**B.C. FORM 51-901F**

## QUARTERLY AND YEAR END REPORT

Incorporated as part of:

| | |
|---|---|
| X | Schedule A |
| | Schedules B & C |

**ISSUER DETAILS:**

| | |
|---|---|
| **Name of Issuer:** | Mountainview Energy Ltd. |
| **Issuer Address:** | P.O. Box 200, Cut Bank, Montana, USA 59427 |
| **Issuer Fax No.:** | (406) 873-2835 |
| **Issuer Telephone No.:** | (406) 873-2235 |
| **Contact Name:** | Joseph V. Montalban |
| **Contact Position:** | Chairman of the Board, President and CEO |
| **Contact Telephone Number:** | (406) 873-2235 |
| **Contact Email Address:** | mvw@gec-isp.net |
| **Web Site Address:** | N/A |
| **For Quarter Ended:** | 2002/12/31 |
| **Date of Report:** | 2003/04/04 |

*CERTIFICATE:*

THE THREE SCHEDULES REQUIRED TO COMPLETE THIS REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE, THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B & C.

| | | |
|---|---|---|
| ***"Joseph V. Montalban"*** | Joseph V. Montalban | 2003/05/14 |
| ***"Bruce Young"*** | Bruce Young | 2003/05/14 |

# MOUNTAINVIEW ENERGY LTD.

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2002 and 2001**

**STALEY, OKADA & PARTNERS**

*Chartered Accountants*

## AUDITORS' REPORT

**To the Directors of Mountainview Energy Ltd.:**

We have audited the consolidated balance sheets of Mountainview Energy Ltd. as at December 31, 2002 and 2001 and the consolidated statements of loss 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 audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

***"Staley, Okada & Partners"***

Surrey, B.C.
April 4, 2003

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

**Mountainview Energy Ltd.** Statement 1

# Consolidated Balance Sheet

**As at December 31**

*Canadian Funds*

| ASSETS | | 2002 | | 2001 |
|---|---|---|---|---|
| **Current** | | | | |
| Cash | $ | **361,637** | $ | 16,225 |
| GST receivable | | **12,987** | | 10,593 |
| Accounts receivable - trade | | **94,449** | | 27,090 |
| Inventory | | **8,293** | | 1,658 |
| | | **477,366** | | 55,566 |
| **Petroleum & Natural Gas Interest** | | | | |
| Red Creek Unit, *net of accumulated amortization (Note 5)* | | **936,781** | | 945,786 |
| **Reclamation Bond** *(Note 6)* | | **127,266** | | 95,568 |
| **Accrued Interest on Reclamation Bond** *(Note 6)* | | **4,959** | | - |
| | $ | **1,546,372** | $ | 1,096,920 |

| LIABILITIES | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Bank Line of Credit *(Note 7)* | $ | **-** | $ | 479,097 |
| Accounts payable - trade | | **88,900** | | 200,528 |
| - related party *(Note 9e)* | | **15,776** | | 95,568 |
| | | **104,676** | | 775,193 |
| **Continued Operations** *(Note 2)* | | | | |

| SHAREHOLDERS' EQUITY | | | | |
|---|---|---|---|---|
| **Share Capital** *(Note 8)* | | **1,637,551** | | 505,581 |
| **Deficit** - *Statement 2* | | **(195,855)** | | (183,854) |
| | | **1,441,696** | | 321,727 |
| | $ | **1,546,372** | $ | 1,096,920 |

ON BEHALF OF THE BOARD:

