EXPLORATION

PRODUCTION

COMMERCIALIZATION

THE POWER OF

ENERGY

ARTUMAS GROUP INC. ANNUAL REPORT 2004

CORPORATE PROFILE Artumas Group Inc. (Artumas) is a Canadian-based independent energy producer, delivering a total energy solution to targeted regions in rural Africa. The Artumas total energy solution provides least-cost electricity by converting stranded natural gas reserves to power generation, and by upgrading and operating regional transmission and distribution infrastructure.

OUR STRATEGY – ENERGY FOR OPPORTUNITY The foundation of Artumas's strategy is identifying stranded natural gas reserves in regions of Africa that demonstrate a dynamic foreign investment policy.

Our technical screening process identifies firm electric power requirements of approximately 10-100 megawatts and located within close proximity to discovered but unexploited natural gas reserves. We also recognize the potential for off-take gas sales and we develop innovative commercialization opportunities where feasible.

Artumas's commercial screening process identifies countries where the legal, political, economic, fiscal and commercial environment is favourable to foreign investment and acceptable to global financial markets.

Our business model is based on identifying opportunities in countries where the power sector is being privatized. Our focus is on natural gas reserves that are not targeted by large companies, to which we can apply creative technical and commercial solutions, creating maximum value to our shareholders and to the host country.

Artumas's strength lies in the ability of management to develop such opportunities at competitive costs through application of fit-for-purpose technologies. Our aim is to realize targeted return on investment while ensuring the lowest cost to the consumers.

To secure opportunities, Artumas's management team relies on building excellent working relationships in the countries of interest, supported by a creative approach to negotiating deals that create value for all stakeholders. We pursue opportunities that have positive social impact and the potential to generate profits to shareholders.

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CONSOLIDATION

"The dedication of Artumas's employees is reflected in the value created to the Company's existing and new shareholders". STEVE MASON, CEO, ARTUMAS GROUP INC. OF CANADA

CAPTURING ENERGY FOR GROWTH Artumas Group Inc. of Canada (Artumas) is pleased to report on its 2004 year of operations. The year marks significant progress for our project in Tanzania.

After many years of laying the groundwork, in May 2004 Artumas signed a production-sharing agreement with the Government of Tanzania, formally launching the Mtwara Energy Project (the Project) in southeastern Tanzania. This agreement opened the door for Artumas to begin an aggressive program to implement its long-anticipated gas-to-power initiative in the Mtwara and Lindi regions. It also begins the process of providing our investors with an excellent return on their investment.

The initiative involves our complete-energy-solution concept. Artumas is leading this multi-faceted project from energy exploration and production through to distribution and commercialization: from well head to light bulb. The Project will bring reliable, accessible and affordable electricity to rural southeastern Tanzania, powered by locally produced natural gas distributed through locally built pipelines and power plants. It also includes a liquefied natural gas (LNG) component.

Phase 1 of the Project entailed the initial development of the Mnazi Bay natural gas concession. The Mnazi Bay natural gas reserves are estimated to be approximately two trillion cubic feet. Recently shot seismic data indicates numerous anomalies and given the evidence of oil seeps on the concession, points to the potential of an oil discovery through future drilling. Phase 2 involves building infrastructure for production facilities, pipeline and power plant and the upgrade of the existing transmission and distribution system.

Artumas owns 80% of the US$97-million Project; the Netherlands Development Financial Institution (FMO) has a 20% interest.

The realization of the Project is the result of many years of laying groundwork in Africa, building relationships and accepting the challenges that lead to opportunity. It is also the first step in a longer-term strategy for growth in Africa.

PROFITABLE BUSINESS PROVIDES SOCIAL VALUE **The cooperation of the Government of Tanzania paves the way for the success of the Project and provides the security and guarantees we need to undertake this significant endeavour.**

Artumas management is confident of the profitability of its investment having negotiated an after-tax 23% return on equity on the power component of the Project. We expect to be in operations of the gas-to-power initiative by the end of the first quarter of 2006, selling electricity to end users in the Mtwara and Lindi regions, an area covering 24,000 square kilometres and home to approximately two million inhabitants. The Tanzanian government has committed to providing credit guarantees to ensure that the power is purchased. Artumas has committed to a Sustainable Development Initiative and the Tanzanian government has endorsed the long-term social value of the project for its rural communities.

INDUSTRY OUTLOOK – CAPTURING THE EAST AFRICA ENERGY MARKETS **Tanzania represents a large and growing market with abundant underdeveloped natural resources. It is part of two market areas in Africa representing over 304 million consumers. Because of its active international ports, Tanzania is the industrial hub for land-locked African countries and has the infrastructure to support international trade.**

Recent government legislation encourages foreign investment and provides guarantees against nationalization and expropriation. Tanzania is a stable democracy and considered to be the top investment opportunity in Africa by leading international companies, such as Shell International, Petrobras and Barrick Gold.

CURRENT EAST AFRICA ENERGY ISSUES **East Africa is highly dependent on imported crude oil products, including heavy fuel oil (HFO) and diesel, for energy generation. High oil prices are increasingly becoming a burden for these developing economies and natural gas is considered a viable alternative to oil and is a sought-after energy source in the region.**

LNG – EXPORTING ENERGY **The vast natural gas reserves indicated at Mnazi Bay are ideally situated to displace the high-cost imported crude products to East Africa. Medium-scale liquefied natural gas (LNG) is a way to transport the stranded natural gas within relatively close proximity to markets, the first of which is Kenya.**

The gas from Mnazi Bay will be liquefied at a facility that will be built at Mtwara. The LNG will be shipped to Mombassa, Kenya, where it will be stored, re-gasified and sold to the thermal generation assets owned primarily by the government-owned Kenya Electricity Generating Company Limited (KenGen) and independent power producer Tsavo Power.

The thermal generation capacity is ideal for a fit-for-purpose technology of medium-scale LNG. Artumas is currently negotiating Heads of Agreements with both KenGen and Tsavo Power.

Pricing of the re-gasified LNG will be on a discount to HFO for a 15-year fuel supply. The existing HFO-fired thermal capacity is approximately 210 megawatts; KenGen intends to bring a further 200 megawatts of capacity on stream by 2007/2008. The 410-megawatts of power capacity will require approximately 1,400 tonnes per day of LNG (70 million cubic feet per day of natural gas).

Artumas is having discussions with two LNG developers to provide the liquefaction, shipping and storage under a tariff basis. The project is slated to come on stream in 2008.

MANAGEMENT – THE POWER OF EXPERTISE **Artumas's management team is known internationally as being strategic, innovative and experienced; and as having the depth of technical capability to build, own and operate this comprehensive Project.**

Our strength lies in our perseverance and vision, which has allowed us to develop a business model for providing a feasible, integrated energy solution for rural Africa. We implement our model by identifying stranded natural gas reserves that are close to rural areas where power is needed and where reliable and affordable electricity distribution is feasible.

