

UNITED REEF LIMITED

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2004
AND
MANAGEMENT'S DISCUSSION & ANALYSIS**

15 Toronto Street, Suite 600
Toronto, ON M5C 2E3
Tel: (416) 368-3332 / Fax: (416) 368-8957
E-mail: info@unitedreef.com

UNITED REEF LIMITED

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with the audited financial statements of United Reef Limited ("United Reef" or the "Company") for the year ended November 30, 2004 with comparative figures for the year ended November 30, 2003. The audited financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise indicated. Additional information about the Company is available on SEDAR at www.sedar.com, on CNQ's website at www.cnq.ca, and on the Company's website at www.unitedreef.com

Overview

United Reef is a natural resource exploration company, founded in 1948 and currently holds interests in two projects; an oil & gas project located in northeastern Central African Republic ("CAR") and a past-producing nickel-copper property in the Sudbury area, Ontario. The Company's projects do not presently contain any known reserves or resources.

Independent technical reports were commissioned by the Company on each of its projects. In the case of the oil and gas project, a report prepared pursuant to the guidelines of *National Instrument No. 51-101* and in the case of the Sudbury area project, pursuant to the guidelines of *National Instrument 43-101* have been filed. Copies of these reports are available for viewing on the SEDAR and CNQ websites referred to above.

The Company established a public market again for its shares in July 2003 through a listing on the CNQ stock exchange. In order for the Company to participate in, and advance its exploration projects, it will be required to continue to raise new equity financing through the capital markets.

Management believes that the Company has been placed in a favourable position for growth by its involvement in the CAR oil & gas project and the Sudbury copper, nickel and platinum group metals project. Increasing global economic activity continues to drive demand for oil & gas as well as base and precious metals.

Oil & Gas Project, CAR

In September 2004 the Company finalized an agreement, which gives the Company the right to earn a 25% interest in RSM Production Corporation's ("RSM") oil & gas exploration permit in the Central African Republic. RSM obtained its rights pursuant to a *Petroleum Exploration and Exploitation Contract* with the State of CAR, which became effective in November 2000. The agreement governs the exploration and development of a 55,504-km² permit area, located in northeastern CAR along the Chad border.

The RSM permit covers the majority of the Doseo and Salamat Basins in northern CAR. These basins are part of the West and Central African Rift System (WCARS), which extends from Nigeria to Kenya. Several significant petroleum deposits have been discovered and are currently being produced in the WCARS, including an Exxon-led development in southern Chad, approximately 300 kilometres from the RSM permit.

The Salamat Basin portion of the RSM permit has an extensive 2D seismic data base shot across it. Fifteen defined prospects have been interpreted from this data by the Company's consultants within the RSM permit, ranging in size from 200 hectares to 6,500 hectares. Only one oil & gas exploration well

has ever been drilled (1986) in the CAR and lies within the (Salamat Basin) RSM permit. The well had extensive oil staining in the upper 4,500 feet of the section but did not test any hydrocarbons and was abandoned. There are reported hydrocarbon discoveries on the Chad portion of the Doseo Basin.

The Company may earn its interest in RSM's permit area by funding 50% of the cost to acquire up to 2,500 line kilometres of new seismic data over areas of the permit not previously covered and by funding 50% of the cost to drill the first eight exploration wells on the permit.

Nickel Offsets Project, Sudbury

The Company presently holds a 100% interest in this approximately 885-acre property consisting of both patented and unpatented mining claims. The property includes the past-producing Nickel Offset (Ross) Mine (1943-1957) and is being evaluated for its nickel, copper and platinum group metals potential. Effective December 29, 2004, International CHS Resource Corporation ("CHS") exercised an option granting CHS the right to acquire a 50% working interest in the property. CHS has agreed to expend a total of \$2.8 million in staged exploration expenditures on the property over the next four years. During the option earn-in period, CHS will make aggregate cash payments of \$107,000 and issue 400,000 CHS common shares to the Company. The Company will remain the operator of the project and manage recommended exploration programs to be funded by CHS, until such time as CHS has earned their 50% interest in the property. A diamond-drilling program is currently being undertaken on the property.

Results of Operations

Selected Annual Information

The following table sets out audited financial information for the Company.

