



Management's Discussion & Analysis

Period Ended September 30, 2004 as compared to September 30, 2003

This Management Discussion and Analysis should be read in conjunction with Terra Energy Corp.'s ("Terra Energy" or the "Corporation") unaudited consolidated financial statements and corresponding notes for the periods ended September 30, 2004 and September 30, 2003. This commentary is based on information available at November 19, 2004. Additional information relating to Terra Energy is available on SEDAR at www.sedar.com.

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent ("BOE") using six thousand cubic feet equal to one barrel of oil unless otherwise stated. This conversion conforms to Canadian Securities Regulators National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. BOE's are a very approximate comparative measure that, in some cases, could mislead particularly if used in isolation.

Management's Discussion and Analysis contains the term cash flow from operations and funds from operations, which should not be considered alternative to, or more meaningful than cash flows from operating activities as determined in accordance with Canadian generally accepted accounting principles ("GAAP") as an indicator of Terra Energy's performance. Terra Energy's determination of cash flow from operating activities may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flows from operating activities can be found in the statements of cash flows from the unaudited consolidated financial statements.

Corporate History

Terra Energy is a publicly traded corporation, amalgamated under the Business Corporations Act of Alberta, and formed as a result of the amalgamation of Terra Energy Corp., Terrapet Energy Corp., and Rhodes Resources Corp. on January 30, 2004. This Management Discussion and Analysis along with the associated financial statements referenced above include the accounts of the Corporation and its wholly-owned subsidiary Constar Resources Ltd. and Terra Energy, a general partnership between Terra Energy Corp. and Constar Resources Ltd. The comparative information is for Terrapet Energy Corp. (consolidated).

The Corporation's principal business is the exploration, development and production of petroleum and natural gas in Western Canada.

2004 Operations - Year to date

Since the amalgamation on January 30, 2004, the Corporation has focused its efforts on carrying out the 2004 Operations Program. This Program consists of a series of projects which were designed to elevate the Corporation to the 2,000 BOED platform. Many of these projects were tie-in projects, but there were a number of drilling projects included. A significant part of the Program was focused on the Boudreau area of British Columbia, and to a lesser extent Sextet was important.

In the Boudreau area, one formerly abandoned well (the 11-18-84-20W6M) and two formerly suspended wells (the 10-14 and 01-23-84-21W6M) were re-entered and completed. The 01-23 well was a Belloy (oil/solution gas) recompletion, and the 11-18 and 10-14 wells were Baldonnel gas recompletions. The 6-13-84-21W6M suspended well has also been reactivated as a Belloy (oil/solution gas) well. In addition to these operations, Terra Energy decided to acquire the pipeline infrastructure, which it was planning to tie into, all with a view towards lowering long term operating costs. As part of this acquisition, Terra Energy acquired the 13-33-83-20W6M (Charlie Lake/Halfway/Belloy) gas well. The actual production tests which have recently been conducted on all of these wells reflect the expectations of the Corporation. However, the timing of completing the acquisition and the subsequent start up of the Boudreau facilities has been approximately six to eight weeks behind schedule. In addition to the delays in project start up, the Corporation has had to shut in its existing production from the 14-13-84-21W6M well in Boudreau, in order to accommodate the construction of facilities. The Boudreau construction was substantially completed at the end of the third quarter, and the new facilities were placed on stream. However, the Corporation has been frustrated as a result of delays in having electrical services connected to the compressor site and has accordingly only had a small rental gas compressor on service. Largely as a result of local area resident considerations, the Corporation decided to install a new electric compressor instead of a noisy gas compressor. Electrical service has now been installed, and the four stage electrical compressor has only recently been hooked up. It is anticipated that the facilities will be fully operational before the end of November. In the meantime, the Corporation has spudded its 12-13-84-21W6M well, which is a Kiskatinaw exploratory gas test. This 12-13 well is in the process of being drilled at the time of writing. This 12-13 well does have the benefit of both Belloy and Baldonnel formations as fallback development targets. The Corporation anticipates that the Boudreau field will be contributing between 450-500 BOED by the end of the year.

In the Sextet area, the Corporation has only recently completed the acquisition of key facilities from an industry partner. This acquisition was completed as part of larger transaction where the Corporation acquired some additional production in the Fenn West area of Alberta. The Corporation will need to await for freezing weather conditions in order to commence construction operations at Sextet, as the area has muskeg terrain. Although this Slavepoint gas well has tested in excess of 4MMCF/day, the Corporation anticipates flowing the Sextet gas well at a reduced drawdown rate, of 1.5 MMCF/day, which should contribute approximately 200 BOED to the Corporation's production.

