFORMATION

The Company's fiscal year ends on July 31 of each year. The following is a summary of certain selected audited financial information for the Company's last three fiscal years:

	2004	2003	2002
Working Capital (Deficiciency):	($506,154)	($599,189)	($239,746)
Revenues:	$44	$7	$402
Exploration and Development Expenses:	$1,208,085	$791,448	$503,910
Gen. and Admin. Expenses:	$321,576	$350,933	$442,563
Loss before Discontinued Operations and Extraordinary Items:	($1,305,426)	($1,325,514)	($965,979)
Loss per Share before Discontinued Operations and Extraordinary Items:	($0.02)	($0.02)	($0.02)
Net Loss:	($1,305,426)	($1,325,514)	($965,979)
Loss per Share – Basic and Fully Diluted:	($0.02)	($0.02)	($0.02)
Total Assets:	$48,706	$1,244,609	$2,306,003
Deferred Exploration and Development balance:	$2,698	$1,024,000	$1,140,488
Property Acquisitions balance:	-	$162,240	$812,740
Other Assets:	$46,008	$58,369	$352,775
Long Term Debt:	-	-	($190,000)
Total Liabilities:	($912,570)	($803,047)	($577,427)
Share Capital:	$14,208,680	$14,208,680	$14,121,040
Cash Dividends:	-	-	-
Number of Shares:	65,407,130	65,407,130	64,722,630
Retained Earnings (Deficit)	($15,072,544)	($13,767,118)	($12,441,604)

Other than significant acquisitions or disposals of natural resource properties through the normal course of the Company's business, there were no material factors affecting the comparability of the foregoing financial data (i.e. including discontinued operations, changes in accounting policies and major changes in the direction of the business).

The following table presents certain selected financial information on a quarterly basis:

	Fiscal 2004				**Fiscal 2003**			
	Fiscal 2004 Fourth Quarter	**Fiscal 2004 Third Quarter**	**Fiscal 2004 Second Quarter**	**Fiscal 2004 First Quarter**	**Fiscal 2003 Fourth Quarter**	**Fiscal 2003 Third Quarter**	**Fiscal 2003 Second Quarter**	**Fiscal 2003 First Quarter**
Total revenues	$27	$15	-	$2	$2	-	$2	$3
Income (loss) before discontinued operations & extraord. items	($1,246,778)	$151,273	($161,553)	($48,368)	($1,170,807)	($52,113)	($64,744)	($37,850)
Earnings (loss) per share before discontinued operations & extraord. items	($0.02)	$0.01	($0.01)	($0.01)	($0.02)	($0.01)	($0.01)	($0.01)
Net income (loss)	($1,246,778)	$151,273	($161,553)	($48,368)	($1,170,807)	($52,113)	($64,744)	($37,850)
Net earnings (loss) per share	($0.02)	$0.01	($0.01)	($0.01)	($0.02)	($0.01)	($0.01)	($0.01)

Dividend Record and Policy

The Company has not declared any dividends since incorporation and does not intend to declare dividends in the foreseeable future. If the Company generates earnings in future, it expects that they will be retained to finance future growth and, where appropriate, retire debt.

Results of Operations

Liquidity and Capital Resources
Since incorporation, the Company's capital resources have been limited. In addition to having to rely upon cash generated from operations, the Company has had to rely upon the sale of equity and debt securities for cash required for administration, acquisitions and exploration programs,

among other things. While there are presently no known specific trends, events or uncertainties that are likely to result in the Company's liquidity decreasing in any material way over the next year, it is unlikely that significant cash will be generated from operations over this period. Since the Company is unlikely to have significant cash flow, the Company will have to continue to rely upon equity and debt financing during such period. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company. The Company does not have any commitments for material capital expenditures over either the near or long term and none are presently contemplated over normal operating requirements.

Effect of Recent Developments on Operations

The Company is engaged in the acquisition, exploration and development of natural resource (oil/gas and mineral) properties. The Company has entered into agreements to acquire interests in the properties described above under the heading "Significant Acquisitions and Dispositions".