	2004	2003	2002
Revenue	\$ Nil	\$ Nil	\$ Nil
Net income (loss)	(272,422)	87,699	(23,129)
Net income (loss) per share	(0.01)	0.00	(0.00)
Net income (loss) per share, fully diluted	(0.00)	0.00	(0.00)
Total assets	880,987	318,626	153,523
Working capital surplus (deficiency)	\$ 536,081	\$ 77,051	\$ (49,524)

The Company had no revenues during the periods reviewed.

2004 vs 2003

General and administrative expenses in 2004 were \$327,792 (2003 - \$240,695), before the recognition of non-recurring items, which included gains on the sale of marketable securities of \$65,144 in 2004 (2003 - \$322,083). The net loss for the year was \$272,422 as compared to income of \$87,699 in 2003. The most significant items of increased expenditure during 2004 relate to increased administrative costs of approximately \$42,000 compared to 2003 and the recognition of stock-based compensation in 2004 of \$34,825. There was no stock-based compensation expense incurred in 2003.

The increased general and administrative expenses during 2004 are primarily attributed to the increased level of activity of the Company. Since the early 1990's the majority of the Company's administrative functions and corporate offices have been provided by M.D. Coulter & Associates Inc. ("MDC"), a private company owned by the President and Secretary of the Company. MDC has advised the Company that on a progressive basis during 2005 it will be phasing out its provision of services and office facilities

to the Company. Management is implementing steps to assume responsibility directly by the Company for the various administrative functions previously provided by MDC and as a result anticipates that our general and administrative expenses will increase in the future.

2003 vs 2002

Total operating expenses in 2003 were \$240,695 (2002 - \$87,540), before the recognition of non-recurring items, which included gains on the sale of marketable securities of \$322,083 in 2003 (2002 - \$46,954). The net income for the year was \$87,699 compared to a net loss of \$23,129 in 2002. The most significant items of increased expenditure during 2003 relate to increased administrative costs of approximately \$28,000 compared to 2002 and the re-instatement of management fees of \$75,000 for the services of the President of the Company. No management fees were charged in 2002.

Stock-based Compensation

The Company has a stock-based compensation plan, which is used to compensate directors, officers and employees of the Company and consultants to the Company. The Company accounts for all stock-based payments using the fair value based method. Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized on a straight line basis over the vesting period of the options. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

Summary of Quarterly Results

The following table sets out selected unaudited financial information for the Company for the quarters identified.

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Net income (loss)	(146,537)	(61,173)	(3,927)	(60,785)	105,572	(35,218)	11,418	5,927
Net income (loss) per share	(0.01)	(0.00)	(0.00)	(0.00)	0.00	(0.00)	0.00	0.00
Net income (loss) per share, fully Diluted	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.00)	0.00	0.00
Total assets	880,987	879,138	312,249	267,376	318,626	159,450	121,404	147,423
Working capital surplus (deficiency)	536,081	603,733	(6,871)	38,781	77,051	(21,029)	(7,826)	(30,960)

Liquidity and Capital Resources

At November 30, 2004 the Company had cash resources of \$560,538 compared to November 30, 2003 of \$165,983 (2002 - \$22,048). At November 30, 2004 the Company had a working capital surplus of \$536,081 (defined as the difference between current assets and current liabilities) compared with November 30, 2003 of \$77,051. At November 30, 2002 the Company had a working capital deficiency of \$49,524.

For the foreseeable future the Company will remain dependent on the issuance of further shares to raise funds to explore its properties and to pay its operating expenses.

Outstanding Share Data

The Company's common shares trade on the CNQ stock exchange. In 2004 the Company raised \$801,945 (net of issue costs) from the sale of 9,080,000 units (the "Units"). Each Unit consisted of one common share and one-half of one common share purchase warrant (the "Warrants"). Each whole Warrant entitles the holder to purchase an additional common share of the Company. In 2004, 50,000 common shares were issued resulting in proceeds of \$7,500. Subsequent to the year-end, an additional 150,000 Warrants were exercised for proceeds of \$22,500.

