MOUNTAINVIEW ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

Staley, Okada & Partners
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Directors of Mountainview Energy Ltd.:

We have audited the consolidated balance sheets of Mountainview Energy Ltd. as at December 31, 2004 and 2003 and the consolidated statements of income and retained earnings (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, 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.

"Staley, Okada & Partners"

Vancouver, B.C.
April 7, 2005

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

Mountainview Energy Ltd. Statement 1

Consolidated Balance Sheets

As at December 31
Canadian Funds

ASSETS	2004	2003
Current		
Cash and term deposits	$ **664,695**	$ 516,746
GST receivable	**-**	14,697
Accounts receivable - trade	**128,287**	87,226
Inventory	**3,391**	10,515
	796,373	629,184
Property, Plant and Equipment, *net of accumulated amortization of $2,454*	**13,905**	-
Petroleum & Natural Gas Interest *(Note 4)*	**1,213,360**	1,088,782
	$ **2,023,638**	$ 1,717,966

LIABILITIES		
Current		
Accounts payable - trade	$ **251,136**	$ 106,390
- related party *(Note 6a)*	**-**	20,000
Income tax payable	**32,454**	8,427
	283,590	134,817
Future Income Tax Payable *(Note 9)*	**30,050**	-

SHAREHOLDERS' EQUITY		
Share Capital *(Note 5)*	**1,647,551**	1,647,551
Retained Earnings (Deficit) - *Statement 2*	**62,447**	(64,402)
	1,709,998	1,583,149
	$ **2,023,638**	$ 1,717,966

ON BEHALF OF THE BOARD:

"Joseph V. Montalban", Director

"Bruce Young", Director

- See Accompanying Notes -

Mountainview Energy Ltd. Statement 2

Consolidated Statements of Income and Retained Earnings (Deficit)

For the Years Ended December 31
Canadian Funds

	2004	2003
Revenue		
Gross sales	**$ 1,334,188**	$ 1,131,173
Less royalties	**(151,510)**	(139,644)
	1,182,678	991,529
Cost of Sales		
Inventory - Beginning of year	**10,515**	8,293
Production taxes	**173,440**	133,233
Utilities	**118,234**	108,313
Amortization and depletion	**112,315**	118,268
Repairs and maintenance	**63,713**	30,518
Labour	**55,382**	38,528
Vehicle	**43,845**	28,099
Materials	**33,930**	33,405
Consulting fees	**28,293**	23,850
Engineering	**9,499**	7,638
Property taxes	**6,763**	5,356
Miscellaneous production costs	**5,132**	1,070
Insurance	**3,646**	5,894
Interest	**-**	357
Inventory - End of year	**(3,391)**	(10,515)
	661,316	532,307
Gross Margin *(44.1%; 2003 -46.3%)*	**521,362**	459,222
General and Administrative Expenses *(Schedule)*	**(314,829)**	(318,666)
Income from Operations Before Income Taxes	**206,533**	140,556
Provision for Income Tax – Current	**(47,151)**	(9,103)
Provision for Income Tax - Future	**(32,533)**	-
Net Income for the Year	**126,849**	131,453
Deficit - Beginning of year	**(64,402)**	(195,855)
Retained Earnings (Deficit) - End of Year	**$ 62,447**	$ (64,402)
Income per Share - Basic	**$ 0.01**	$ 0.01
Income per Share - Fully Diluted	**$ 0.01**	$ 0.01

- See Accompanying Notes -

Mountainview Energy Ltd. Statement 3

Consolidated Statement of Cash Flows

For the Years Ended December 31
Canadian Funds

Cash Resources Provided By (Used In)	**2004**	2003
Operating Activities		
Cash receipts from customers	**$ 1,141,552**	$ 998,752
Cost of sales	**(541,877)**	(416,261)
Cash paid to suppliers and employees	**(173,318)**	(309,182)
Interest	**4,350**	4,627
	430,707	277,936
Investing Activities		
Petroleum and natural gas interest	**(266,399)**	(132,827)
Property, plant and equipment	**(16,359)**	-
	(282,758)	(132,827)
Financing Activities		
Share capital issued for cash	**-**	10,000
Net Increase in Cash	**147,949**	155,109
Cash position - Beginning of year	**516,746**	361,637
Cash Position - End of Year	**$ 664,695**	$ 516,746