At the time of writing, the Corporation has three drilling projects under way, and several more which are scheduled to commence as soon as possible. The Corporation awaits on government approvals, landowner approvals, and weather conditions, but these drilling operations are all imminent.

Current Production

The average daily production rate for the three and nine month periods ended September 30, 2004 is set out below, and expressed in barrel of oil equivalents. Increased production in respect of 2004 periods, as compared to 2003 periods, is due simply to ongoing developments and acquisitions.

Average daily production for the three and nine month periods ended September 30 in barrel equivalents of oil is as follows:

Period Ended	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003
Oil	318	238	390	238
Natural Gas	720	607	648	670
Liquids	55	56	25	55
Total	1,093	901	1,063	963

The average daily production rates for the three and nine month periods ended September 30, 2004 have remained somewhat flat, notwithstanding normal production rate declines and operational interruptions and constraints which occurred during the third quarter. These operational interruptions and constraints included Boudreau, Dimsdale, Ukalta and Stoddart. At Boudreau, the Corporation's 14-13-84-21W6M oil well was shut-in during the construction of a new oil battery and compressor facility. The 14-13 well was also tied into this new facility in order to ensure that the solution gas would be henceforth conserved. This resulted in a curtailment of approximately 50 BOED for a period of approximately eight weeks. The 14-13 well has subsequently been brought back on production, with its solution gas contributing another 10 BOED and eliminating the gas flaring which has traditionally characterized this location. In addition, the construction at Boudreau required the shut-in of the 13-33-83-20W6M well which was recently purchased, resulting in a loss of approximately 50 BOED for a period of four weeks.

Production from the Ukalta field was also curtailed during the third quarter. The production was typically 130 BOED, but it was cut in half as a result of being backed out by the gas plant operator due to capacity restrictions. Terra Energy is investigating an alternative tie-in for this field, which will require approximately one mile of pipeline to construct. Production has recommenced at the time of this writing, but there is no guarantee that our production will not be backed out again at some future date, so the tie-in project will proceed.

At Dimsdale, production from the Corporation's 12-14-71-6W6M well, and the 15-15 and 14-22-71-7W6M wells were shut-in for approximately one month in order to allow the plant operator to carry out a maintenance program. This program took longer than anticipated, but the plant was started up again in mid-November. The Corporation lost approximately 160 BOED during this four week period as a result.

At Stoddart, production fell to 220 BOED during the third quarter as a result of mechanical and operational issues. Several wells had work performed on them, including a punctured tubing and modification of their artificial lift systems in order to optimize production. Stoddart is once again operating at the 260 BOED level at the time of this writing.

All of the foregoing has impacted adversely on production levels, cash flow and earnings for the third quarter. However, all of the foregoing were relatively short term curtailments and have been addressed at the time of this writing. In the absence of these curtailments, the Corporation would have produced approximately 1300 BOED during the third quarter. The Corporation's production rate is approximately 1500 BOED at the time of this writing.

Results of Operations

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003
Revenues, net of royalties	\$9,388,923	\$6,620,202	\$2,892,779	\$2,264,083
Production expenses	\$3,110,589	\$2,429,325	\$1,147,349	\$807,395
General & administrative and interest expenses	\$1,788,021	\$1,366,690	\$603,758	\$632,248
Non-cash expenses	\$3,203,000	\$1,186,366	\$1,211,500	\$444,296
Income (loss) before income taxes	\$1,287,313	\$1,637,821	\$(69,828)	\$380,144
Income tax expense	\$805,300	\$652,300	\$195,000	\$161,800
Net income	\$482,013	\$985,521	\$(264,828)	\$218,344

The Corporation earned higher revenues as a result of increased production activity. Increased revenues in 2004 were also due to improved commodity prices as compared to 2003. The full effect of higher commodity prices were tempered the Corporation's forward contractual arrangements. Strong commodity prices continued for the third quarter of 2004.

Increased royalties for three month period ended September 30, 2004 is the result of ongoing internal reviews of properties acquired in various corporate acquisitions. A total of \$297,050 in unpaid royalties to industry partners was identified and has been recognized as part of royalties and production taxes in the current period in accordance with Generally Accepted Accounting Principles. This is a one-time charge and is not expected to be repeated in future periods.