The fully-diluted number of shares outstanding at March 29, 2005 and November 30, 2004 were 61,297,453 and 61,397,453, respectively, consisting of the following:

	March 29, 2005	November 30, 2004
Common shares	52,902,453	52,752,453
Common share purchase warrants	4,540,000	4,790,000
Broker's warrants	655,000	655,000
Common share purchase options	3,200,000	3,200,000
Fully-diluted shares outstanding	61,297,453	61,397,453

The exercise terms of the warrants and options are set out in Note 6 to the financial statements.

Related Party Transactions

Related party transactions for the year are disclosed in Note 5 to the financial statements. There have been no related party transactions subsequent to the year-end.

Forward Looking Statements

This management's discussion and analysis may contain certain forward looking statements relating, but not limited to, the Company's operations, anticipated financial performance, business prospects and strategies. Forward looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. Such forward-looking statements are subject to risks, uncertainties and other factors, as identified under "Risks and Uncertainties" below, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such factors include, but are not limited to, economic, competitive, regulatory and business conditions. The Company disclaims any responsibility to update any such forward-looking statements. Readers should not place undue reliance on forward-looking statements.

Risks and Uncertainties

The Company's business is subject to risks inherent in oil & gas and mineral exploration and the future development of operations on its projects. In addition, there are risks associated with the Company's proposed exploration activity, in the case of its oil and gas project, in a foreign jurisdiction. The Company has identified certain risks pertinent to its business including: exploration and reserve risks, drilling and operating risks, costs and availability of materials and services, access to capital markets and the requirement for additional capital, loss of or changes to joint venture or related agreements, economic and sovereign risks, the possible effects of less developed legal systems, reliance on strategic relationships, market risk, volatility of future oil & gas and metal prices and foreign currency risk.

Management attempts to monitor, assess and mitigate certain of these risks by retaining experienced professionals and using modern exploration technology. The Company has focused on developing a project in a known hydrocarbon-producing region and in a country where the Company has considerable operating experience. Neighbouring countries, Sudan and Chad, have hosted the successful development of significant oil & gas projects through the participation of foreign oil & gas companies. Existing oil pipelines in Chad and Sudan are in reasonable proximity to the CAR project. The Company has re-established contacts and relationships with consultants in the CAR to monitor economic and political developments and to assist with operating, administrative and legal matters. However, there will remain certain risks over which the Company has little or no control.

Outlook

Management believes the Company is well positioned to benefit from the presently forecasted positive outlooks for commodity prices generally. Through our exploration projects for oil & gas in CAR and base and precious metals in the Sudbury area, we anticipate the Company will be rewarded through asset growth as a result of successful exploration on these projects. Management has had positive response from potential investors in the oil & gas project since the release of technical information on this project in late January 2005. We currently anticipate success in raising our share of funding for the proposed seismic acquisition program being planned for commencement in the fall of 2005. In the case of the Sudbury project, our joint venture partner is currently funding 100% of the costs of exploration related to this project as part of their earn-in.

Changes in Accounting Policies

As permitted by the new recommendation of the Canadian Institute of Chartered Accountants (“CICA”) handbook section 3110 “Assets Retirement Obligation”, the Company will adopt the new recommendation in that section for its fiscal year ending November 30, 2005. The Company has adopted the new recommendations of sections 1100 “Generally Accepted Accounting Principles” and 1400 “General Standards of Financial Statement Presentation” of the CICA handbook.

The Company adopted the fair value method for expensing stock-based compensation in accordance with Canadian Generally Accepted Accounting Principles for the year 2004. The impact on the Company’s 2004 net loss has been calculated and disclosed in Note 6(e) to the financial statements.

March 29, 2005
Toronto, Ontario

Kraft, Berger, Grill, Schwartz, Cohen & March LLP

CHARTERED ACCOUNTANTS

3160 STEELES AVENUE EAST SUITE 300 MARKHAM ONTARIO L3R 3Y2 TEL (905) 475-2222 1-888-563-6868 FAX (905) 475-9360 E-Mail: accountants@kbgca.com

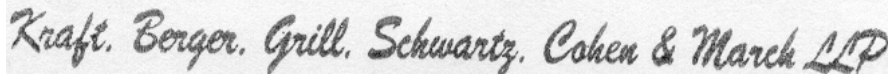
AUDITORS' REPORT

To the Shareholders of
UNITED REEF LIMITED

We have audited the balance sheets of **UNITED REEF LIMITED** as at November 30, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly the financial position of the company as at November 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