Throughout the past four years we have invested our efforts to ensure that our Project would succeed. We have built relationships with senior government officials, including Tanzania's outgoing and incoming presidents; we have established a rapport with tribal chiefs and local populations; we have committed to working with non-governmental organizations operating in Tanzania; and we have developed a solid understanding of doing business in the resource sector in East Africa.

OPERATIONS HIGHLIGHTS

PHASE 1 In December 2004 Artumas began operations on Phase 1. At a cost of US$9.5 million, the phase included mobilization of a 100-person camp, and sourcing well service and seismic equipment from 14 countries. While active, Phase 1 employed 600 people, of which 480 were Tanzanian.

During Phase 1, Artumas completed the re-entry, completion and testing of the Mnazi Bay #1 well, originally drilled in 1982 by the Italian National Oil Company (AGIP). As well, we acquired approximately 220 kilometres of seismic data of the area. We concluded Phase 1 operations in late May 2005.

PHASE 2 Artumas plans to launch Phase 2 in July 2005. At a cost of approximately US$80 million, Phase 2 will entail fully developing the Mnazi Bay gas field by drilling up to five new wells, installing production facilities, constructing a 27-kilometre pipeline, installing and operating a 30-megawatt power generation facility; and upgrading the existing transmission and distribution system. During this phase, Artumas will employ approximately 3,000 workers; 2,000 are Tanzanian nationals.

We expect commercial operations on the gas-to-power component of the Project to begin in the first quarter of 2006. Commercialization of the LNG component is scheduled to begin in 2008.

When the Project is fully operational, Artumas plans to employ 200 workers; 90% will be Tanzanian.

FINANCIAL HIGHLIGHTS

PUBLIC PRIVATE PARTNERSHIPS In an increasingly competitive global environment, governments around the world are focusing on new ways to finance projects, build infrastructure and deliver services. Public-private partnerships (PPP) are cooperative ventures between the public and private sectors, which use the expertise of each partner to best meet clearly defined public needs through the appropriate allocation of resources, risks and rewards. In addition to maximizing efficiencies and innovations of private enterprise, a PPP can provide capital to finance government programs and projects, freeing public funds for core economic and social programs.

Artumas uses the build-own-operate (BOO) partnership model in which the Company finances, builds, owns and operates the total energy solution; Artumas retains the operating revenue risk and all of the surplus operating revenue in perpetuity.

Artumas's objective within the partnership is to deliver improved services and improved financial value by sharing some of the risk with the public sector. The partnership also allows the Project to provide more customers with reliable and efficient power.

PROJECT FUNDING Artumas has arranged for funding of the Project in the following manner: equity contributions from both Artumas and FMO; a US$25-million debt facility being finalized by the Emerging Africa Infrastructure Fund; and a US$10-million infrastructure grant being finalized from the World Bank.

ARTUMAS FINANCING During 2004 Artumas completed two private placement financings. In July we issued one million shares at US$2.00 per share and 500,000 warrants at an exercise price of US$2.50. In November we issued four million shares at US$2.00 per share. The proceeds allowed Artumas to launch Phase I of the Project.

In 2005 we completed three private placements: one of 1.5 million shares at US$2.25 per share in February; and in May another of one million shares at US$2.625 per share. Also in May 2005 we issued two notes totalling US$4 million convertible into common shares.

Artumas intends to list on the Oslo Stock Exchange (OSE) through a US$30-million Initial Public Offering (IPO), scheduled to close by the end of June 2005. OSE is regarded as an emerging energy stock exchange on which approximately 50% of the companies listed are energy stocks, based on market capitalization.

STRATEGIES FOR GROWTH – ENERGY FOR THE FUTURE The Artumas model builds on the exploitation of stranded gas reserves with innovative commercialization options including LNG and gas-to-power projects. Our technical screening process identifies firm electric power requirements of approximately 10-100 megawatts and located within close proximity to discovered but unexploited natural gas reserves.

Access to the stranded reserves provides opportunities for market development and exploitation of the reserve base to maximize returns on shareholder investment. Artumas's commercial screening process identifies countries where the legal, political, economic, fiscal and commercial environment is favourable to foreign investment and acceptable to global financial markets.

Artumas's management team relies on building excellent working relationships in the countries of interest, supported by negotiating deals that create value for all stakeholders. We pursue opportunities that have positive social impact and the potential to generate profits to shareholders.

Through the processes we have developed with the Mtwara Energy Project, we have established a template to use on other project opportunities we have identified and are currently evaluating.

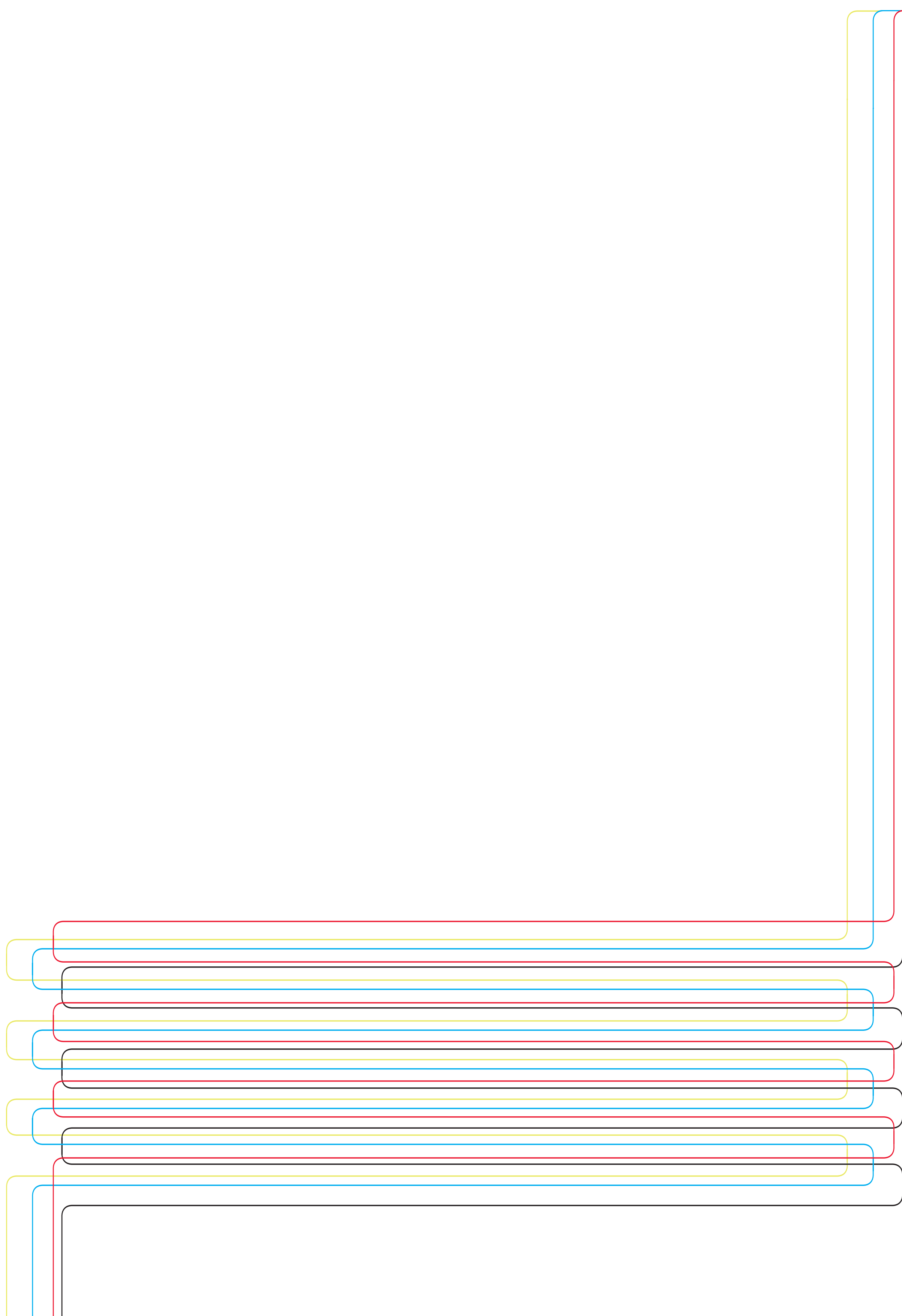
CORPORATE SOCIAL RESPONSIBILITY Our corporate vision is to create a sustainable and profitable business that benefits the communities where we operate. We have implemented a Corporate Social Responsibility Plan (CSR), which entails working with local nongovernmental organizations (NGO) to ensure our objectives are in harmony with the economic and social needs of local residents and our employees and contractors. Our CSR has three areas of focus: environmental awareness; health and safety; and education and training.