The main business risks facing the Company over the next several years relate to the availability of equity capital to finance the acquisition, exploration and development of existing and future exploration and development projects. The availability of equity capital to junior resource companies is affected by commodity prices, global economic conditions, and economic conditions and government policies in the countries of operation, among other things. These conditions are beyond the control of the management of the Company and have a direct effect on the Company's ability to raise equity capital.

The Company's working capital and liquidity fluctuate in proportion to its ongoing equity financing activities. The Company requires a certain amount of liquid capital in order to sustain its operations and in order to meet various obligations as specified under the Company's resource property acquisition agreements. Should the Company fail to obtain future equity financing due to reasons as described above, it will not be able to meet these obligations and may lose its interests in the properties covered by the agreements. Further, should the Company be unable to obtain sufficient equity financing for working capital, it may be unable to meet its ongoing operational commitments.

Exploration and development of natural resources involve substantial expenditures and a high degree of risk. Few properties which are explored are ultimately developed into producing properties. Accordingly, the Company has no material revenue, writes off its natural resource properties from time to time, and operates at a loss. Continued operations are dependent upon ongoing equity financing activities.

Analysis of July 31, 2004 Fiscal Year-end vs. July 31, 2003 Fiscal Year-end

As at July 31, 2004, the Company had a working capital deficiency of $506,154 versus a working capital deficiency of $599,189 as at July 31, 2003 - a decrease in deficiency of roughly $93,000. The decrease is due mainly to the retirement of a $190,000 debenture accompanied by a $100,000 increase in accounts payable – both in fiscal 2004.

During the fiscal year ended July 31, 2004, the Company incurred general and administrative expenses of $321,576 as compared to $350,933 during the year ended July 31, 2003 – a decrease of approximately $29,000 over fiscal 2003. Significant components of this change are discussed below. Management fees increased by roughly $76,000 from $73,500 in fiscal 2003 to $150,000 in fiscal 2004. The increase is due to increased contributions from management in 2004 related primarily to assessing new property acquisitions and securing of financing – both of which were secured subsequent to July 31, 2004. Consulting fees decreased by roughly $47,000 from $106,749 in fiscal 2003 to $60,000 in fiscal 2004 due to decreased use of consultants (and greater reliance on management) to assist with company development. Reclamation expense decreased by roughly $40,000 from $39,600 in fiscal 2003 to $Nil in fiscal 2004. The decrease was a result of these costs being fully provided for in fiscal 2003 and no further exploration work undertaken in fiscal 2004. Legal fees decreased by roughly $13,000 from $18,722 in fiscal 2003 to $5,202 in fiscal 2004 due to the lower level of corporate activity (acquisitions, filings, etc.) in fiscal 2004.

In fiscal 2003 the Company disposed of its investment in Canadian All.ca Online Inc. ("All.ca"), a company related by a common director, for $Nil proceeds, resulting in a loss on disposal of $155,500. The Company also wrote off advances to All.ca of $77,521.

In fiscal 2004 the Company abandoned two resource properties – Rogersville, Tennessee and Otish Mountain, Quebec – resulting in a write-off of resource properties of $1,208,085. In fiscal 2003 the Company abandoned three resource properties – Swan Hills, Alberta, Sneedsville, Tennessee, and Valemont, British Columbia – resulting in a write-off of resource properties of $791,448. In fiscal 2003 the Company also wrote off advances of roughly $70,000 to 868846 Alberta Ltd. ("868846"). The Company had previously granted an option to 868846 to earn a 50% interest in the Swan Hills property.

In fiscal 2004 the Company sold 400,000 shares of Arctic Star Diamond Corp. ("Arctic Star"), a company related by a director in common, in retirement of a $190,000 debenture and settlement of accounts payable totalling $49,626. As a result, the Company recorded a gain on sale of investment of $223,626. In fiscal 2003 the Company sold 306,000 shares of Arctic Star for proceeds of $91,829, resulting in a gain on sale of investment of $79,589.