KRAFT, BERGER, GRILL, SCHWARTZ, COHEN & MARCH LLP
Chartered Accountants

Toronto, Ontario
January 11, 2005

UNITED REEF LIMITED**Balance Sheet**

(Expressed in Canadian dollars)

As at November 30, 2004 and 2003**2004****2003****ASSETS**

Current

Cash

\$ 560,538 \$ 165,983

Prepaid expenses and sundry receivables

11,209 6,221

571,747 172,204

Investment in AXMIN Inc. (Note 3)

10,417 20,833

Investment in exploration properties (Note 4)

298,823 125,589\$ 880,987 \$ 318,626**LIABILITIES**

Current

Accounts payable and accrued liabilities

\$ 22,094 \$ 14,987

Due to a related party (Note 5(b))

13,572 80,166

35,666 95,153**SHAREHOLDERS' EQUITY**

Capital Stock (Note 6)

18,315,368 17,513,583

Contributed surplus:

Warrants (Note 6(c) and (d))

57,660 -

Stock Options (Note 6(e))

34,825 -

Deficit

(17,562,532) (17,290,110)845,321 223,473\$ 880,987 \$ 318,626*See accompanying notes to the financial statements.*

Approved on behalf of the Board

*"Signed"*Michael D. Coulter
Director*"Signed"*Mousseau Tremblay
Director

UNITED REEF LIMITED
Statement of Operations and Deficit
(Expressed in Canadian dollars)

For the year ended November 30, 2004 and 2003

	2004	2003
Revenue	<u>\$ -</u>	<u>\$ -</u>
Expenses		
Administration	135,368	93,709
Management fees	60,000	75,000
Insurance	6,997	4,557
Shareholders' information and filing fees	28,901	26,100
Transfer Agent	14,484	9,480
Legal	6,774	26,100
Advertising	24,724	5,300
Foreign exchange loss	15,719	449
Stock-based compensation (Note 6(e))	34,825	-
Loss before the following	<u>(327,792)</u>	<u>(240,695)</u>
Write off of exploration and research expenditures	(9,774)	(12,031)
Gain on sale of AXMIN shares	65,144	322,083
Gain on settlement of debt	-	18,342
Net income (loss) for the year	<u>(272,422)</u>	<u>87,699</u>
DEFICIT, beginning of the year	<u>(17,290,110)</u>	<u>(17,377,809)</u>
DEFICIT, end of the year	<u>\$ (17,562,532)</u>	<u>\$ (17,290,110)</u>
Income (loss) per share for the year (Note 6(f))	<u>\$ (0.01)</u>	<u>\$ 0.00</u>

See accompanying notes to the financial statements.

UNITED REEF LIMITED**Statement of Cash Flow**

(Expressed in Canadian dollars)

For the years ended November 30, 2004 and 2003	2004	2003
Operating activities		
Net income (loss) for the year	\$ (272,422)	\$ 87,699
Write off exploration and research expenditures	9,774	12,031
Gain on sale of AXMIN shares	(65,144)	(322,083)
Stock-based compensation	34,825	-
Gain on settlement of debt	-	(18,342)
	<u>(292,967)</u>	<u>(240,695)</u>
Non-cash items:		
Prepaid and sundry receivables	(4,988)	(44)
Accounts payable and accrued liabilities	7,107	180,504
	<u>(290,848)</u>	<u>(60,235)</u>
Investing activities		
Proceeds on sale of AXMIN shares	75,560	399,373
Expenditures on exploration properties	(183,008)	(110,445)
	<u>(107,448)</u>	<u>288,928</u>
Financing activities		
Issuance of common shares for cash	809,445	127,500
Increase in shares to be issued	-	(326,025)
Decrease in loan payable to a related party	-	(25,040)
Increase (decrease) in amounts due to a related party	(16,594)	138,807
	<u>792,851</u>	<u>(84,758)</u>
Change in cash	394,555	143,935
CASH, beginning of year	165,983	22,048
CASH, end of year	\$ 560,538	\$ 165,983
SUPPLEMENTARY CASH FLOW INFORMATION:		
Shares issued in settlement of debt	\$50,000	\$258,525

See accompanying notes to the financial statements.