Artumas has also adopted a Sustainable Development Initiative (SDI), which calls for the participation of bi-lateral and multi-lateral development institutions to form partnerships to advance sustainable development in the Mtwara-Lindi region.

ACKNOWLEDGEMENT I am very proud to have had the opportunity to work with such a dedicated group of employees and contractors. They have committed time away from their families and focused their efforts to make this Mtwara Energy Project a reality. The combination of the determination to build value for Artumas shareholders and the drive to deliver reliable, accessible and affordable energy to the Mtwara-Lindi region in Africa is the nucleus that bonds this very unique group of people. Thank you for your commitment and vision.

On behalf of the board of directors,

Stephen W. Mason
President
June 1, 2005



COLLABORATION

TANZANIA PROJECT – CAPTURING ENERGY FOR POWER Through agreements with the Government of Tanzania, Artumas has begun to develop the Mtwara Energy Project, located in southeast Tanzania. The Project involves developing an existing natural gas reserve located at Mnazi Bay; constructing, operating and maintaining a 27-kilometre pipeline; installing, operating and maintaining a 30-megawatt power plant; upgrading, operating and maintaining approximately 205 kilometres of transmission infrastructure and 400 kilometres of distribution system. Total capital expenditure of the Project is estimated to be US$97 million.

Project development began in December 2004 with the re-entry of the Mnazi Bay #1 discovery well. Project construction will begin in July 2005 with commercial operation expected by the first quarter of 2006.

We expect the LNG component of our Project to be commercialized by 2008.

ENERGIZING THE ECONOMY FOR INVESTMENT Tanzania offers foreign investors an opportunity to take part in the economic growth of a developing country that has committed itself to taking big strides to modernize.

COMPETITIVE INVESTMENT CLIMATE Comprehensive economic and political reform measures in Tanzania, undertaken since mid 1986, have been instrumental in creating an efficient economic management and financial discipline, and a framework for a dynamic, high-growth economy. Because of this direction, Tanzania has won the confidence of foreign investors and NGO.

LARGE POTENTIAL MARKET Tanzania will remain an important market for local and foreign products and services; it has a population of over 36 million consumers, a rapidly growing economy and high levels of domestic investment spending. Tanzania is also part of two distinct market areas: Southern Africa Development Community (SADC) and the East African Community (EAC), including 304 million consumers.

ABUNDANT NATURAL RESOURCES **Tanzania is internationally renowned for its abundance of wildlife attractions and unexploited mineral reserves. Mining and tourism are the leading recipients of foreign investment flow and are tipped to become the growth sectors of the economy.**

INFRASTRUCTURE **A sustained program exists for constructing good quality roads. Two railway networks connect 14 out of 20 major cities. International and domestic airports link Tanzania to the world. The three major ports of Dar es Salaam, Tanga and Mtwara function as hubs for traffic coming from and going to land-locked neighbouring countries: Uganda, Burundi, Rwanda, Zambia, Malawi, and Democratic Republic of Congo. Dar es Salaam and the Mtwara ports have been classified as Export Processing Zones (EPZ), providing tax incentives to promote industrialization.**

PEACE AND STABILITY **Tanzania is a centre of economic and political stability in Sub Saharan Africa. Multi-party democracy adopted in 1992 has not disturbed the peaceful political climate of the country. The political scene is characterized by parliamentary democracy and public consensus on key social and economic priorities.**

FISCAL GOVERNANCE **Tanzania has a stable fiscal regime with sustainable inflation levels. Under its economic recovery program, Tanzania increased revenue streams and substantially reduced spending. The country's quarterly year-to-year inflation rate declined to approximately 4% during the quarter ending September 2003, marking a continuous decline since 2000. Tanzania is expected to reduce**

its inflation rate to below 4% by the end of June 2005. The declining inflation rate is largely attributed to prudent fiscal and monetary policies.

GDP growth is averaged at over 6% throughout the past two years and is anticipated to be close to 7% for fiscal 2005.

INVESTMENT GUARANTEES **Investments in Tanzania are guaranteed against nationalization and expropriation. Tanzania is a signatory of several multilateral and bilateral agreements on protection and promotion of foreign investment. Among other international agreements and membership, Tanzania is a member of Multilateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investment Disputes (ICSID).**

TRANSPARENT INVESTMENT LAWS **The Tanzanian government has clearly demonstrated its pro-investment attitude by implementing innovative investment legislation, increasing the number of foreign direct investments in the country and putting into place economic and structural reforms that have led to substantial progress in establishing a functioning market economy. Institutional support for high-priority investment projects is readily available from the Tanzania Investment Centre (TIC) and other government institutions. Tanzania is committed to a policy of poverty reduction.**

INVESTMENT INCENTIVES **Tanzania offers a well-balanced and competitive package of fiscal incentives comparative with other African countries. Aiming at providing competitive fiscal governance on foreign trade, Tanzania has signed double taxation treaties with Canada, Denmark, India, Italy, Norway, Sweden, Kenya, Uganda, Zambia and Finland; and it continues negotiations with South Africa, Republic of Korea, Zimbabwe, United Arab Emirates, Russia, Seychelles, Mauritius, Egypt, Yugoslavia and Oman.**