Net cash used in operating activities increased by roughly $58,000 from $52,533 in fiscal 2003 to $110,531 in fiscal 2004. The increase is due primarily to a $79,000 increase in accounts payable in fiscal 2004 and the $29,000 decrease in general and administrative expenses over fiscal 2003 noted above.

Net cash used in investing activities increased by roughly $21,000 from $3,057 in fiscal 2003 to $24,543 in fiscal 2004. The increase is related primarily to the sale of $19,000 of property and equipment in fiscal 2003.

Net cash provided by financing activities increased by roughly $87,000 from $44,955 in fiscal

2003 to $131,918 in fiscal 2004. The increase is related to a $125,000 increase in advances from an affiliated company (Arctic Star) and a $38,000 decrease in equity financings – both in fiscal 2004.

CONTRACTUAL OBLIGATIONS/COMMITMENTS

The Company does not have any contractual obligations/commitments for material expenditures.

The Company has a consulting agreement with Brahma Communications Inc. ("Brahma") for the provision of general office administration services, which include investor relations services. The agreement with Brahma provides that Brahma is paid $6,000 per month, and is on a month-to-month basis. The principal of Brahma is Thomas Yingling.

OUTSTANDING SHARE DATA

The Company's authorized share capital consists of 100,000,000 common shares without par value. The Company has only one kind and class of shares and there are no unusual rights or restrictions attached to that class.

As at July 31, 2004, the Company had a total of 65,407,130 common shares issued and outstanding. The Company did not issue any shares during the year then ended. See "SUBSEQUENT EVENTS" below for details of share issuances subsequent to July 31, 2004.

As at July 31, 2004, the Company had 3,859,166 share purchase warrants and 4,395,372 stock options outstanding.

In February 2004 the Company agreed to extend the expiry date of 3,449,666 warrants initially expiring on February 8, 2004 by a period of two years to February 8, 2006. The exercise price remains unchanged at $0.15 per share.

In April 2002 the Company issued a convertible debenture in the principal amount of $190,000. The debenture, bearing interest at the rate of 8% per annum payable quarterly in arrears, was due April 15, 2004. The debenture was secured by a general pledge of the Company's assets.

The debenture was to be convertible, at the option of the holder, until maturity, into units on the basis of one unit for each $0.10 of the principal amount converted. On exercise of the conversion feature, each unit was to consist of one share and one non-transferable share purchase warrant entitling the holder to purchase an additional share at an exercise price of $0.10 per share, exercisable until April 15, 2004.

The Company had also agreed to pay a finder's fee of $17,100 in connection with this transaction. The fee was to be payable through issuance of an additional convertible debenture of this amount, with the same terms as those described above.

Regulatory acceptance of the conversion feature of the debenture and of the finder's fee was not obtained. Accordingly, the debenture did not include a conversion privilege, nor was a finder's fee payable. The payment and interest terms of the $190,000 debenture remained unchanged.

In April 2004 the Company retired the debenture (including the related accrued interest due of $32,525) by the sale of 400,000 shares of Arctic Star Diamond Corp. ("Arctic Star"), a company related by a common President and in which the Company holds a minority interest. The Company recorded a gain on the sale of the Arctic Star shares of $223,626.

RELATED PARTY TRANSACTIONS

During the year ended July 31, 2004, the Company incurred management and consulting fees of $150,000 (2003: $91,049) with directors, and accounting fees of $8,571 (2003: $13,074) with the Secretary of the Company.

During the year ended July 31, 2004, the Company incurred office rent of $29,569 (2003: $14,500) with a company related by a common President.

During the year ended July 31, 2004, the Company incurred automobile expenses of $311 (2003: $7,482) with the President of the Company.