Cash Position Consists of:		
Cash and term deposits	**$ 664,695**	$ 516,746

Supplemental Schedule of Non-Cash Transactions:		
Amortization and depletion	**$ 114,769**	$ 118,268
Foreign exchange	**$ 61,476**	$ 84,730
Provision for income tax - current	**$ 35,135**	$ 9,103
Provision for income tax - future	**$ 32,533**	$ -

- See Accompanying Notes -

Mountainview Energy Ltd. Schedule

Consolidated Schedule of General and Administrative Expenses

For the Years Ended December 31

Canadian Funds

		2004		2003
General and Administrative Expenses				
Wages and benefits	**$**	**70,059**	$	70,678
Office operating costs		**65,362**		51,008
Foreign exchange		**61,476**		84,730
Travel and promotion		**45,344**		35,137
Accounting and auditing		**20,315**		20,105
Professional fees		**19,600**		-
Listing and filing fees		**12,694**		13,626
Automotive		**8,598**		1,228
Meals and entertainment		**4,998**		4,082
Shareholder relations		**4,292**		3,945
Legal fees		**3,330**		38,362
Amortization		**2,454**		-
Dues, licences and fees		**657**		392
Interest and bank charges		**(4,350)**		(4,627)
	$	**314,829**	$	318,666

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.

2. 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 on April 7, 1999 and remained inactive until purchased by the Company for nominal cost in 2001.

b) Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash equivalents with institutions of high-credit worthiness.

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) 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.

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.

2. Significant Accounting Policies - *Continued*

d) Oil and Gas Properties – *Continued*

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.

e) Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated amortization. The Company provided for amortization on the declining balance method as follows:

- Computer equipment – 30%

One-half of the above rate is taken in the year of acquisition.

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.

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

g) Earnings per 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.

h) Revenue Recognition

Revenue from the sale of oil and gas is recognized in the accounts when title and the risks and rewards of ownership passes to the buyer.

2. Significant Accounting Policies - *Continued*

i) 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.

j) 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.

k) Stock-Based Compensation

The Company adopted the recommendations of CICA Handbook Section 3870, stock-based compensation and other stock-based payments, effective to all awards granted on or after January 1, 2003. This established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

As encouraged by CICA Handbook Section 3870 the Company has enacted prospectively early adoption of the fair value based method of accounting for rewards issued to employees for the fiscal year beginning January 1, 2003.

The new standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method. In prior years, stock-based compensation expense was only recognized when stock-based compensation awards were made to non-employees, while pro-forma disclosure was acceptable for rewards made to employees.

2. Significant Accounting Policies - *Continued*

l) Asset Retirement Obligations – Change in Accounting Policy

The recommendations of CICA Handbook Section 3110, Asset Retirement Obligations ("CICA 3110"), became effective on January 1, 2004. This section requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of the environmental remediation required, changes in the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

m) 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 the 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.

3. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and term deposits, GST receivable, accounts receivable, accounts payable and income tax 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.