The future income tax provision is due to various one time adjustments resulting from the issuance of flow-through shares in the third quarter and the reassessment of prior year income tax returns. The current recovery of income tax is also affected as a result of recognizing certain non-deductible expenses such as stock based compensation.

Net income has been affected by an increase in non-cash charges, specifically increased depletion as a result of adoption National Instrument 51-101 and the requirement to record stock based compensation on the income statement in accordance with CICA Handbook Section 3870 – Stock Based Compensation.

Production expenses per BOE were as follows:

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003
Production expenses	\$3,110,589	\$2,429,325	\$1,147,349	\$807,396
BOE total production	299,265	245,868	97,695	88,598
Production expenses per BOE	\$10.39	\$9.88	\$11.74	\$9.11

The increased production costs per BOE during the third quarter are primarily due to one time costs associated with workovers being performed on certain recently acquired producing properties. With the completion of current facilities and production optimization activities, it is anticipated that production costs per BOE will decrease in future periods.

Net revenues per BOE were as follows:

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003
Revenues, net of royalties and production expenses	\$6,278,334	\$4,190,877	\$1,745,430	\$1,456,688
BOE total production	299,265	245,868	97,695	88,598
Net revenues per BOE	\$20.98	\$17.04	\$17.87	\$16.44

Higher net revenues per BOE for the period ending September 30, 2004 are largely due to improved commodity prices.

General and Administrative Expenses

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003
General & administrative expenses	\$1,523,774	\$1,054,670	\$522,012	\$531,035
BOE total production	299,265	245,868	97,695	88,598
Expense per BOE	\$5.09	\$4.29	\$5.34	\$5.99

Increased general and administrative costs are primarily due to additional technical personnel costs required to manage forward the Corporation's anticipated growth in production volumes and increased exploration and development activity and increased professional fees with respect to the amalgamation.

Depletion, Amortization, & Accretion

Period Ended	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003
Depletion, amortization, & accretion	\$2,769,000	\$1,426,743	\$1,100,500	\$457,481
BOE total production	299,265	245,868	97,695	88,598
Expense per BOE	\$9.25	\$5.80	\$11.35	\$5.16

Increased depletion, amortization, and accretion expenses are attributable in part to the early adoption of National Instrument 51-101 which has refocused reserve classification categories and resulted in lower reserves being classified as proven and an increase in the probable classification. Management performed and the external auditors reviewed a ceiling test calculation to assess the recoverability of its petroleum and natural gas assets as at September 30, 2004. The calculation supported the Corporation's carrying value.

Financial Condition

	September 30, 2004	December 31, 2003
Current assets	\$3,374,874	\$3,381,413
Current liabilities	\$3,010,310	\$10,570,606
Oil and gas properties	\$22,370,796	\$12,224,115

The increase in current assets is primarily due to increased accounts receivable resulting from a receivable for the sale of certain properties and an increase in Crown royalty security deposits required by the Province of Alberta. The reduction in current liabilities is due to the reclassification of the revolving line of credit to non-current liabilities. The Corporation received notification from its bank to indicate that payment of the revolving line of credit will not be required without one year's notice. The decrease in accounts payable and accrued liabilities is primarily due to an improved effort to pay payables on a timely basis. The Corporation had a working capital surplus of \$364,564 at September 30, 2004 compared to surplus of \$377,961 excluding the line of credit balance of \$7,567,154 at December 31, 2003.

Capitalized resource properties as at September 30, 2004 are \$22,370,796 net of depletion, compared with \$12,224,115 as at December 31, 2003. Oil and gas properties increased as a result of continued acquisitions, such as the amalgamation with Rhodes Resources Corp, as well as continued development of oil and gas properties.

Liquidity and Capital Resources

The Corporation's share capital is as follows:

Common Shares

Date	Shares Outstanding	Dollar Value
September 30, 2004	30,976,180	\$11,651,262
December 31, 2003	22,500,000	\$1

During the period ended September 30, 2004, as part of the amalgamation with Terra Energy Corp. and Rhodes Resources Corp, the 22.5 million common shares of Terrapet Energy Corp. were exchanged for 18,547,304 common shares of Terra Energy Corp. 3,429,752 preferred shares from Terrapet Energy Corp. were converted to 3,429,752 common shares. 5,417,374 common shares were issued to the former shareholders of Rhodes Resources Corp. An additional 200,000 common shares were issued as part of the purchase of certain oil and gas properties and the exercising of options.