During the year ended July 31, 2004, the Company sold 400,000 shares (2003: 306,000 shares) of Arctic Star Diamond Corp. ("Arctic Star"), a company related by a common President. As a result, the Company recorded a gain on sale of investment of $223,626 (2003: $79,589). See "OUTSTANDING SHARE DATA" above for details of the sale.

FINANCIAL INSTRUMENTS

It is management's opinion that the fair value of the Company's cash, marketable securities, accounts receivable, accounts payable and accrued liabilities, and advances approximate their carrying value due to the relatively short periods to the maturity of the instruments.

The maximum credit risks exposure for all financial assets is the carrying value of those assets.

None of the Company's financial instruments are denominated in U.S. dollars, and the Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

CONTINGENCIES

The Company is still a party to an action commenced by Supra Oil and Gas Corporation in 1997. The claim is described in the attached annual audited financial statements and no steps have been taken on the action during the year ended July 31, 2004 or to the date of this report.

SUBSEQUENT EVENTS

Subsequent to July 31, 2004:

(a) The Company issued 1,300,000 common shares at a deemed price of $0.05 per share in settlement of accounts payable totalling $65,000;

(b) The Company paid $155,089 towards the acquisition of various oil and gas leases covering lands and equipment located in central Tennessee;

(c) The Company agreed to issue 12,730,000 units at a price of $0.05 per unit pursuant to a private placement. Each unit will consist of one common share and one non-transferable share purchase warrant. Each warrant will entitle the holder to purchase an additional common share at an exercise price of $0.10 per share, exercisable for a period of two years;

(d) Warrants to purchase 409,500 common shares at an exercise price of $0.14 per share, exercisable until August 19, 2004, expired unexercised; and,

(e) Options to purchase 400,000 common shares exercisable until November 16, 2004 and 2,000 common shares exercisable until December 15, 2004, both at an exercise price of $0.10 per share, expired unexercised.

B. INTERIM MANAGEMENT DISCUSSION AND ANALYSIS – FOR THE THREE MONTH PERIOD ENDED OCTOBER 31, 2004

The following discussion and analysis, prepared as of December 22, 2004, should be read in conjunction with the unaudited interim financial statements for the three months ended October 31, 2004 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the years ended July 31, 2004 and 2003, and the Management Discussion and Analysis for those years.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements.

Additional information related to the Company is available for view on the SEDAR website at www.sedar.com.

GENERAL DEVELOPMENT OF THE BUSINESS

The Company is engaged in the acquisition, exploration and development of natural resource (oil/gas and mineral) properties.

The Company does not have any subsidiaries.

Significant Acquisitions and Dispositions

Oil and Gas Property

Morgan and Scott Counties Property, Tennessee

In September and October 2004 the Company paid approximately $173,000 toward the acquisition of various oil and gas leases covering lands and equipment located in Morgan and Scott Counties, Tennessee.

The various oil and gas leases are subject to a 5% production royalty.

Property Exploration Plans and Work Programs Status

The Company plans to continue exploration work on its currently held resource properties, subject to availability and timing of financing (including, where applicable, the ability to meet cash calls from the project operator) and data analysis from work programs.
For properties in which the company is the operator, results of exploration programs, including technical disclosure, are prepared by or under the supervision of a qualified person.

For properties in which the Company is not the operator, results of exploration programs are provided to the Company by the project operator.

The Company is the project operator for both of its currently held resource properties – the Morgan and Scott property, and the Fentress property – both are oil and gas projects located in Tennessee.

Technical reports and news releases discussing progress on the Company's properties can be viewed on the SEDAR website at www.sedar.com.

Use of Proceeds from Equity Financings

During the three months ended October 31, 2004 and to the date of this report, there were no material differences in the actual use of proceeds from previous disclosure regarding the intended use of proceeds (no equity financings were completed during the above-noted period).