UNITED REEF LIMITED

Notes to the Financial Statements

November 30, 2004

1. Nature of Operations

United Reef Limited (the "Company") is a Canadian natural resource exploration company with interests in two projects; an oil & gas project located in northeastern Central African Republic and a past-producing nickel-copper property in the Sudbury area, Ontario, see Notes 4(a) and (b).

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Exploration properties

(i) Past-producing nickel-copper property

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserves are established, or the properties are sold or abandoned. The ultimate recovery of these costs depends on the discovery and development of economic reserves or the sale of the mineral rights. Proceeds on sale of partial working interests in the property are charged against the costs. The amount shown for non-producing resource properties do not necessarily reflect present or future values.

(ii) Oil and gas project, Central Africa Republic

The Company follows the successful efforts method of accounting for its oil and gas activities. Accordingly, property acquisition costs, costs of successful exploration wells, development costs and costs of support equipment and facilities are capitalized. Costs of unsuccessful exploratory wells are expensed when determined to be non-productive. The costs associated with drilling and equipping wells not yet completed are capitalized as uncompleted wells, equipment and facilities. Production costs, overhead and all exploration costs other than costs of exploratory drilling are charged to expense as incurred.

Revenue Recognition

Oil and gas production revenue is recognized as income as production is extracted and sold. Other revenue is recognized at the time it is earned and the Company has a contractual right to receive the revenue.

Foreign Currency Transactions

Foreign currencies are translated to Canadian dollars as follow: monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date, non-monetary assets

and liabilities are translated at historical exchange rates and revenue and expenditures at the rates of exchange prevailing on the dates of transactions. The resulting gains and losses are included in income.

Current Accounting Pronouncements

As permitted by the new recommendation of the Canadian Institute of Chartered Accountants (“CICA”) handbook section 3110 “Assets Retirement Obligation”, the Company will adopt the new recommendation in that section in its fiscal year ending November 30, 2005. The Company has adopted the new recommendations of sections 1100 and 1400 of the CICA handbook.

Future Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to be recoverable or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Investments

Long-term investments are recorded at cost less any provision for other than a temporary decline in market value.

Stock-based Compensation

The Company has a stock-based compensation plan, which is used to compensate directors, officers and employees of the Company and consultants to the Company, see Note 6(e). The Company accounts for all stock-based payments using the fair value based method. Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized on a straight line basis over the vesting period of the options. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

3. Investment in AXMIN Inc. (“AXMIN”)

At November 30, 2004, the Company held 100,000 (2003 - 200,000) common shares of AXMIN. AXMIN’s common shares trade on the TSX Venture Exchange under the

symbol AXM. AXMIN's shares closed at \$0.73 on November 30, 2004, the date the shares last traded prior to the Company's year end.

AXMIN is in the process of exploring its mineral properties in the Central African Republic ("CAR") and several other African countries. The Company holds a 2% net smelter royalty on their CAR Bambari project.

4. Investment in Exploration Properties

Property Description	Foot Note	Opening Balance at December 1, 2003	Expenditures	Write-Offs	Closing Balance at November 30, 2004
Nickel Offsets, Sudbury area, Ontario	(a)	\$125,586	\$ 56,675	-	\$182,261
Oil & Gas Project, Central African Republic	(b)	-	116,559	-	116,559
Other		3	9,774	(9,774)	3
		<u>\$125,589</u>	<u>\$183,008</u>	<u>(9,774)</u>	<u>\$298,823</u>

- (a) The Company holds a 100% interest in 12 patented and 5 unpatented mining claims located in Foy Township, Sudbury Mining Division, Ontario. The following table sets out the expenditures made on the property since November 30, 2002.

	Balance at November 30, 2002	Expenditures	Balance at November 30, 2003	Expenditures	Balance at November 30, 2004
Acquisition	\$20,001	\$ -	\$ 20,001	\$ -	\$ 20,001
Recoveries	(25,000)	-	(25,000)	(25,000)	(50,000)
Assaying	-	279	279	-	279
Consulting	13,485	10,760	24,245	12,916	37,161
Geology	13,797	59,381	73,178	29,373	102,551
Geophysical surveys	-	15,855	15,855	37,196	53,051
Staking costs	-	3,434	3,434	-	3,434
Miscellaneous	4,889	8,705	13,594	2,190	15,784
	<u>\$27,172</u>	<u>\$98,414</u>	<u>\$125,586</u>	<u>\$56,675</u>	<u>\$182,261</u>