During the period ended September 30, 2004 the Corporation obtained permission from the TSX Venture Exchange for a Normal Course Issuer Bid to repurchase for cancellation up to 250,000 common shares to April 22, 2005. During the period ended September 30, 2004, 249,400 common shares were purchased.

During the three month period ended September 30, 2004 the Corporation issued 3,450,000 flow through common shares for net proceeds of \$4,170,981. As a result of these shares the Corporation is required to incur certain exploration and development activities of approximately \$4,485,000. As at September 30, 2004 the Corporation has incurred qualifying expenditures of approximately \$58,000.

The Corporation is required to incur certain exploration and development expenses of approximately \$2,300,000 as a result of flow through shares issued through Rhode Resources Corp. As at September 30, 2004 the Corporation has incurred all such qualifying expenditures.

Preferred Shares at September 30, 2004

Series	Shares Outstanding	Dollar Value
Series I to V	1,148,641	\$1,148,641
Series VI	nil	nil

Preferred Shares at December 31, 2003

Series	Shares Outstanding	Dollar Value
Series I to V	1,148,641	\$1,148,641
Series VI	3,429,752	\$3,429,752

Upon the amalgamation of the Corporation, the Series VI preferred shares were converted to common shares as part of the amalgamation between Terra Energy Corp., Terrapet Energy Corp., and Rhodes Resources Corp.

For the period ended September 30, 2004, the Corporation has generated cash flows from operations of \$4,670,313 (\$2,737,587 for the period ended September 30, 2003). Cash flow from operations is not a measure that has any standardized meaning prescribed by Canadian GAAP and is considered a non-GAAP measure. Therefore, this measure may not be compatible to a similar measure presented by other issuers. This measure has been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. Management utilizes cash flow as a key measure to assess the ability of the Corporation to finance operating activities and capital expenditures.

For the period September 30, 2004, the Corporation renegotiated its credit facility resulting in an increase in available credit from \$8.0 million to \$10.0 million. The swap facility was increased from \$2.5 million to \$3.0 million. An additional condition of the credit facility is that the facility is payable upon one year's notice by the bank. As a result the credit facility payable balance of \$6,933,296 has been presented as part of non-current liabilities.

Off-Balance Sheet Arrangements

The Corporation has entered into various fixed-price physical natural gas contracts with delivery for 2004 of 46,500 GJ at prices between \$5.80 and \$5.87 per GJ. The Corporation has agreed for 2004 to purchase 31,000 GJ natural gas at a price of \$5.55 per GJ. The Corporation has also entered into various fixed-price financial gas contracts with delivery for 2004 of 46,500 GJ at prices between \$6.05 and \$6.15 per GJ. The Corporation has also entered into a 3 way collar financial gas contract with delivery between November, 2004 and October, 2005 of 365,000 GJ with a price cap of \$8.95 per GJ and a price floor of \$6.00 per GJ.

The Corporation has entered into various fixed-price physical oil contracts with delivery for 2004 of 9,000 barrels at prices between \$31.80 and \$32.68 per barrel. The Corporation has entered into various fixed-price financial oil contracts with delivery for 2005 of 73,000 barrels at prices between \$35.35 and \$36.65 per barrel.

The purpose of these contracts is to ensure a minimum level of cash flow for continued operations, and, as such, have been accounted for as hedges in accordance with CICA guidelines.

Transactions with Related Parties

During the period January 1 through to September 30, in respect of each of 2003 and 2004, Terrapet and/or the Corporation entered into the following related party transactions:

(a) Related Parties:

Capital Strategies Canada Corp., controlled by officers of the Corporation
Rhodes Resources Corp., related due to common ownership
Terra Capital Corp., parent company
Forterra Properties Inc., related due to common control
Rhodes Petroleum Corp., related due to common control

(b) Transactions:

	Period Ended September 30, 2004	Period Ended September 30, 2003
Interest revenue – Rhodes Resources Inc.	\$ -	\$ 11,454
Expenses		
Management fee – Terra Capital Corp.	\$ 385,977	\$ 463,349

Revenue and expense transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Management fees have been paid to Terra Capital Corp. for management personnel services, vehicles, office furniture and equipment leasing. Prior to the amalgamation and up to March 31, 2004 all personnel were employees of Terra Capital Corp.