***"Joseph V. Montalban"***, Director

***"Bruce Young"***, Director

- See Accompanying Notes -

**Mountainview Energy Ltd.** Statement 2

# Consolidated Statement of Loss and Deficit

**For the Years Ended December 31**

*Canadian Funds*

| | 2002 | 2001 |
|---|---|---|
| **Revenue** | | |
| Gross Sales | $ 623,221 | $ 192,011 |
| Beginning inventory | (1,658) | - |
| Ending inventory | 8,293 | 1,658 |
| | 629,856 | 193,669 |
| Less royalties | (73,473) | (27,675) |
| | 556,383 | 165,994 |
| **Cost of Sales** | | |
| Utilities expense | 86,797 | 19,241 |
| Amortization and depletion | 64,220 | 36,524 |
| Production taxes | 45,605 | 14,780 |
| Labour | 39,669 | 9,589 |
| Repairs and Maintenance | 23,691 | 14,953 |
| Materials | 19,008 | 7,875 |
| Vehicle expense | 18,746 | 4,955 |
| Interest expense | 12,050 | 16,715 |
| Consulting fees | 8,065 | - |
| Property taxes | 7,093 | - |
| Insurance | 2,197 | - |
| | 327,141 | 124,632 |
| **Gross Margin** *(41.2% - 2001 - 24.9%)* | 229,242 | 41,362 |
| **General and Administrative Expenses** *(Schedule)* | 246,202 | 230,002 |
| **Loss from Operations** | 16,960 | 188,690 |
| **Other Income** | | |
| Interest income | (4,959) | (4,804) |
| **Loss for the Year** | 12,001 | 183,836 |
| Deficit - Beginning of year | 183,854 | 18 |
| **Deficit - End of Year** | $ 195,855 | $ 183,854 |
| **Loss per Share - Basic and Diluted** | $ 0.00 | $ 0.04 |

**Mountainview Energy Ltd.** Statement 3

# Consolidated Statement of Cash Flows

**For the Years Ended December 31**

*Canadian Funds*

| **Cash Resources Provided By (Used In)** | | **2002** | | 2001 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Cash receipts from customers | **$** | **475,754** | $ | 137,246 |
| Cost of sales | | **(256,286)** | | (71,393) |
| Cash paid to suppliers and employees | | **(476,673)** | | (56,879) |
| Interest income | | **4,959** | | 4,804 |
| | | **(252,246)** | | 13,778 |
| **Investing Activities** | | | | |
| Resource property costs | | **(55,215)** | | (982,310) |
| Purchase of capital asset | | **-** | | (4,673) |
| Proceeds on sale of capital asset | | **-** | | 4,673 |
| | | **(55,215)** | | (982,310) |
| **Financing Activities** | | | | |
| Share capital issued for cash | | **1,131,970** | | 411,400 |
| Share capital issuance costs | | **-** | | (83,039) |
| | | **1,131,970** | | 328,361 |
| **Net Increase (Decrease) in Cash** | | **824,509** | | (640,171) |
| Cash Position - Beginning of Period | | **(462,872)** | | 177,299 |
| **Cash Position - End of Period** | **$** | **361,637** | $ | (462,872) |

| **Cash Position Consists of:** | | | | |
|---|---|---|---|---|
| Cash | **$** | **361,637** | $ | 16,225 |
| Bank Line of Credit | | **-** | | (479,097) |
| | **$** | **361,637** | $ | (462,872) |

- See Accompanying Notes -

**Mountainview Energy Ltd.** <u>Schedule</u>

# Consolidated Schedule of General and Administrative Expenses

**For the Years Ended December 31**

*Canadian Funds*

| | | **2002** | | 2001 |
|---|---|---|---|---|
| **General and Administrative Expenses** | | | | |
| Wages and benefits | **$** | **60,262** | $ | 78,056 |
| Travel and promotion | | **51,899** | | 41,925 |
| Office operating expenses | | **43,954** | | 30,801 |
| Accounting and auditing | | **25,825** | | 19,900 |
| Management fees | | **23,555** | | - |
| Legal fees | | **13,549** | | - |
| Listing and filing fees | | **11,768** | | 4,260 |
| Automotive | | **9,883** | | 22,482 |
| Foreign exchange | | **2,711** | | 20,158 |
| Professional fees | | **1,125** | | - |
| Interest and bank charges | | **588** | | 2,375 |
| Shareholder relations | | **374** | | 5,443 |
| Meals and entertainment | | **371** | | 1,004 |
| Dues, licences and fees | | **338** | | - |
| Insurance | | **-** | | 3,598 |
| | **$** | **246,202** | $ | 230,002 |

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### 1. Nature of Business

The company was incorporated on May 31, 2000 in the province of British Columbia. The company was classified as a Capital Pool company as defined in the TSX Venture Exchange ("TSX-V") Policy. Upon acquisition of the Red Creek Unit oil and gas property on April 12, 2001, which constituted the company's qualifying transaction, the company ceased to be a Capital Pool company. The company is now considered a Tier 2 issuer on the TSX-V and is an operating oil and gas company.