On August 3, 2004 the Company announced that it had entered into an option agreement with International CHS Resource Corporation ("CHS") whereby CHS may acquire a 50% working interest in the Nickel Offsets property. To earn their interest CHS has agreed to expend a total of \$2.8 million in staged exploration expenditures on the property over the next 4 years. In addition, during the option earn-in period, CHS will make aggregate cash payments of \$107,000 and issue 400,000 CHS common shares to the Company. The Company will remain the operator of the project and manage recommended exploration programs, to be funded by CHS, until such time as CHS has earned their 50% interest in the property. Once CHS has earned their interest they will become the operator of the project.

To secure the option until October 31, 2004, CHS made a \$25,000 non-refundable cash payment to the Company. In order for CHS to exercise the option and commence earning their interest in the Nickel Offsets property, CHS was required to do the following prior to October 31, 2004: make a further payment of \$7,000 to the Company to reimburse it for certain project related expenses; issue 100,000 common shares to the Company; and, demonstrate to the Company's satisfaction that they have raised adequate funds to finance their first year's exploration expenditure commitment of \$350,000 for the program recommended by the Company. During October CHS requested and the Company granted CHS an extension to fulfill these obligations to November 30, 2004. Effective November 30, 2004 the Company granted to CHS a further extension until December 15, 2004 to complete their financing and exercise the option. CHS's right to exercise the option is subject to regulatory approval. CHS has advised the Company that they have entered into discussions with an investment dealer for the purpose of making an offering of CHS securities to raise sufficient working capital to meet the obligations described above. See Note 10(b) - Subsequent Events.

The President of the Company, Michael Coulter, has been a director of CHS since February, 1992. Mr. Coulter has advised the Company that he does not presently own nor does he hold the right to acquire any shares of CHS.

- (b) On September 15, 2004 the Company announced that it had finalized an agreement with Michael Coulter, the President of the Company, and RSM Production Corporation ("RSM") a private Denver-based oil & gas exploration and production company relating to certain oil & gas exploration rights in the Central African Republic. The agreement is effective from August 31, 2004, and assigns to the Company for nominal consideration all of Mr. Coulter's rights, title, estate and interest in and to an agreement dated January 24, 2003 between RSM and Mr. Coulter (the "RSM Agreement").

The RSM Agreement gives the Company the right to earn a 25% interest in RSM's oil & gas exploration permit area in the Central African Republic. RSM obtained its rights pursuant to a petroleum exploration and exploitation contract with the state of Central African Republic, which became effective in November of 2000. The agreement governs the exploration and development of a 55,504 km² license area, located in northeastern Central African Republic.

The Company may earn its interest in RSM's permit area by funding 50% of the cost to acquire up to 2,500 line kilometres of new seismic data over areas of the permit not previously covered and by funding 50% of the cost to drill the first eight exploration wells on the permit.

The expenditures to date primarily relate to due diligence carried out on the project prior to the Company's acquisition of its rights under the RSM Agreement, and preparation of technical reports by independent consultants.

5. Related Party Transactions

- (a) See note 4(b).
- (b) Due to a Related Party

During the year, the Company incurred expenses in the amount of \$133,890 (2003 - \$145,613) for rent, accounting, secretarial, administrative and management services provided by M.D. Coulter & Associates Inc. ("MDC"), a company whose shareholders are the President and Secretary of the Company. At November 30, 2004 the Company was indebted to MDC for \$13,572 (2003 - \$80,166).

On February 5, 2004 the Company accepted a proposal from MDC to settle management fees relating to the period September 1, 2002 through November 30, 2003, a period of

fifteen months at a fee of \$5,000 per month. The management fee is for the services of the President provided to the Company by MDC. Based on previous agreements and settlements reached between the Company and MDC the monthly management fee was suspended in March 1999. The Company accrued an amount of \$75,000 for this purpose for the year ended November 30, 2003. MDC agreed to accept settlement of this amount by the issue of 500,000 common shares of the Company valued at \$0.10 per share and payment of the balance in cash. The shares were issued on February 16, 2004.

A monthly management fee of \$5,000 for the services of the President was re-instated effective December 1, 2003.