During 2003, Terrapet purchased all the outstanding shares of Rhodes Resources Inc., from Rhodes Petroleum Corp., a corporation under common control with Terrapet. The assets consisted of oil and gas properties with a fair-market value of \$100,000. A note payable for \$100,000 was issued by Terrapet to Rhodes Petroleum Corp for consideration of this transaction. Upon amalgamation, Rhodes Resources Inc. was immediately wound up into Terrapet.

Prior to the amalgamation with Rhodes Resources Corp., and Terra Energy Corp., Terrapet paid a dividend of \$770,816 to Terra Capital Corp. The dividend resulted in the elimination of a promissory note receivable at December 31, 2003.

During the period ended September 30, 2004 dividends of \$61,164 on the Series I to V preferred shares were accrued. These amounts have been recorded as part of interest on long term debt. No amounts were accrued for the period ending September 30, 2003.

(c) Due from (to) related parties

	September 30, 2004	December 31, 2003
Terra Capital Corp.	\$ -	\$ 15,000

Included in accounts payable and accrued liabilities at December 31, 2003 are \$39,456 owing to Rhodes Resources Corp. This amount is due for the working interest share of expenses related to wells operated by the Corporation prior to amalgamation. Included in accounts receivable at December 31, 2003 is \$228,497 due from Rhodes Resources Corp to Terrapet in connection with a farm-in arrangement between the two companies prior to amalgamation.

As a result of the amalgamation with Rhodes Resources Corp, no amount is owed or owing at September 30, 2004.

Critical Accounting Estimates

In preparing financial statements in accordance with generally accepted accounting principles, management undertakes certain judgments and estimates. Changes in these judgments and estimates could have a material impact on the financial results and condition. The following discussion outlines accounting policies and practices that are critical to determining the Corporation's financial results.

Reserves are critical to several accounting estimates, affecting net income through depletion and the ceiling test calculation. Estimating reserves is very complex, requiring many judgments based on available geological, geophysical, engineering, and economic data. Estimated reserves also utilized by the Corporation's bank in determining credit facilities. Changes in these judgments could have a material impact on the estimated reserves, and subsequently the Corporation's financial results and financial condition.

Ceiling Test

Under the Canadian Institute of Chartered Accountants (CICA) full cost accounting guidelines, the Company calculates a ceiling test annually whereby the carrying value of petroleum and natural gas properties is compared to estimated future cash flow from the production of proved reserves. The Corporation has early adopted the requirement of CICA Accounting Guideline 16 "Oil and Gas Accounting - Full Cost" ("AcG 16"). The requirements of the guideline were to be followed for all fiscal years beginning on or after January 1, 2004 but early adoption were encouraged.

At December 31, 2003, the Corporation calculated the ceiling test using AcG 16 without any material adverse impact on the Corporation's financial position or results of operations.

Asset Retirement Obligation

The Corporation early adopted the CICA Handbook Section 3110 – Asset Retirement Obligations. The section requires accrued reclamation and abandonment obligations be recognized on the balance sheet by increasing oil and gas properties offset by a liability of an equal amount. Estimates are required to determine the future obligation. The asset and liability are initially measured at fair value, being the discounted future value of the liability, and then capitalized as part of the cost of the asset and subsequently amortized over the life of the asset. The liability then accretes until the retirement obligation is settled.

Litigation

The Corporation is involved in various claims and litigation arising from the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Corporation's favor, the Corporation does not currently believe that the outcome of adverse decisions in any pending or threatened proceeding related to these and other matters or any amount which it may be required to pay by reason thereof would have a material adverse effect on its financial position or results of operations.

Change in Accounting Policy

In 2002 the Canadian Institute of Chartered Accountants ("CICA") approved Section 3063, "Impairment of Long-Lived Assets" (S. 3063), establishing standards for the recognition, measurement, and disclosure of the impairment of long-lived assets, and applies to long-lived assets held for use. An impairment loss is recognized when the carrying value exceeds its fair value and is not recoverable. This standard is effective for fiscal years beginning on or after April 1, 2003 with early adoption being encouraged. Accounting Guideline 16, "Oil and Gas Accounting Full Cost" (AcG-16), issued in September, 2003 includes this section in the application of the impairment test for oil and gas companies using the full cost method of accounting. The carrying value for oil and gas properties is limited to their fair value, which is equal to estimated future cash flows from proved and probable reserves, calculated future price forecasts and costs discounted at the risk-free rate. AcG-16 is required for all fiscal years beginning on or after January 1, 2004 with early adoption being encouraged. Terra has early adopted the requirements of AcG-16 at December 31, 2003. There has been no material adverse impact on the Company's financial position or results of operations.