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### 2. Continued Operations

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern" which assumes the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of operations.

The validity of this assumption may be open to question in view of operating losses incurred to-date and an accumulated deficit of $195,855 as recorded in these consolidated financial statements.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis were not appropriate because management believes that the actions it has taken or planned will mitigate the factors mentioned above which might raise doubts about the validity of the going concern assumption *(Note 8f)*.

---

### 3. Significant Accounting Policies

a) **Basis of Consolidation**

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Mountain View Energy, Inc., incorporated in Montana, USA. The subsidiary was incorporated April 7, 1999 and remained inactive until purchased by the company for nominal cost in 2001.

b**) Oil and Gas Properties**

The company follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas reserves are capitalized and accumulated in cost centres established on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, interest costs on significant investments in unproved properties and major development projects and overhead charges directly related to acquisition, exploration and development activities, less any government incentives relating thereto.

### 3. Significant Accounting Policies - *Continued*

#### b) Oil and Gas Properties - *Continued*

The costs related to each cost centre from which there is production, together with the costs of production equipment, are depleted and amortized on the unit- of-production method based on the estimated gross proved reserves of each country. Oil and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content. Costs of acquiring and evaluating significant unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment in value has occurred. When proved reserves are assigned or the value of the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The capitalized costs less accumulated amortization in each cost centre from which there is production are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties. The total capitalized costs less accumulated depletion and amortization and deferred taxes of all cost centres is further limited to an amount equal to the estimated future net revenue from proved reserves plus the cost (net of impairments) of all cost centres less estimated future general and administrative expenses, future financing costs and taxes.

The costs (including exploratory dry holes) related to cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. The capitalized costs are periodically assessed to determine whether it is likely such costs will be recovered in the future. Costs unlikely to be recovered in the future are written off. Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and amortization.

#### c) Inventory

Inventory is recorded at the lower of cost or net realizable value. Cost of oil and gas is determined on a first in, first out basis.

#### d) Foreign Currency Translation

The accounts of the company's foreign operations have been translated into Canadian dollars as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and
- Revenue and expense and exploration and development items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year that they occur.

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### 3. Significant Accounting Policies - *Continued*

e) **Income Taxes**

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of “temporary differences” by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

f) **Share Capital**

i) The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the company.

ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value reduced by an estimate of transaction costs normally incurred when issuing shares for cash, as determined by the board of directors of the company.

All costs related to issuances of share capital will be charged against the proceeds received from the related share capital.

g) **Stock Compensation**

The company follows CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

i) Non-employees

The standard requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method.

ii) Employees

The standard encourages the use of a fair value based method for all awards to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the entity is required to or has a practice of settling in cash are recorded as liabilities. The company has elected to account for employee stock options by measuring compensation cost for options as the excess, if any, of the quoted market price of the company’s common shares at the date of grant over the amount an employee must pay to acquire the common shares. As required for the employee stock options, the company will disclose pro-forma income (loss) and pro-forma earnings (loss) per share using a fair value based method.

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**3. Significant Accounting Policies** - *Continued*

h) **Loss per Common Share**

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

i) **Environmental and Future Removal and Site Restoration**

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, which are probable and can be reasonably determined, are provided for on the unit of production method based on the estimated service lives of the related assets, as appropriate.

j) **Management's Estimates**

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

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**4. Fair Value of Financial Instruments**

The company’s financial instruments consist of cash, GST receivable, accounts receivable and accounts payable. Unless otherwise noted, it is management’s opinion that the company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