4. Petroleum & Natural Gas Interest

a) Details are as follows:

Proved and Producing		2004		2003
Red Creek Unit, Montana, USA:				
Purchase price	**$**	**735,728**	$	735,728
Engineering Reports		**32,575**		32,575
Legal and other costs (Title opinions and professional fees)		**144,645**		144,645
Due diligence and investigation costs		**47,560**		47,560
Workover and completion costs		**350,448**		209,844
Accumulated amortization and depletion		**(331,327)**		(219,012)
	$	**979,629**	$	951,340
Reclamation Bond –Montana, USA:	**$**	**107,936**	$	137,442
Unproved				
Shannon Properties, Montana, USA:				
Purchase price	**$**	**82,613**	$	-
Lease rentals		**43,182**		-
	$	**125,795**	$	-
Total petroleum and natural gas interests	**$**	**1,213,360**	$	1,088,782

b) Workover expenditures incurred during the year were $140,604 (2003 - $132,827).

c) 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 $107,936 (2003 - $137,442), which includes accrued interest of $11,776 (2003 - $10,216).

d) During the current year, the Company purchased a 100% interest in the Shannon Property (petroleum leasehold interests) for $61,895 (US). This interest represents a 100% working interest and a 87.5% revenue interest. The interests are also subject to a 5% overriding royalty in favour of the vendor.

5. 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			
	2004	2003		**2004**		2003
Opening balance	**9,766,850**	9,716,850	**$**	**1,647,551**	$	1,637,551
Private placement	**-**	5,579,350		**-**		1,115,870
Share options exercised	**-**	50,000		**-**		10,000
	9,766,850	9,766,850	**$**	**1,647,551**	$	1,647,551

c) As at December 31, 2004, NIL (2003 - 600,000) shares were held in escrow.

d) As at December 31, 2004, all share purchase options had expired.

e) As at December 31, 2004, all share purchase warrants had expired.

6. Related Party Transactions

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

a) During the year, legal fees of $NIL (2003 - $38,362) were paid or accrued to a former director of the Company. Of the current year legal fees $NIL (2003 - $20,000) had been accrued.

b) During the year, geological consulting fees of $25,200 (2003 - $21,050) were paid to a company that is owned by a relative of a director and officer of the Company.

c) During the year, wages and benefits of $62,400 (2003 - $65,200) were paid to a director and officer of the Company.

7. Income Taxes

Details of income taxes for the year are as follows:

	2004	2003
Net income before income taxes for accounting purposes	**$ 206,533**	$ 140,556
Adjustments for differences between accounting and taxable income:		
Amortization and depletion for accounting less than amount deductible for tax purposes	**(62,367)**	(81,528)
Foreign exchange	**61,476**	84,730
Other timing differences	**35,871**	2,872
Share issuance costs	**(21,164)**	(21,164)
Income for tax purposes	**220,349**	125,466
Tax rate	**21.4%**	22%
Expected tax expense for the year	**47,151**	27,603
Reduction of tax due to application of tax loss carry-forwards	**-**	(18,500)
Tax expense for the year	**$ 47,151**	$ 9,103

The Company's non-capital loss carry-forwards were used during the prior year.

8. Comparative Figures

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

9. Future Income Tax

The Company has reviewed its future income tax provision and the Company has determined that it is more likely than not that the Company will continue to have taxable income. Therefore, the Company has decided to record the future income tax liability that will arise due to the difference between the accounting value of the oil & gas properties and the taxation value of such.

Form 51-102F1
Management Discussion and Analysis
For
MOUNTAINVIEW ENERGY LTD
Fiscal Year Ended December 31, 2004

Description of Business

Mountainview Energy Ltd (the "Company"), an oil and gas exploration and production company, was 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") 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 also acquired the Shannon River Project located in Carter County, Montana and Management continues to study the acreage for optimum drilling potential.