FUELING THE MOMENTUM

08.25.2003

Artumas signs an Agreement of Intent with the Government of Tanzania and the Tanzania Petroleum Development Corporation

05.18.2004

Artumas signs a production-sharing agreement with the Government of Tanzania

Formally launches the Mtwara Energy Project

Signals the beginning of aggressive program to implement gas-to-power initiative in the Mtwara and Lindi regions

07.2004

One million shares issued at US$2.00 per share and 500,000 warrants at an exercise price of US$2.50

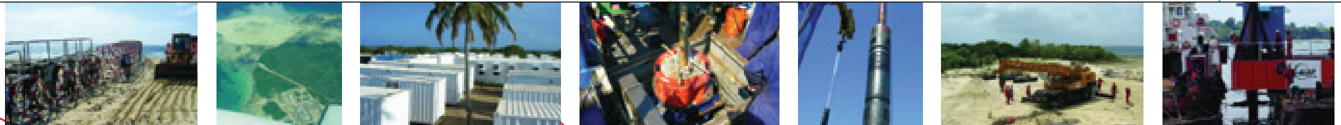
11.2004

Four million shares issued at US$2.00, allowing Artumas to launch Phase I of the Project

SOURCING THE ENERGY

1981

AGIP acquires the Mnazi Bay license area and the onshore and offshore seismic data



1980s

1,800 kilometres of seismic acquired in the basin

Seismic, wells, outcrops and oil seeps suggest abundant petroleum system

1982

Drilling Mnazi Bay #1 well and the discovery of the Mnazi Bay gas field

07.2005

Artumas plans to launch Phase 2, at a cost of approximately US$80 million

Full development of the Mnazi Bay gas field by drilling up to five new wells, installing production facilities, constructing a 27-kilometre pipeline, installing and operating a 30-megawatt power generation facility

Upgrade the existing transmission and distribution system

Employ approximately 3,000 workers; 2,000 are Tanzanian

06.2005

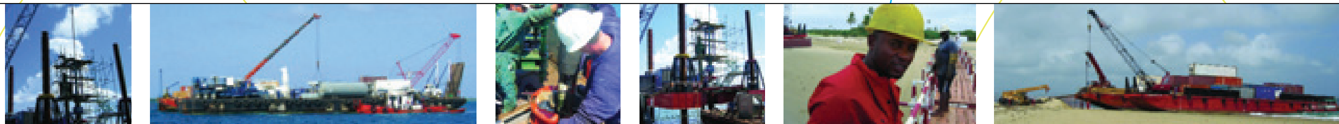
Artumas slated for listing on the Oslo Stock Exchange (OSE) through a US$30-million IPO

05.2005

Phase 1 operations concluded

A private placement of one million shares at US$2.625 per share, is completed

Issued two notes totalling US$4 million convertible into common shares



POWERING THE FUTURE

12.2004

Artumas launches Phase 1 at a cost of US$9.5 million

Mobilizes 100-person camp

Sources well service and seismic equipment from 16 countries

Employs 600 people; 450 were Tanzanian

02.2005

A private placement of 1.5 million shares at US$2.25 per share, is completed

04.2005

Production testing commences

Q1.2006

Scheduled commercialization of the gas-to-power initiative

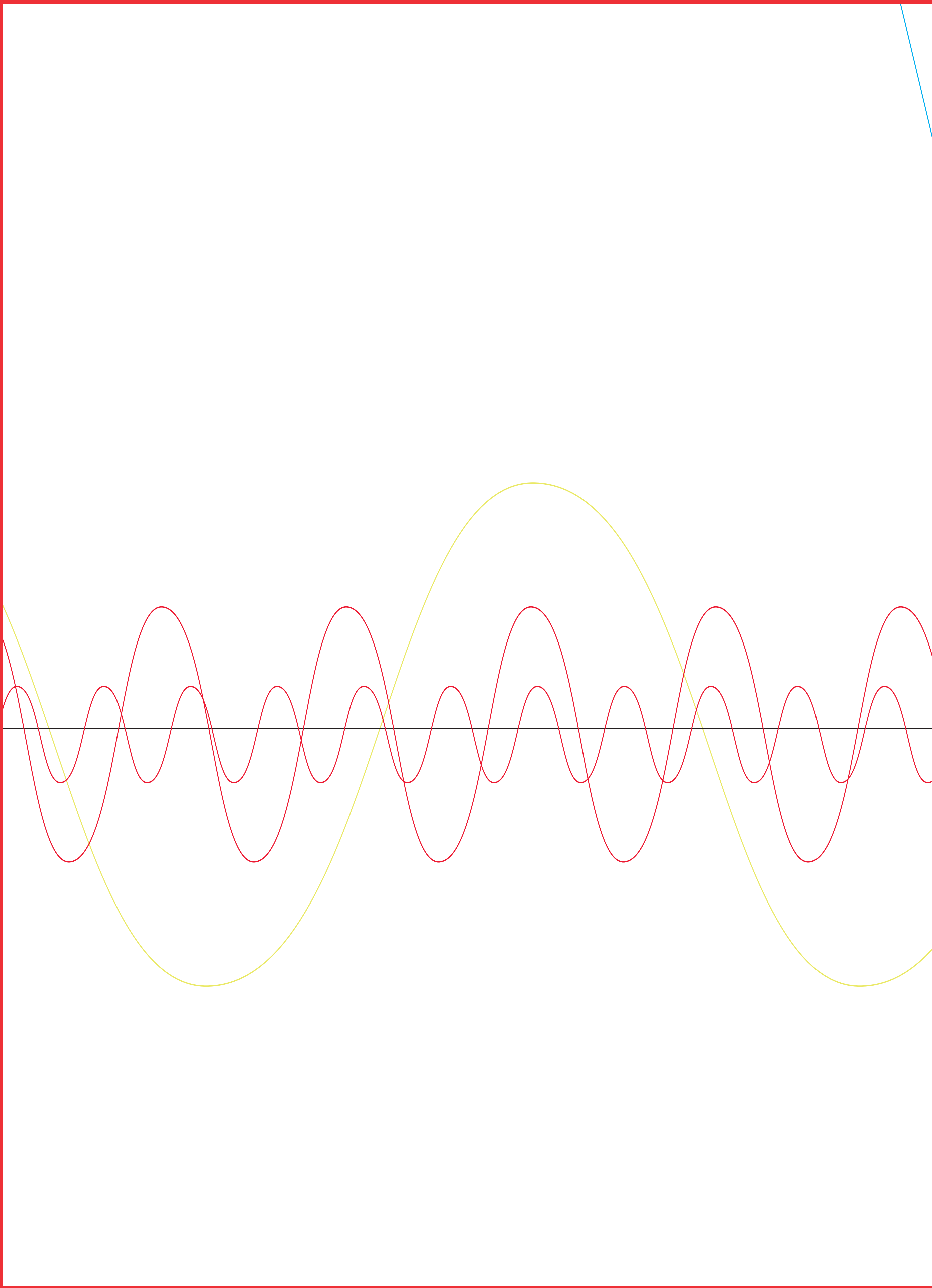
Electricity sold to end users in the Mtwara and Lindi regions

Covers 24,000 square kilometres

Approximately two million inhabitants

Q4.2008

Scheduled commercialization of the LNG component



CONVERGENCE

OVERVIEW OF POTENTIAL Tanzania is an under-explored frontier hydrocarbon area. Only 25 exploratory wells have been drilled in 280,000 square kilometres of sedimentary basins (a ratio of one well per 11,000 square kilometres). Only two exploration wells have been drilled in the extensive Interior Rift systems, which contain thick sedimentary sections of Carboniferous to recent age.