- (c) During the year, the Company incurred expenditures in the amount of \$36,881 for professional fees paid to Macleod Dixon LLP, a law firm of which Richard Lachcik, a director of the Company, is a Partner.
- (d) Certain directors of the Company participated in the Offering referred to in Note 6(b)(ii).

6. Capital Stock

(a) *Authorized Capital:* Unlimited number of common shares without par value.

(b) *Issued Share Capital:*

Common Shares	Footnote	Number of Common Shares	Amount
Balance at November 30, 2002		39,262,203	\$17,127,558
Issued for cash (private placements)		1,275,000	127,500
Issued in settlement of debt (private placements)		2,585,250	258,525
Balance at November 30, 2003		43,122,453	17,513,583
Issued in settlement of debt	(i)	500,000	50,000
Issued for cash (private placements)	(ii)	9,080,000	801,945
Issued for cash (exercise of warrants)	(iii)	50,000	7,500
Fair value of warrants issued to a broker and shareholders	Note 6(c)		(57,660)
Balance at November 30, 2004		52,752,453	\$18,315,368

i) See Note 5 – Due to a Related Party.

ii) On June 23, 2004 the Company closed a private placement (the “Offering”) of units (the “Units”). Each Unit consisted of one common share and one-half of one common share purchase warrant (the “Warrants”). Each whole Warrant entitles the holder to purchase an additional common share at a price of \$0.15 for a period of eighteen months from the date of closing. A total of 7,080,000 Units at a price of \$0.10 per Unit were subscribed for, for gross proceeds of \$708,000. Effective September 29, 2004 the Company closed additional subscriptions of 2,000,000 Units under the Offering for gross proceeds of \$200,000. The net proceeds of the Offering are being used for general working

capital purposes. The 2,000,000 Units are subject to trading restrictions until January 31, 2005. See Note 6(d).

- iii) Effective November 30, 2004, 50,000 common share purchase warrants expiring on December 13, 2004 were exercised into 50,000 common shares of the Company at a price of \$0.15 per share. See Note 10(a) – Subsequent Events.

(c) *Common Share Purchase Warrants* (See Note 6(b)(ii) above):

	Number of Common Share Purchase Warrants	Value Assigned \$	Average Exercise Price \$
Balance at November 30, 2002	-	-	-
Issued, private placement	1,930,124	-	0.15
Balance at November 30, 2003	1,930,124	-	0.15
Issued, private placement:	4,540,000	35,240	0.15
Exercised	(50,000)		0.15
Expired	(1,630,124)		0.15
Balance at November 30, 2004	4,790,000	35,240	0.15

At November 30, 2004 the following common share purchase warrants were outstanding:

- 250,000 common share purchase warrants exercisable at \$0.15 per share until December 13, 2004 (See Note 10(a) – Subsequent Events);
- 3,540,000 common share purchase warrants exercisable at \$0.15 per share until December 23, 2005;
- 1,000,000 common share purchase warrants exercisable at \$0.15 per share until March 28, 2006.

d) *Broker's Warrants*

	Number of Broker's Warrants	Value Assigned \$	Average Exercise Price \$
Balance at November 30, 2002	-	-	-
Balance at November 30, 2003	-	-	-
Issued, private placement:	655,000	22,420	0.10
Balance at November 30, 2004	655,000	22,420	0.10

The Company was assisted in marketing the Offering (See Note 6(b)(ii)) by Credifinance Securities Limited on a non-exclusive basis. In consideration for their services, the Company agreed to compensate Credifinance by the payment

of an 8% cash commission and to issue to Credifinance broker's warrants (the "Broker Warrants") equal to 10% of the total number of Units sold in the Offering by Credifinance to its clients. Each Broker Warrant entitles the holder to purchase one Unit at a price of \$0.10 for a period of 18 months from closing. A total of 505,000 Broker's Warrants were issued and a commission of \$40,400 was paid to Credifinance on June 23, 2004. A total of 150,000 Broker's Warrants were issued on the same terms as the 505,000 Broker's Warrants and a commission of \$12,000 was paid to Credifinance on September 29, 2004. The 150,000 Broker's Warrants are subject to trading restrictions until January 31, 2005.