Operations and Financial Condition

Gross Revenues for 2004 of US$1,018,210 (CDN$1,182,678) increased by US$218,122 from the US$800,088 (CDN991,529) in Gross Revenues reported for 2003. The change in the revenues for these two periods is a direct result of the increase in the price received per barrel of oil, as well as an increase in Sales Volumes. The following schedule shows a trend of increasing revenues received by the Company during the past twelve quarterly periods:

Period	Sales Volumes	Average Price (US$)	Gross Sales (US$)	Gross Sales (CDN$)
4th Quarter 2004	8,573	41.84	358,658	451,639
3rd Quarter 2004	6,450	38.24	246,639	325,523
2nd Quarter 2004	6,352	32.72	207,830	284,442
1st Quarter 2004	6,876	29.83	205,081	272,584
4th Quarter 2003	7,534	26.03	196,047	257,939
3rd Quarter 2003	7,285	25.34	184,878	269,427
2nd Quarter 2003	7,659	24.00	183,635	213,499
1st Quarter 2003	8,171	28.92	235,529	358,687
4th Quarter 2002	6,299	23.42	149,110	235,910
3rd Quarter 2002	5,278	23.23	124,418	195,588
2nd Quarter 2002	4,056	21.05	85,280	133,167
1st Quarter 2002	2,398	15.16	36,356	58,556

As depicted in the foregoing schedule the average price per barrel increased by approximately $15.81 per barrel at US$41.84 for the Fourth Quarter 2004 compared to the US$26.03 received during the Fourth Quarter 2003. As detailed there has been a steady increase in the price received per barrel of oil over the past twelve quarters. The Company continues to see an increase in oil prices into the First Quarter of 2005.

Selected Annual Information

	2004	2003	2002
Net Revenues	1,182,678	991,529	556,382
Net Income (Loss)	126,849	131,453	(12,001)
Net Income (Loss Per Share	0.01	0.01	(0.00)
Dividends	Nil	Nil	Nil
Total Assets	2,023,638	1,717,966	1,546,372
Total Long-Term Liabilities	Nil	Nil	Nil

Summary of Quarterly Results

Period	Net Revenue	Net Income (Loss)	Income per Share Basic Earnings (Loss)	Income Per Share Diluted	Total Assets	Total Long-Term Liabilities
4th Quarter 2004	410,255	62,706	0.00	0.00	2,023,638	Nil
3rd Quarter 2004	279,029	2,002	0.00	0.00	1,866,439	Nil
2nd Quarter 2004	250,037	3,865	0.01	0.01	1,808,635	Nil
1st Quarter 2004	243,357	58,276	0.00	0.00	1,818,996	Nil
4th Quarter 2003	258,987	20,452	0.00	0.00	1,717,966	Nil
3rd Quarter 2003	231,379	17,849	0.00	0.00	1,713,096	Nil
2nd Quarter 2003	188,658	16,874	0.00	0.00	1,651,336	Nil
1st Quarter 2003	312,505	76,278	0.01	0.00	1,672,777	Nil
4th Quarter 2002	200,844	74,187	0.01	0.01	1,596,372	Nil
3rd Quarter 2002	172,244	60,391	0.01	0.01	1,528,785	Nil
2nd Quarter 2002	124,738	(50,305)	(0.01)	(0.01)	1,505,740	Nil
1st Quarter 2002	58,556	(96,274)	(0.02)	(0.02)	1,079,954	Nil

As discussed in earlier reports, Management postponed the planned multi-well drilling program in the Red Creek Field during 2004. As a rig was not available in the Fall, Management did not want to begin drilling operations during winter weather; equipment tends to freeze up, cold weather adds to winter hazard and costs increase significantly. Management has evaluated the overall workover program conducted in the Red Creek Field and has identified the Northeast part of the Field as the area for further development. Several locations have been surveyed for Spring drilling in 2005.

The Company completed two successful workover programs during 2004, bringing the total number of producing oil wells in the Red Creek Field to 18, while maintaining 2 water disposal wells and 1 shut-in Bow Island Gas well discovery in the Red Creek Field. Following are the results of those workover programs:

Spring 2004

- **Red Creek No. 9:** The Red Creek #9 well was acidized and re-completed for production of 7 to 9 BOPD.

- **Red Creek No. 2C-11:** The Red Creek No. 2C-11 well was perforated, acidized and re-completed as a Cut Bank oil well for production of 7 to 8 BOPD.