---

### 5. Petroleum and Natural Gas Interest

a) Details are as follows:

| | | **2002** | | 2001 |
|---|---|---|---|---|
| Red Creek Unit, Montana, USA: | | | | |
| Purchase price | **$** | **735,728** | $ | 735,728 |
| Engineering Reports | | **32,575** | | 35,575 |
| Legal and other costs (Title opinions and professional fees) | | **144,645** | | 163,447 |
| Other (Due diligence and investigation costs) | | **47,560** | | 47,560 |
| Workover expenses | | **77,017** | | - |
| | | **1,037,525** | | 982,310 |
| Accumulated amortization and depletion | | **(100,744)** | | (36,524) |
| | **$** | **936,781** | $ | 945,786 |

b) By letter agreement dated April 12, 2001, the property was acquired for $735,728 (US $475,000) from Summit Resources Inc., a Toronto Stock Exchange listed company.

### 6. Reclamation Bond

The company is required by the State of Montana to deposit monies into a reclamation bond. The bond is refundable at the time that the company performs the site restoration of the wells that are dry or are no longer in use. The amount of the bond is $132,225 (2001 - $95,568), which includes accrued interest of $4,959 (2001 - $NIL).

### 7. Bank Line of Credit

a) Details are as follows:

| | | **2002** | | 2001 |
|---|---|---|---|---|
| Principal (U.S. $290,000) | **$** | **-** | $ | 461,912 |
| Accrued interest (U.S. $10,789) | | **-** | | 17,185 |
| | **$** | **-** | $ | 479,097 |

The Bank Line of Credit could not exceed U.S. $300,000, as to principal, carried interest at 6.5% and was due, in full, on May 10, 2002. The line of credit was secured by a guarantee provided by a director of the company. In exchange for providing the guarantee, the company granted the director 286,069 share purchase warrants exercisable at $0.65 per share which expired on May 10, 2002.

### 8. Share Capital

a) Authorized:

100,000,000 common shares without par value
100,000,000 preference shares without par value

b) Issued and fully paid:

| | Common Shares | | Amount | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Opening balance | **4,057,000** | 2,000,000 | **$ 505,581** | $ 200,000 |
| Private placement | **5,579,350** | - | **1,115,870** | - |
| Prospectus | **-** | 2,000,000 | **-** | 400,000 |
| Share options exercised | **50,000** | - | **10,000** | - |
| Warrants exercised | **30,500** | 57,000 | **6,100** | 11,400 |
| | **9,716,850** | 4,057,000 | **1,637,551** | 611,400 |
| Share issuance costs | **-** | - | **-** | (105,819) |
| | **9,716,850** | 4,057,000 | **$ 1,637,551** | $ 505,581 |

c) The 2,000,000 shares issued in 2000 are held in escrow to be released as follows:

i) 10% upon acceptance of the qualifying transaction (released)
ii) 15% six months after initial release
iii) 15% every six months thereafter

As at December 31, 2002, 1,200,000 (2001 -1,800,000) shares were held in escrow.

d) As at December 31, 2002, the following share purchase options to directors were outstanding.

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 50,000 | $0.20 | February 10, 2003 - (Exercised subsequent to year-end) |
| 400,000 | $0.25 | June 18, 2004 |
| 450,000 | | |

e) As at December 31, 2002, the following share purchase warrants were outstanding.

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 797,050 | $0.20/$0.25 | April 19, 2003/April 19, 2004 |
| 4,782,300 | $0.20/$0.25 | June 18, 2003/June 18, 2004 |
| 5,579,350 | | |

**8. Share Capital** - *Continued*

f) Private Placement

During the year, the company issued 5,579,350 units through a non-brokered private placement to insiders for gross proceeds of $1,115,870.

5,579,350 units consisted of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the company at a purchase price of $0.20 (year 1) and $0.25 (year 2). The insiders that participated in the private placement are as follows:

- 3,188,200 to a director and an officer of the company
- 1,594,100 to a director and relative of a director and officer of the company
- 797,050 to a director of the company

The proceeds were used to repay the company's liabilities, including the Bank Line of Credit *(Note 7)*. The unused balance of approximately $300,000 is being used for general working capital.

g) During the year, the company granted 850,000 incentive stock options to directors and officers of the company at the exercise price of $0.25 per share expiring June 18, 2004. Of these, 450,000 options expired as a result of directors and officers resigning.