(e) *Common Share Purchase Options:*

The Company has an incentive stock option plan which governs the granting and exercise of options issued to directors, officers, employees and consultants of the Company. On December 4, 2003 2,400,000 options were granted at an exercise price of \$0.15 per share until December 3, 2006 and 800,000 options were granted on July 12, 2004 at an exercise price of \$0.15 per share until July 12, 2007. No options were exercised during the year.

Exercise Price	Number of Options Outstanding at November 30, 2004	Weighted Average Remaining Contractual Life	Number of Options Exercisable at November 30, 2004
0.15	2,400,000	2 years	1,200,000
0.15	800,000	2.5 years	200,000
	3,200,000		1,400,000

During the year ended November 30, 2004, the Company recognized a stock based compensation expense of \$34,825.

The weighted average fair value at the date of grant for options granted during 2004 was \$0.01 for December 3, 2003 and \$0.027 for July 12, 2004.

	December 3, 2003	July 12, 2004
Risk-free interest rate	3%	2.25%
Expected dividend yield	-	-
Expected share price volatility	70%	70%
Expected life of the options	3 years	3 years

(f) *Net Income (Loss) Per Share*

Net income (loss) per share is calculated using the weighted average number of shares outstanding during the period which was 46,976,087 (2003- 41,956,728) shares.

7. Income Taxes

The major components of the future tax assets and liabilities classified by the source of temporary differences that gave rise to the benefit are as follows.

	<u>2004</u>	<u>2003</u>
Assets		
Net operating losses (expiring 2005-2011)	\$ 424,000	\$ 695,000
Net capital losses (unlimited)	1,662,000	2,309,000
Canadian exploration and development expenses	322,000	418,000
Foreign exploration and development expenses	336,000	409,000
Total	<u>2,744,000</u>	<u>3,831,000</u>
Valuation allowances	<u>(2,744,000)</u>	<u>(3,831,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

In assessing whether the future tax assets would be realizable, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets and liabilities is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the future tax assets are deductible, management believes it is more likely than not the corporation will not realize the benefits of these deductible differences at November 30, 2004.

As at the year-end, the Company had the following approximate tax loss carryforwards available, to the extent permitted by tax regulations, to reduce future income taxes:

(a) *Non-Capital Losses*

The Company has non-capital losses carried forward of approximately \$1,177,000 available, for income tax purposes, to reduce future years' taxable income. These losses expire in the years 2005 to 2011.

(b) *Net Capital Losses*

The Company has net capital losses carried forward of approximately \$4,618,000 available indefinitely, for income tax purposes, to reduce future years' taxable capital gains.

(c) *Canadian Exploration and Development Expenses*

The Company has Canadian Exploration and Development expenses of approximately \$894,000 available, for income tax purposes, to reduce future income from resource properties.

(d) *Foreign Exploration and Development Expenses*

The Company has Foreign Exploration and Development expenses of approximately \$934,000 available, for income tax purposes, to reduce future foreign income from resource properties.

8. Financial Instruments

(a) Fair Value

The carrying amounts reflected in the balance sheets for prepaid expenses and sundry receivables, accounts payable and accrued liabilities approximates the fair values due to the short maturities of these instruments.

(b) Foreign Exchange

Foreign exchange risk is a risk where a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. A portion of the Company's transactions are denominated in US dollars. Significant foreign exchange gains (losses) are reflected as a separate component of expenses. The Company has not entered into foreign exchange derivative contracts.

9. Segmented Information

The Company's operations include the acquisition, exploration, development and production of oil & gas and mineral properties.

Details of these operations by industry and geographical segments are as follows:

By Industry and Geographical Segments	2004	2003
Assets		
Oil & gas property, Central African Republic	\$116,559	\$ -
Mineral properties – Ontario, Canada	182,264	125,589
	\$298,823	\$125,589

10. Subsequent Events

- a) Effective December 13, 2004 150,000 common share purchase warrants were exercised at \$0.15 per share and 100,000 common share purchase warrants expired unexercised.
- b) On January 4, 2005 the Company announced that the option referred to in Note 4(a) was exercised by CHS. As required pursuant to the option agreement, CHS made a payment of \$7,000 and issued 100,000 common shares of CHS to the Company. CHS has also committed \$350,000 to fund their first year's exploration expenditure commitment on the Nickel Offsets property.