Two significant gas fields have been identified off the coast at Songo Songo and at Mnazi Bay. Successful petroleum systems demonstrated by two commercial gas discoveries, oil seeps and oil and gas shows, provide strong confirmation of the hydrocarbon potential of the country. The interaction of several structural trends and tectonic episodes has compartmentalized the coastal basins and created several untested play types:

- The reef and bank-edge play indicated by the thick carbonate section encountered in the Rufiji Trough;
- Songo Songo Gas Field look-alike;
- Mandawa Basin salt-associated plays;
- Rufiji Delta;
- Cretaceous submarine fans/mounds in the Ruvuma Basin;
- Roll-overs on Tertiary growth faults along the coast and seaward of the main islands;
- Large structural features in the Selous Basin.

The offshore islands, including Latham, have structural trends that extend with a north-south axis. The wells drilled on Pemba, Zanzibar and Mafia Islands predate seismic data and this highly structured trend remains largely untested.

With the development of the Songo Songo field and the expected development of the Mnazi Bay gas discovery, Tanzania has entered into indigenous hydrocarbon exploration and development. *(Figure 1)*

The Government of Tanzania is encouraging the oil and gas upstream sector to produce local resources to reduce Tanzania's reliance on imported petroleum products. And international companies including Shell, Petrobras and Maurel et Prom are taking up exploration concessions through production sharing agreements (PSA) with the Tanzanian Petroleum Development Corporation (TPDC). TPDC has been active in promoting its fiscal terms and PSAs are competitive with other African countries.

Figure 1. HYDROCARBON SHOWS

MNAZI BAY CONCESSION The Mnazi Bay PSA was executed on May 18th, 2004, between the government of Tanzania and Artumas. Artumas was awarded an oil and gas concession comprising a development block and the right to earn eight adjoining exploration blocks totalling approximately 190,000 acres.

GEOLOGICAL PROFILE The concession is located in southeastern Tanzania, bordering Mozambique to the south and lying along the eastern flank of the east-west trending Ruvuma Basin.

The Ruvuma Basin is situated in the coastal zone towards the southern end of the large East African Karoo Rift System and covers 16,000 square kilometres. The acreage covers a coastal plain and shallow water offshore area. The onshore area is an undulating alluvial plain dipping gently to the coast; offshore there is a narrow shelf between 10 and 15 kilometres wide, which includes many coral islands, reefs and bars.

MNAZI BAY The concession area resides within the delta system of the Ruvuma River, which is geologically analogous to the oil-and-gas-rich, but much larger, Niger Delta of West Africa.

Exploration within the Ruvuma Basin is at a very early stage. To date six wells have been drilled, including BP's four stratigraphic boreholes across the northern half of the basin. In 1981 AGIP acquired the license area and the onshore and offshore seismic data, which led to drilling Mnazi Bay #1 well in 1982 and the discovery of the Mnazi Bay gas field. After discovering the Songo Songo gas field and drilling Mnazi Bay#1 well, AGIP completed its exploration commitments in its Tanzanian concessions. As it was oil-focused and had no market for the gas, AGIP rescinded all of its Tanzanian licenses back to the Tanzanian Government.

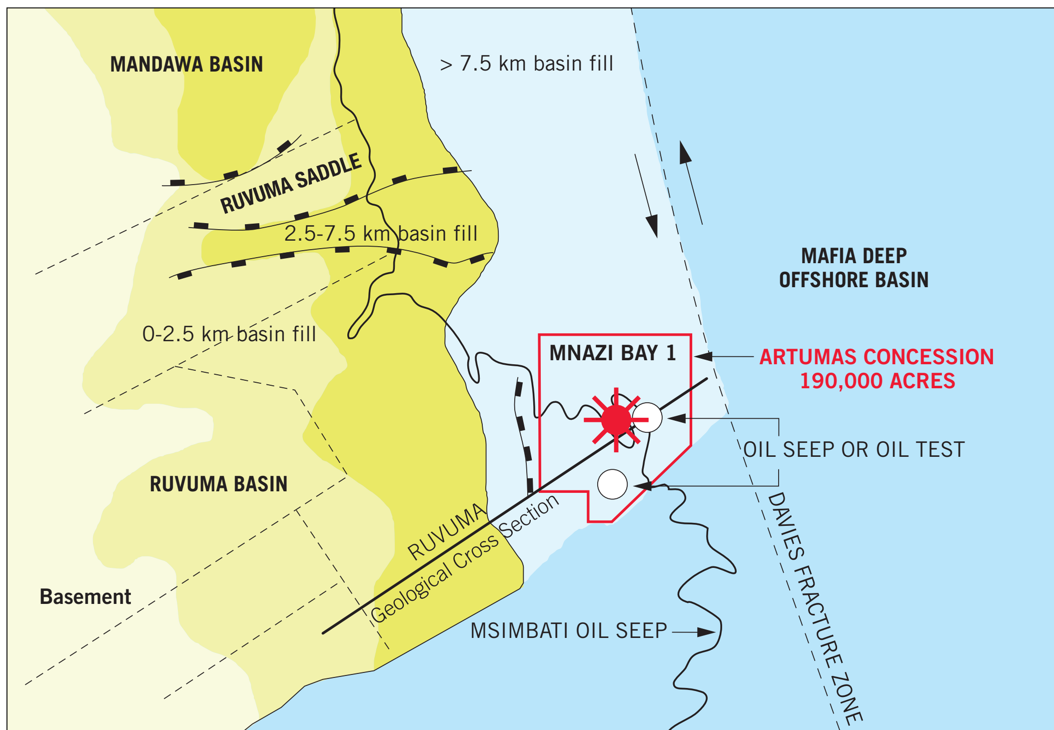


Figure 2. SEDIMENTARY BASINS OF SOUTHERN TANZANIA

During the 1980s, 1,800 kilometres of seismic was acquired in the Basin. Information from the seismic and wells, outcrops and oil seeps suggests an abundant petroleum system exists in the basin. The multiple play types have high-quality reservoirs and thick seals. *(Figure 2)*