Pro-forma disclosure related to employee stock options granted in the current year is as follows:

| | | 2002 |
|---|---|---|
| Net Loss | | |
| As reported | $ | 12,001 |
| Stock based compensation | $ | 129,028 |
| Pro forma | $ | 141,029 |
| Net Loss Per Share | | |
| As reported | $ | 0.00 |
| Pro forma | $ | 0.01 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes Option-Pricing model with the following weighted average assumptions:

| | 2002 |
|---|---|
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 81.19% |
| Risk-free interest rate | 3.63% |
| Expected life of options | 2 years |

Options pricing models require the input of highly subjective assumptions that can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the company's stock options.

### 9. Related Party Transactions

Related party transactions not disclosed elsewhere in these financial statements are as follows:

a) During the year, management fees of $23,555 (2001 - $NIL) were paid to a former director and officer of the company.

b) During the year, legal fees of $14,492 (2001 - $48,617) were paid to a director of the company.

c) During the year, a settlement fee of $12,525 (2001 - $NIL) was paid to the former president upon his resignation.

d) During the year, geological consulting fees of $8,065 (2001 $NIL) were paid to a company that is owned by a former director and officer of the company.

e) As at December 31, 2002, an amount due to a company with a director and officer in common was $15,776 (2001 - $95,568), bears interest at 8% and is expected to be repaid within one year. Interest of $6,765 (2001 - $NIL) was paid to a company with a director and officer in common.

### 10. Income Taxes

As at December 31, 2002, the company had approximately $93,000 of losses in the United States and Canada and such losses expire in 7 to 20 years. The benefit, if any, of these losses have not been recorded in the accounts.

### 11. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

### 12. Subsequent Events

Subsequent to the year-end, an officer of the company exercised 50,000 stock options at $0.20 per share for gross proceeds of $10,000.

**B.C. FORM 51-901F**

## QUARTERLY AND YEAR END REPORT

Incorporated as part of:

| | |
|---|---|
| | Schedule A |
| X | Schedules B & C |

**ISSUER DETAILS:**

| | |
|---|---|
| **Name of Issuer:** | Mountainview Energy Ltd. |
| **Issuer Address:** | P.O. Box 200, Cut Bank, Montana, USA 59427 |
| **Issuer Fax No.:** | (406) 873-2835 |
| **Issuer Telephone No.:** | (406) 873-2235 |
| **Contact Name:** | Joseph V. Montalban |
| **Contact Position:** | Chairman of the Board, President and CEO |
| **Contact Telephone Number:** | (406) 873-2235 |
| **Contact Email Address:** | mvw@gec-isp.net |
| **Web Site Address:** | N/A |
| **For Quarter Ended:** | 2002/12/31 |
| **Date of Report:** | 2003/04/04 |

*CERTIFICATE:*

THE THREE SCHEDULES REQUIRED TO COMPLETE THIS REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE, THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B & C.

| | | |
|---|---|---|
| ***"Joseph V. Montalban"*** | Joseph V. Montalban | 2003/05/14 |
| ***"Bruce Young"*** | Bruce Young | 2003/05/14 |

**SCHEDULE B**
**DECEMBER 31, 2002**

1. ANALYSIS OF EXPENSES AND DEFERRED COSTS

   See consolidated financial statements for details.

2. RELATED PARTY TRANSACTIONS

   See consolidated financial statements for details.

3. SUMMARY OF SECURITIES ISSUED AND OPTIONS GRANTED DURING THE PERIOD ENDED DECEMBER 31, 2002

   a) Securities issued:

      See consolidated financial statements for details.

   b) Options granted:

      See consolidated financial statements for details.

4. SUMMARY OF SECURITIES AS AT DECEMBER 31, 2002

   a) Authorized share capital:

      See financial statements for details.

   b) Shares issued and outstanding:

      See financial statements for details.

   c) Options, warrants and convertible securities outstanding:

      See financial statements for details.

   d) Shares subject to escrow or pooling agreements.

      See financial statements for details.