SELECTED FINANCIAL INFORMATION

The following table presents certain selected financial information on a quarterly basis:

	Fiscal 2005 First Quarter	Fiscal 2004 Fourth Quarter	Fiscal 2004 Third Quarter	Fiscal 2004 Second Quarter	Fiscal 2004 First Quarter	Fiscal 2003 Fourth Quarter	Fiscal 2003 Third Quarter	Fiscal 2003 Second Quarter
Total revenues	$7	$27	$15	-	$2	$2	-	$2
Income (loss) before discontinued operations & extraord. items	($65,663)	($1,246,778)	$151,273	($161,553)	($48,368)	($1,170,807)	($52,113)	($64,744)
Earnings (loss) per share before discontinued operations & extraord. items	($0.01)	($0.02)	$0.01	($0.01)	($0.01)	($0.02)	($0.01)	($0.01)
Net income (loss)	($65,663)	($1,246,778)	$151,273	($161,553)	($48,368)	($1,170,807)	($52,113)	($64,744)
Net earnings (loss) per share	($0.01)	($0.02)	$0.01	($0.01)	($0.01)	($0.02)	($0.01)	($0.01)

Dividend Record and Policy

The Company has not declared any dividends since incorporation and does not intend to declare dividends in the foreseeable future. If the Company generates earnings in future, it expects that they will be retained to finance future growth and, where appropriate, retire debt.

Results of Operations

Liquidity and Capital Resources

Since incorporation, the Company's capital resources have been limited. In addition to having to rely upon cash generated from operations, the Company has had to rely upon the sale of equity and debt securities for cash required for administration, acquisitions and exploration programs, among other things. While there are presently no known specific trends, events or uncertainties that are likely to result in the Company's liquidity decreasing in any material way over the next year, it is unlikely that significant cash will be generated from operations over this period. Since the Company is unlikely to have significant cash flow, the Company will have to continue to rely upon equity and debt financing during such period. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company. The Company does not have any commitments for material capital expenditures over either the near or long term and none are presently contemplated over normal operating requirements.

Effect of Recent Developments on Operations

The Company is engaged in the acquisition, exploration and development of natural resource (oil/gas and mineral) properties. The Company has entered into agreements to acquire interests in the properties described above under the heading "Significant Acquisitions and Dispositions".

The main business risks facing the Company over the next several years relate to the availability of equity capital to finance the acquisition, exploration and development of existing and future exploration and development projects. The availability of equity capital to junior resource companies is affected by commodity prices, global economic conditions, and economic conditions and government policies in the countries of operation, among other things. These conditions are beyond the control of the management of the Company and have a direct effect on the Company's ability to raise equity capital.

The Company's working capital and liquidity fluctuate in proportion to its ongoing equity financing activities. The Company requires a certain amount of liquid capital in order to sustain its operations and in order to meet various obligations as specified under the Company's resource property acquisition agreements. Should the Company fail to obtain future equity financing due to reasons as described above, it will not be able to meet these obligations and may lose its interests in the properties covered by the agreements. Further, should the Company be unable to obtain sufficient equity financing for working capital, it may be unable to meet its ongoing operational commitments.

Exploration and development of natural resources involve substantial expenditures and a high degree of risk. Few properties which are explored are ultimately developed into producing properties. Accordingly, the Company has no material revenue, writes off its natural resource properties from time to time, and operates at a loss. Continued operations are dependent upon ongoing equity financing activities.

Analysis of Three Months Ended October 31, 2004 vs. Three Months Ended October 31, 2003

As at October 31, 2004, the Company had a working capital deficiency of $440,316 versus a working capital deficiency of $622,459 as at October 31, 2003 – a decrease in deficiency of roughly $182,000. The decrease is due mainly to the retirement of a $190,000 debenture in April 2004.

General and administrative expenses increased slightly (by roughly $16,000) from $46,023 during the three months ended October 31, 2003 ("first quarter 2004") to $62,100 during the three months ended October 31, 2004 ("first quarter 2005"). The increase is due to a $16,000 increase in evaluation/examination of new properties in first quarter 2005 – resulting in the acquisition of various oil and gas leases located in Tennessee during the quarter.