Geochemical analyses of the Msimbati and Mkindani oil seeps show oil potential from the Middle Jurassic to Lower Cretaceous marine source; and a deltaic (tertiary) source. The Msimbati oil seep is located approximately 6,500 metres from the Mnazi Bay #1 and indicates that hydrocarbon migration occurred along faults to Mnazi Bay. The source rock is likely to be oil mature, providing charge from a hydrocarbon system. *(Figure 3)*

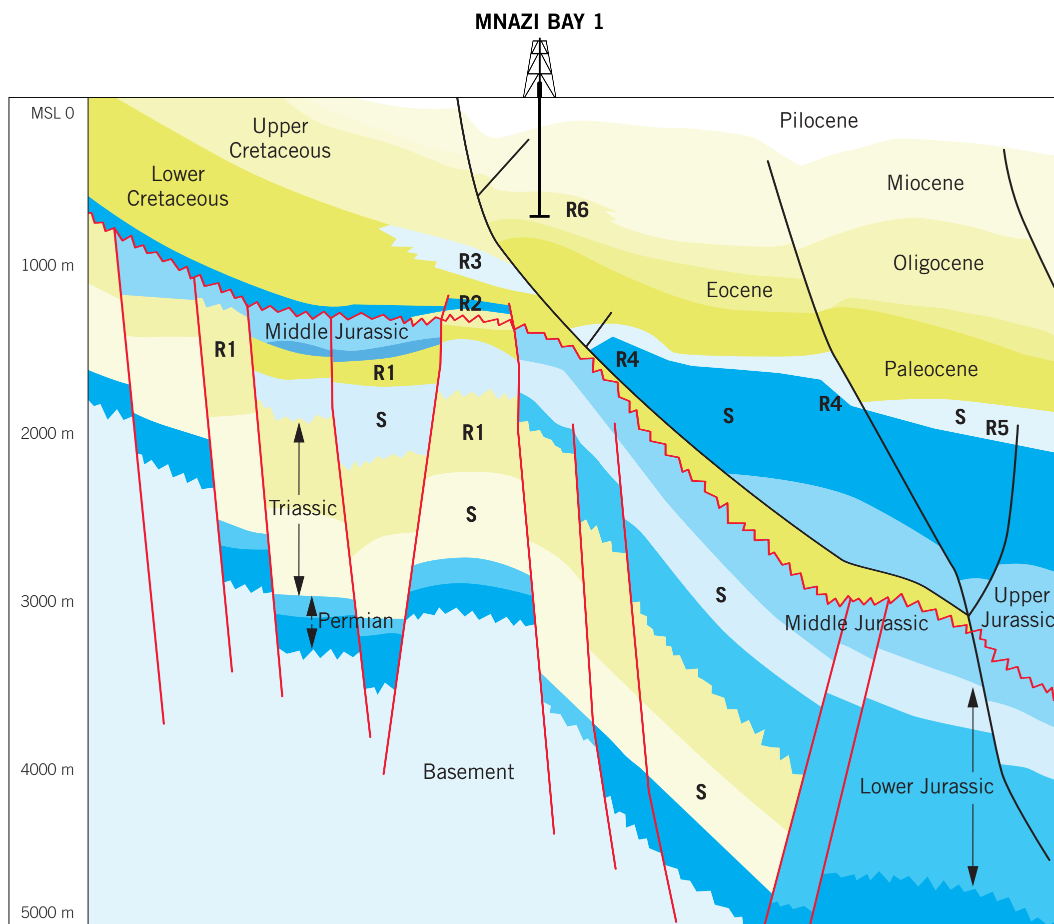


Figure 3. ***RUVUMA CROSS SECTION***

R1 – Triassic Karoo sands in tilted fault blocks
R2 – Lower Cretaceous fluvio-deltaic
R3 – Middle Cretaceous fan delta with faults
R4 – Middle Cretaceous turbidite sands with faults
R5 – Upper Cretaceous turbidite sands in tilted horst blocks
R6 – Oligocene shallow marine sands in inverted rollover structures
S – Source Rock
— Karoo Extensional Faults
— Cret-Ter Inversion Structures

MNAZI BAY GAS RESOURCES **The recoverable resource volumes assessed by APA Petroleum Engineering as at April 1, 2005, were determined using probabilistic analysis and are as follows:**

BILLION CUBIC FEET (BCF)	P90	P50	Mean	P10
ORIGINAL GAS IN PLACE	152	576	830	1,858
RECOVERABLE RESOURCES	110	445	670	1,540

THESE RESERVE ESTIMATES RELATE ONLY TO THE MNAZI BAY POOL, DISCOVERED THROUGH THE SUCCESSFUL DRILLING OF THE MNAZI BAY #1 WELL. OUR SEISMIC PROGRAM OVER THE ENTIRE CONCESSION AREA HAS NUMEROUS ANOMALIES, WHICH UPON EXPLORATION DRILLING, MAY HAVE AN IMPACT ON RESERVE ESTIMATES.

These gas resources are based on the currently interpreted six lines of new 2D seismic data and the old regional 2D seismic data that were ready at the time of writing this report. This newly interpreted seismic covers approximately one third of the total new seismic to be acquired and integrated into the overall field mapping. The current efforts to re-enter and test the Mnazi Bay #1 well and interpretation of the entire new seismic will provide additional data that may allow a significant increase in these values. Additional appraisal wells and zone tests are required to further increase the volumes of gas that meet the technical criteria for proved and probable reserves.

PHASE 1 – MTWARA ENERGY PROJECT **Artumas, through its Tanzanian subsidiary, AG&P Gas Ltd. (AG&P) commenced operations on Phase 1 of the Mtwara Energy Project in December 2004 with the mobilization of well re-entry and seismic equipment, goods and personnel from 14 countries to the Msimbati and Mnazi Bay work sites. Based out of the newly installed 100-person camp and storage facility on the Msimbati Peninsula, work on the well re-entry began in February 2005. While active, Phase 1 employed 600 people; 480 were Tanzanian.**

WELL RE-ENTRY **The operations of the Mnazi Bay #1 well re-entry operations included a full complement of well services equipment and marine assets. The well operations included:**

- **Removal and replacement of the old wellhead.**
- **Re-entering the well and confirming the casing integrity.**
- **Drilling out the cement and steel plugs that have kept the gas in place.**
- **Perforating and completing four of a possible 11 gas-bearing sands from a depth of 1,500-1,900 metres.**
- **Testing the Mnazi Bay #1 well to determine the well gas reserves and volume deliverability.**
- **Completion of the well including a well platform.**

Initial clean-up flow testing on the Oligocene sands 'D' and 'E' is very positive. The 2.5-hour test flowed rates of nine million cubic feet per day (mmcf/d) of gas at flowing tubing pressures of 1,625 pounds per square inch gauge (psig). The rate was restricted because it flowed up a small-diameter 2 3/8-inch tubing string. Once sands 'F' and 'G' are flowed to clean up, all the sands will be properly flow tested to take out sufficient volumes of gas to determine the reserves. The 'G' sand is an over-pressured zone at the Oligocene Miocene unconformity. This sand is interpreted to cover a large area of the field.