5. NAMES OF DIRECTORS AND OFFICERS AS AT THE DATE THIS REPORT IS SIGNED AND FILED

   Joseph V. Montalban - Chairman of the Board, President and CEO
   Jeremy Caddy, Corporate Secretary
   Steven Sobolewski
   Cora Belle Montalban
   Bruce Young
   Julian Rowan

## MOUNTAINVIEW ENERGY LTD
Fiscal Year Ended December 31, 2002

SCHEDULE C

**Management Discussion and Analysis**

*Description of Business*

Mountainview Energy Ltd (the "Company") is an oil and gas exploration and production company incorporated in British Columbia on May 31, 2000. The Company was listed for trading as a capital pool company on the Canadian Venture Exchange, now known as the TSX Venture Exchange, (the "TSX-V") in March 2001. Mountainview Energy Ltd currently operates the Red Creek Field located south of the U.S./Canadian Border in Northern Glacier County, Montana. The Red Creek Field was acquired as a qualifying transaction on July 1, 2001. The completion of this transaction qualified the Company as a "Tier II Issuer." The Company is continuing with the development of the Red Creek Field while searching for additional acquisitions and prospective production opportunities.

The Company began operations of the Red Creek Field on July 1, 2001. Prior to that time the Company was engaged solely in organizational and financing activities. Therefore, operating results for the twelve-month period ending December 31, 2002 are not comparable with results for the corresponding period of 2001.

**<u>Operations and Financial Condition</u>**

The Company reworked and re-completed three wells during the Third Quarter of 2002 approximately doubling the average daily production from 37 barrels of oil per day to 74 barrels of oil per day. The workover program continued into the Fourth Quarter with successful efforts bringing daily production to over 90 barrels of oil per day in December 2002. The continued increase in production resulted in a significant increase in revenues over the course of the year. The following schedule shows the steady increase over the 12-month period:

| Period | Production | Average Price (US$) | Gross Sales (US$) | Gross Sales (CDN$) |
|---|---|---|---|---|
| 1st Quarter | 2,514 | 15.15 | 37,055 | 58,556 |
| 2nd Quarter | 4,073 | 21.05 | 86,394 | 133,167 |
| 3rd Quarter | 5,369 | 23.23 | 124,418 | 195,588 |
| 4th Quarter | 6,323 | 23.42 | 149,110 | 235,910 |

This major increase is directly attributed to the enhanced production brought about by the successful workover program along with a sharp rise in the price of oil. As depicted in the foregoing schedule the average price of oil went from US$15.00 per barrel during the First Quarter of 2002 to US$23.00 during the Fourth Quarter 2002.

Increased production and the highly favorable price per barrel of oil at the wellhead resulted in Gross Oil Sales during 2002 of US$392,371 (CDN$623,221). Gross Oil Sales for 2001 are not comparative, as the Company did not assume operations of the Red Creek Field and begin receiving the generated revenue until July 2001. Thus figures for 2001 only reflect six months of operations versus twelve months in 2002.

Management plans to continue with enhancement programs in the Red Creek Field. These programs are expected to increase production leading to an increase in revenues. However, the amount of generated revenue is not only relative to production but also to the price of oil.

The Company's Cash Position improved during the year as a result of a Private Placement of common shares from which the Company realized gross proceeds of $1,115,870. The Cash Position for the period ending December 31, 2002 was $361,637 compared to a deficit of $462,872 for the same period in 2001.

The Company experienced a loss from operations of $16,960 and an overall loss for the year of $12,001. This is a significant improvement over 2001, in which the Company reported an operating loss of $188,690. The loss in 2001 was due to the expenses incurred while completing the process of becoming a public company and closing on a qualifying transaction. Also, the Company only experienced a six-month revenue-generating period during 2001, as compared to twelve months in 2002.

As depicted in the Consolidated Statement of Loss and Deficit, the major operating expense is Utilities. This expense is comprised of charges for electricity used in operating electrical pumps, water disposal units, etc in the Red Creek Field. The Cost of Sales during 2002 was higher than those reported in 2001 due to the shorter operating period, as previously discussed.