- **Red Creek 13D-2:** The Red Creek 13D-2 was also perforated, acidized and re-completed as a Cut Bank oil well for production of 8 to 9 BOPD.

Summer 2004

- **Red Creek No. 12A-12:** The Red Creek No. 12A-12 was acidized and re-completed for production in the Madison/Cut Bank formations.

- **Red Creek No. 13:** The Red Creek No. 13 well was re-completed as a Madison oil well.

- **Red Creek 22:** The Red Creek No. 22 well was acidized and re-completed as a Cut Bank oil well.

- **Red Creek 23:** The Red Creek No. 23 well was re-completed as a Madison oil well.

This enhancement program has allowed the Company to maintain total average daily field production, which will turn sustain a steady revenue stream. However, the amount of generated revenue is not only relative to production but also to the price received per barrel of oil.

The Company experienced income from operations of $206,533 during 2004, which is an increase of $65,977 over the income from operations reported for 2003 of $140,556. This variance is due to an increase in Gross Revenues. The Company reported General and Administrative Expenses of $314,829 for 2004 compared to $318,666 reported during 2003, which is a slight decrease of $3,837. One significant change worth noting is the Foreign Exchange Expense. This expense was $84,730, as reported in 2003, decreasing to $61,876 in

2004. As a result of the fluctuating value of the U.S. dollar when converting our cash-on-hand to Canadian dollar equivalent, this expense is in constant change. For example, the rate of exchange used for conversion as of December 31, 2004 was $1.3013 compared to the $1.4004 used for conversion from U.S. dollars to Canadian equivalent as of December 31, 2003, thus resulting in a dramatic fluctuation from one year to the next. Another variance to note is our dramatic decrease in Legal Fees from 2003 in which we reported an expense of $38,362 compared to the $3,330.00, reported in 2004. The Company realized Net Income for 2004 of $126,849 after the Provision for Income Tax, Current and Future, of $79,684. Due to this Provision for Income Tax, which increased from $9,103 in 2003 to $79,684 in 2004, the Net Income for 2004 of $126,849 is slightly less than what was reported in 2003 of $131,453. In addition, all non-capital/business losses, which are carried forward each year and help to minimize the tax burden by offsetting revenue, have since been used in the prior year. Consequently, there were no losses carried forward, thus resulting in a larger tax burden for the current year.

The Company's Cash Position (consisting of Cash & Term Deposits) increased significantly during 2004 with a reported figure of $664,695 compared to 2003 in which the Company reported a Cash Position of $516,746. This increase of approximately $148,000 in 2004 is a direct result of an increase in cash receipts.

As depicted in the Consolidated Statement of Income and Retained Earnings (Deficit), the major operating expense during 2004 was Production Taxes. The increase from the $133,233 in Production Tax burden reported in 2003 to the $173,440 reported in 2004 is a result of the increase in sales and the higher price received per barrel of oil. The Company is again subject to a higher tax rate based on the price received per barrel, as tax rates for the entire year of 2004 reverted to the non-stripper rate, as implemented by the State of Montana. Normally, the wells in the Red Creek Field would be taxed at a stripper rate of 5.76%. However, if at any time during a quarterly period the West Texas Intermediary posting price for a barrel of oil exceeds $30.00, the stripper rate becomes null and void and the wells are taxed at the regular rate of 12.76%, thus leading to a higher tax liability. Another major operating expense continues to be electrical costs or utilities. This expense is comprised of charges for electricity used in operating electrical pumps, water disposal units, etc in the Red Creek Field. An additional significant expense of note was for repairs and maintenance. This expense was a result of an on-going tank and treater-cleaning project in the Red Creek Field for the purposes of enhancing the efficiency and lifetime of the equipment.