Net cash used in operating activities increased by roughly $44,000 from $14,054 in first quarter 2004 to $57,969 in first quarter 2005. The increase is due primarily to a $25,000 decrease in accounts payable and the $16,000 increase in general and administrative expenses noted above – both in first quarter 2005.

Net cash used in investing activities increased by roughly $197,000 from $2,347 in first quarter 2004 to $199,639 in first quarter 2005. The increase is due to the acquisition of the Morgan and Scott, Tennessee oil and gas leases for roughly $173,000 and related development work on the property of $27,000 – both in first quarter 2005.

Net cash provided by financing activities increased by roughly $306,000 from $16,098 in first quarter 2004 to $322,140 in first quarter 2005. The increase is due to an increase in advances from an affiliated company (Arctic Star) of roughly $306,000 in first quarter 2005.

Analysis of Financial Condition as at October 31, 2004 vs. July 31, 2004

As at October 31, 2004, the Company had a working capital deficiency of $440,316 versus a working capital deficiency of $506,154 as at July 31, 2004 – a decrease in deficiency of roughly $66,000 from the July 31, 2004 year-end. The decrease in deficiency is due primarily to a $62,000 increase in cash on hand as a result of advances from an affiliated company (Arctic Star).

CONTRACTUAL OBLIGATIONS/COMMITMENTS

The Company does not have any contractual obligations/commitments for material expenditures.

The Company has a consulting agreement with Brahma Communications Inc. (“Brahma”) for the provision of general office administration services, which include investor relations services. The agreement with Brahma provides that Brahma is paid $6,000 per month, and is on a month-to-month basis. The principal of Brahma is Thomas Yingling.

OUTSTANDING SHARE DATA

The Company’s authorized share capital consists of 100,000,000 common shares without par value. The Company has only one kind and class of shares and there are no unusual rights or restrictions attached to that class.

As at October 31, 2004, the Company had a total of 65,407,130 common shares issued and outstanding. The Company did not issue any shares during the three months then ended. See “SUBSEQUENT EVENTS” below for details of share issuances subsequent to October 31, 2004.

As at October 31, 2004, the Company had 3,449,666 share purchase warrants and 4,395,372 stock options outstanding.

RELATED PARTY TRANSACTIONS

During the three months ended October 31, 2004, the Company incurred management fees of $15,000 (2003: $15,000) with the President, and accounting fees of $3,805 (2003: $1,678) with the Secretary of the Company.

During the three months ended October 31, 2004, the Company incurred office rent of $7,500 (2003: $7,069) with a company related by a common President.

FINANCIAL INSTRUMENTS

It is management's opinion that the fair value of the Company's cash, marketable securities, accounts receivable, accounts payable and accrued liabilities, and advances approximate their carrying value due to the relatively short periods to the maturity of the instruments.

The maximum credit risks exposure for all financial assets is the carrying value of those assets.

None of the Company's financial instruments are denominated in U.S. dollars, and the Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

CONTINGENCIES

The Company is still a party to an action commenced by Supra Oil and Gas Corporation in 1997. The claim is described in the attached interim financial statements and no steps have been taken on the action during the three months ended October 31, 2004 or to the date of this report.

SUBSEQUENT EVENTS

Subsequent to October 31, 2004:

(a) The Company issued 1,300,000 common shares at a deemed price of $0.05 per share in settlement of accounts payable totalling $65,000;

(b) The Company agreed to issue 12,730,000 units at a price of $0.05 per unit pursuant to a private placement. Each unit will consist of one common share and one non-transferable share purchase warrant. Each warrant will entitle the holder to purchase an additional common share at an exercise price of $0.10 per share, exercisable for a period of two years; and,

(c) Options to purchase 400,000 common shares exercisable until November 16, 2004 and 2,000 common shares exercisable until December 15, 2004, both at an exercise price of $0.10 per share, expired unexercised.