General and Administrative Expenses also contributed to the operating loss experienced for the year. General and Administrative Expenses for 2002 were slightly higher than those reported in 2001. The reason for the increase in expenses over last year is that the Company operated the Red Creek Field for a twelve-month period in 2002 versus the six-month period in 2001. The General and Administrative Expenses reflect Management's efforts to promote the Company. They also reflect the Company's increased activity directly related to the increase in production in the Red Creek Field.

Proceeds from the Private Placement were used to extinguish the Company's liabilities. This is evident in the comparison of Liabilities for 2002 of $104,676 and 2001 of $775,193.

The Company made no acquisitions or dispositions of capital assets during 2002 nor have there been any material write-off or write-down of assets during the period.

As reported earlier in the Notes to Interim Consolidated Financial Statements, the following related party transactions occurred during 2002:

a) An amount due to a related party bearing interest at 8% is due to be repaid within one year. During the period interest in the amount of $6,765 was paid to a Director and Officer of the Company.

b) During the twelve months ended December 31, 2002, legal fees in the amount of $14,492 were paid to a Director of the Company.

c) Management Fees of $23,555 were paid to a former Director and Office of the Company.

d) A settlement fee of $12,525 was paid to a former President upon his resignation.

e) A former Director and Officer of the Company received geological consulting fees in the amount of $8,065.

As a result of the successful workovers during the year and increased oil prices, the Company has met or exceeded its earlier reported estimates for monthly revenues.

During the quarter ending December 31, 2002 the Company:

- was not party to any legal proceeding;
- was not in default under any of its contractual obligations;
- had not made any arrangements for provision of investor relations services;
- was not in breach of corporate, securities or other laws, or of an issuer's listing agreement with the TSX-V;
- disclosed all management changes as required;

## Financings, Principal Purposes and Milestones

The Company completed a successful financing through a private placement of common shares and warrants in April 2002. The private placement consisted of 5,579,350 units at a price of $0.20 per unit for gross proceeds of $1,115,870. Each unit consisted of one share purchase warrant exercisable for two years at $0.25 per share in Year One and $0.30 per share in Year Two. The placement was fully subscribed by three placees one of whom was a Director and two of whom subsequently became Directors. The transaction was approved by the Shareholders at the Company's Annual General meeting held in Vancouver on June 17, 2002 with final regulatory approval following.

The proceeds from the private placement were used to extinguish the Company's current and long-term liabilities, including a payout of a US$300,000 (CDN$462,000) line of credit and accrued interest. The unused proceeds are being held as working capital. The Company is currently putting those funds to use while continuing a successful workover and enhancement program in the Red Creek Field.

There have been no material variances to-date that have impacted the Company's ability to continue its objectives as previously reported.

## Subsequent Events

The Red Creek Field enhancement program continued into the First Quarter of 2003. During that time the Company made a gas discovery in a new horizon in the Red Creek Field. The Company is researching options for further development of this discovery.

*Liquidity and Solvency*

Working capital for the Year Ending December 31, 2002 was $372,690. This is a marked improvement over 2001, in which the Company reported a working capital deficiency of $719,627. The significant change is due to the increase in monthly revenues detailed earlier in "Operations and Financial Condition," as well as elimination of the Company's liabilities during the year with the use of funds generated through a Private Placement of Common Shares. Increased production yielding healthy monthly revenues enables the Company to continue to meet its ongoing obligations and continue the enhancement program in the Red Creek Field.

## Corporate Matters

During the Annual General Meeting held June 17, 2002 Joseph V. Montalban was elected Chairman of the Board & Chief Executive Officer. A. John Miller was elected as President, Chief Financial Officer and Director. Also elected to the Board of Directors were Thomas R. Meraw, Steven Sobolewski and Cora Belle Montalban.

Management accepted the resignation of the following Directors and Officers during the year.

> Mr. Thomas R. Meraw resigned as a Director, effective October 23, 2002
> Mr. A. John Miller resigned as Director, President and Chief Financial Officer, effective November 15, 2002.

The Board subsequently appointed Mr. Julian Rowan of Duncan, British Columbia and Bruce Young of Port Moody, British Columbia to fill the vacancies.

***J.V. Montalban, Chairman of the Board***

President & Chief Executive Officer