TRANSITION ZONE SEISMIC **The seismic acquisition program involves acquiring approximately 220 kilometres of 2D transition zone, marine and land seismic to better image the subsurface gas and potential oil reservoirs. This new seismic, correlated with the old regional seismic, has generated new drilling locations and a more accurate understanding of the gas supply under the Mnazi Bay PSA concession area. Interpretation of the initial six partial lines surrounding Mnazi Bay #1 indicates two structures with closure and a potential up dip structural rise of 80-100 metres from the well. An additional 40 kilometres of seismic is being added to define the limits of the Mnazi Bay gas pool, the Nico Lead, the Tembo Lead and several new structures.**

PHASE 2 – MTWARA ENERGY PROJECT **Phase 2 has already started with the detailed engineering and procurement stage to fast track the overall project completion. During Phase 2 Artumas will employ approximately 3,000 workers; 2,000 will be Tanzanian.**

ENVIRONMENT **The submission of the environmental impact statement (EIS) was delayed, pending approval of the power plant/liquefied natural gas (LNG) facility site in the Mtwara Port. This has now been approved and Artumas is submitting the EIS to the National Environmental Management Committee of Tanzania. We expect to receive approval by early July.**

DRILLING **A rig and the various services are currently being tendered, with mobilization expected in July. The drilling of Mnazi Bay #2, an appraisal well is slated to commence in August 2005. Mnazi Bay #3 well will follow immediately after and we anticipate that it will be drilled from the same pad as the Mnazi Bay #2. Possible land drilling locations are being scouted and will be finalized on completion of seismic interpretation.**

PRODUCTION FACILITIES **We expect to put out a tender to select bidders for the manufacture of the facilities by June 2005, with installation slated for November 2005.**

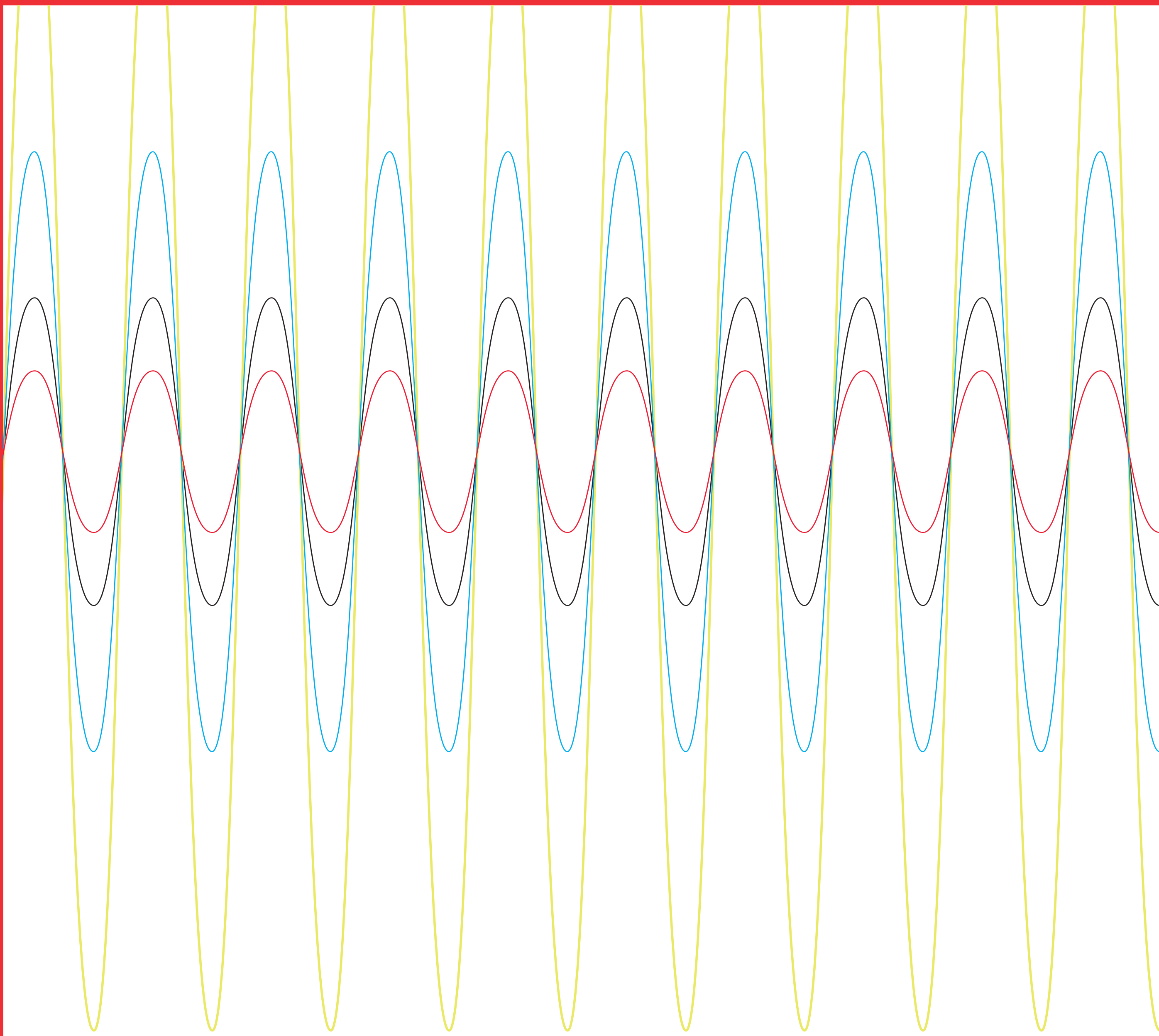
PIPELINE **The line pipe tender is out for bid and we expect it to be in by May 15th. We will put out the final design tender for pipeline installation in late May; and expect to place pipe orders by June.**

POWER PLANT **We are conducting research into the engineering design and availability of 30-megawatt power plants, with a tender to selected contractors expected by late May. Power plant construction will begin with mobilization and site preparation in August.**

TRANSMISSION AND DISTRIBUTION UPGRADES **We have received bids from several international companies for the transmission system upgrades that will tie in Mtwara, Lindi and Masasi. These bids, which include the manufacture and construction of approximately 120 kilometres of 132-kilovolt (kV) transmission line and substations will be awarded in May, with construction commencing in October 2005.**

PERSONNEL **Artumas is expanding its core team of professionals to ensure we meet all of the demands of international exploration and operations. The Company uses the latest computer applications for databases, mapping, seismic interpretation, log analysis and business systems. In Msimbati, an operations base has been established for Artumas personnel; and in Dar es Salaam an administrative office assists with in-country communication and liaises with TPDC.**

When the Project is fully operational, Artumas plans to employ 200 workers; 90% will be Tanzanian.