The Company completed the acquisition of the Judith Basin-Shannon River Project located in Carter County, Montana during 2004. This was a lease acquisition of 61,895.15 Net Acres located in the Southeast corner of Montana, acquired at a purchase price of US$1.00 per net acre. The Company acquired a 100% Working Interest and an 82.5% Net Revenue Interest, as the acreage has a royalty burden of 12.5% and an overriding royalty burden of 5%. The Judith Basin-Shannon River Project is south of the Cedar Creek Anticline and represents a significant, conventional shallow gas opportunity. The Company's Geological and Engineering Staff continue to study the Prospect for a possible drilling program.

There were no dispositions of capital assets during 2004 nor have there been any material write-offs or write-downs of assets during the period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions which affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the reporting period. Actual results could differ from those reported.

Forward Looking Information

This MD&A contains forward-looking statements relating to regulatory compliance and the sufficiency of current working capital to continue the on-going enhancement program. These statements reflect Management's view with respect to future events. Assumptions made herein, with respect to these future events, are subject to certain uncertainties and many factors could cause actual results to differ from those implied by these forward-looking statements.

Related Party Transactions

As reported earlier in the Notes to Consolidated Financial Statements, the following related party transactions occurred during 2004:

a) Legal fees of $38,362 were paid and accrued to a former director of the Company in 2003. There were no legal fees paid in 2004.

b) During the year, CDN$25,200 (2003 - CDN$21,050) for Geological/Engineering Consulting Fees were paid to Altamont Oil & Gas, Inc, an Engineering/Consulting Company that is owned by a relative of a Director and Officer of Mountainview Energy Ltd.

c) Wages and Benefits of CDN$62,400 (2003 – CND$65,200) were paid to a Director and Officer of the Company.

Company Progress:

As a result of the successful workovers during the year and the steady increase in the price of oil, the Company has met or exceeded its earlier reported estimates for monthly revenues. There have been no material variances to-date that have impacted the Company's ability to continue its objectives as previously reported.

Financial Instruments

Mountainview Energy Ltd's financial instruments consist of Cash, Term Deposits, GST Receivable, Accounts Receivable/Trade and Inventory. Unless otherwise noted, it is Management's opinion that Mountainview Energy Ltd is not exposed to significant interest, currency or credit risks arising from the financial instruments.

Outstanding Share Data

To-date the Company has 9,766,850 outstanding shares with Shareholder Equity of $1,647,551. As of December 31, 2004, there were no shares held in escrow, all options to directors had expired and no options were granted during 2004.

Liquidity and Solvency

Working Capital for the Year Ending December 31, 2004 was $512,783 (Current Assets less Current Liabilities). This is a slight increase from the same period in 2003 in which the Company reported Working Capital of $494,367. The Company's cash reserve remains healthy as a result of the steady monthly revenues the Company continues to receive, as discussed earlier in "Operations and Financial Condition." With respect to the Company's short-term liabilities, as of December 31, 2004, the Company had an obligation of $251,136 in Accounts Payable. This figure is mainly comprised of costs associated with accrued royalty and production tax expenses for 2004. The $32,454 for Current Income Taxes Payable will be paid when it becomes due. The $30,050 for Future Income Tax Payable is an estimate of what the Company will owe for future income taxes, based on the assumption that the Company will continue to have taxable income.

The increasing monthly revenues enable the Company to continue to meet its ongoing obligations and the Company has no long-term financial liabilities or obligations.

Changes in Accounting Policies

As per the CICA Handbook, Section 3110, the recommendation to report "Asset Retirement Obligations," became effective on January 1, 2004. As such, the principles previously reported under "Environmental and Future Removal and Site Restoration" will now fall under the inclusive report heading of "Asset Retirement Obligation." This new "Note to Consolidated Financial Statement," has no effect on prior years, as a result of adopting this new recommendation, and only serves to provide further disclosure.

Subsequent Events

There have been no subsequent events to report, since December 31, 2004.

Approval

The Audit Committee of Mountainview Energy Ltd has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

"Joseph V. Montalban"
Joseph V. Montalban, Chairman of the Board
President & Chief Executive Officer