For fiscal years commencing on or after July 1, 2003 the CICA's new accounting pronouncement Accounting Guideline 13 "Hedging Relationships" (AcG-13) is in effect. This guideline sets out certain conditions when hedge accounting may be applied; otherwise the fair values of derivative financial instruments are recorded as an asset or liability on the balance sheet. It is management's opinion that all financial contracts satisfy the necessary criteria to be designated hedges. The purpose of the hedges is to ensure a minimum level of cash flow.

The Corporation has early adopted the CICA's section on "Asset Retirement Obligations" (S. 3110). The section is required to be adopted for fiscal years beginning on or after January 1, 2004 with early adoption being encouraged. S. 3110 requires accrued reclamation and abandonment obligations be recognized on the balance sheet by increasing oil and gas properties offset by a liability of an equal amount. The asset and liability are initially measured at fair value, being the discounted future value of the liability, and then capitalized as part of the cost of the asset and subsequently amortized over the life of the asset. The liability then accretes until the retirement obligation is settled. Comparative amounts for 2003 have been restated with an immaterial impact on the results of operations.

Financial Instruments

The Corporation results are impacted by external market risks associated with fluctuations in commodity prices, operational and safety and environmental risks. The Corporation partially mitigates its exposure to market risks through the use of various financial instruments and physical contracts.

The Corporation does not utilize derivative instruments for speculative purposes.

Business Acquisitions

On November 25, 2003 Terrapet Energy Corp. purchased all the outstanding shares of Constar Resources Ltd. in exchange for the issuance of 929,752 Series VI preferred shares. The purchase has resulted in increased proven and probable reserves of approximately 231,000 barrels equivalent.

On January 30, 2004, Terrapet amalgamated with Rhodes Resources Corp. ("Rhodes") and Terra Energy Corp. to form a new company Terra Energy Corp ("Terra"). The common shareholders of Terrapet Energy Corp. received 18,547,304 common shares of Terra, with the Series VI preferred shareholders of Terrapet receiving 3,429,752 common shares of Terra. The shareholders of Rhodes received 5,417,374 common shares of Terra. The share allocation has been based upon the relative valuations for oil and gas properties as determined by independent evidence adjusted for various other assets and liabilities. The purchase increased oil and gas properties by approximately \$2.3 million. Oil and gas reserves have increased by approximately 271,000 barrels equivalent as compared to Terrapet's reserves. The amalgamation constitutes a reverse takeover as defined by Policy 5.2 of the TSX-V and is subject to Policy 5.9 of the TSX-V regarding related party transactions. The transaction will be recorded at the exchange value of the assets received from Rhodes as there is sufficient independent evidence available and there is a substantive change in the ownership interests.

Subsequent to the period end, the Corporation entered into a commitment to amalgamate with Fossil Bay Resources Ltd. through a wholly-owned subsidiary. The amalgamation is expected to be completed before December 31, 2004 and is expected to result in the issuance of as many as 681,150 common shares by the Corporation.

Outlook 2004

The Corporation continues to pursue its capital program for the 2004 year, with a target of reaching the 2,000 BOED platform. The Corporation has also recently announced an increase to its 2004 Annual Budget, reflecting an acceleration of drilling operations which otherwise would have been conducted in calendar 2005, together with a more aggressive land acquisition strategy. At the time of this writing, the Corporation has three drilling projects underway, and several more which are awaiting various approvals. Three of these drilling projects are high impact and may lead to follow-up development wells. Several of these drilling projects have multi-targets. They are all technically supported by either 2D or 3D seismic data.

The Corporation is currently preparing its 2005 Annual Budget and Capital Program. This program promises to be at least as aggressive as the 2004 Capital Program.

Certain statements contained in the above Management's Discussion and Analysis, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements. Forward looking statements are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. Among the key factors that could cause such differences are: fluctuations in petroleum and natural gas prices, and/or changes in petroleum and natural gas reservoir performance.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities law.