COOPERATION

DOING THE SMART THING BY DOING THE RIGHT THING **We, at Artumas, operate under the belief that our success is directly linked to the economic and social well-being of the communities where we have operations. Rather than treat our Project as stand-alone infrastructure, we are seeking innovative and integrated approaches to development.**

Based on this premise, we are committed to undertaking a comprehensive Sustainable Development Initiative (SDI), which will allow us to work with local communities to help them develop economically and socially.

The first stage of the initiative is a defined Corporate Social Responsibility statement (CSR) that focuses on the Mtwara and Lindi region of southern Tanzania. The key priorities in our CSR are health and safety, the environment and employment and education.

HEALTH AND SAFETY – NO ACCIDENTS. NO HARM TO PEOPLE. **Artumas has adopted international Health and Safety industry standards; our objective is: no accidents and no harm to people. All of our employees receive health and safety education about Artumas's policies. The drilling crew is required to attend daily safety meetings and all employees must attend weekly safety meetings.**

Our practices and policies are available to all employees and other stakeholders. Our policies include work site safety, malaria prevention, road safety and AIDS awareness. As a condition of doing business with Artumas, we demand that our partners and contractors are aware of and adhere to our health and safety policies and practices.

We understand that when working in new geographies, we must be aware of the health risks that arise for our employees and for the neighbouring communities. Our health and safety commitment extends to the community through our malaria prevention awareness efforts.

THE ENVIRONMENT – MINIMAL IMPACT **Artumas recognizes the imperative of its environmental responsibility. We are working in accordance with the policies and guidelines of the Tanzanian government and the World Bank Group, as they apply to private sector projects.**

Due to the environmental sensitivity of our project site, we have conducted an environmental impact assessment (EIA) in accordance with the World Bank Group's Category "A" requirements. Category "A" includes projects "likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented."

As a result of the EIA process we are awaiting approval on an Environmental Impact Statement from the Government National Environmental Management Committee of Tanzania. It governs the obligations of Artumas and its contractors to address environmental and social issues during construction and operation of the Project and identifies tasks, responsibilities, schedules and budgets. It covers:

- Environmental management procedures covering the construction and operations phases;
- Personnel training requirements;
- Monitoring measures;
- Social impact;
- An implementation schedule and budget;
- Plans for integrating an Environmental Management Plan with the overall project.

We have minimized the long-term environmental impact of our camp and our equipment. Our camp is located amongst the trees, making it invisible from the sea line. We use geoweb, a reusable, collapsible temporary road that is placed in the sand.

EMPLOYMENT AND EDUCATION – LEAVING A LEGACY Recognizing that employment is among the most dynamic forces for social development in Tanzania, Artumas's objective is to have a predominantly Tanzanian workforce operate our local business.

We are committed to employing Tanzanian nationals for construction, installation, maintenance, operation and management of the proposed facilities, wherever possible considering the skills required and the available labour. Various seismic operations, camp catering and laundry services are being provided locally; and we are working with farmers in the area to encourage them to grow produce that they can sell to the camp.

To further facilitate our objective, we have initiated capacity-building programs by working with agencies to train local people to prepare them to work on the project in both technical and service roles.

Hiring locally and buying local products is cost efficient for the company and provides local people with an income, employment and long-term transferable skills. Together with NGOs and contractors, we continue to explore further opportunities for employing and training local employees.

Artumas's employment and education objective goes beyond hiring and training of locals; we also educate communities about the social and economic opportunities that access to affordable energy will bring. We plan to support and encourage small/micro enterprise (SME) development. This will result in building our corporate reputation, which contributes to community loyalty and supports our license to operate.

CONCLUSION The CSR represents the beginning of an ongoing process for Artumas. Our intent is to deepen our knowledge of sustainable development and put this knowledge into practice to help improve the lives of the communities where we operate.

PARTNERING FOR SUSTAINABLE DEVELOPMENT For Artumas, sustainable development requires educating and engaging stakeholders to better understand and manage the impact that our operations and products have on society and the environment and identifying opportunities for future growth.

Through our SDI we are approaching bi-lateral and multi-lateral development institutions to form partnerships to advance sustainable development in the Mtwara-Lindi region. By starting an interactive process, our intent is to better understand the social, cultural and environmental issues that are relevant to our operations.

Our objective is to build trust, transparency and co-operation with local stakeholders, including:

- The Tanzanian government and government-owned corporations
- Regional commissioners
- NGOs
- Community-based organizations
- Bi/multi-lateral institutions
- Local people
- Shareholders
- The media

Within these partnerships, we will strive to bring about an approach to development that is focused on giving local people the tools they need to take advantage of the benefits that development of the natural resources in their area offers. For example:

- Supporting small, medium and micro enterprises (SMME) with training and venture funds will accelerate development.
- Using community centre development centres (CCDC) will engage stakeholders and provide a foundation on which to provide access to health, education, communications and business training and support.

By minimizing the impact of our business activities and proactively engaging stakeholders to maximize opportunities and build relationships of trust, Artumas is able to anticipate and minimize potential disruptions to business.

ARTUMAS CORPORATE POLICIES

- Artumas supports the rights of the individual as expressed in the 1948 United Nations Universal Declaration of Human Rights (UDHR).
- We are responsible for protecting the rights of our employees and those who work with us, either as contractors or suppliers. This principle is reflected in our employment and health and safety policies
- We are apolitical and do not engage in political activity or have any political affiliations worldwide.
- The offering, payment, or acceptance of bribes is unacceptable and will not be tolerated.
- Any facilitation payments or gifts are recorded and available to public scrutiny.

REPORTING Artumas will publish an annual report for all stakeholders. This internal and external communication will inform stakeholders on the actions that we are undertaking to meet our economic, environmental and social responsibilities.

We are developing a web-based service to encourage input from our stakeholders about our initiatives.

The Tanzanian government and government-owned corporations
The media
Regional commissioners
Shareholders
Artumas
NGOs
Local people
Community-based organizations
Bi/multi-lateral institutions

KEY PERSONNELAND DIRECTORS

Stephen W. Mason

Ian C. Horswill

Martin H. Eden

STEPHEN W. MASON, B. COMM.
PRESIDENT, CHIEF EXECUTIVE OFFICER AND DIRECTOR

Mr. Mason has over 27 years experience in corporate planning, oil & gas marketing, acquisition and divestiture of petroleum assets, and senior management of junior energy companies. During the 1980s, Mr. Mason held various management positions in business development, marketing and finance with Canada Cities Service Ltd. and Canadian Occidental Petroleum Ltd. Over the past 16 years, Mr. Mason has founded three successful energy companies. Mr. Mason has pursued various international initiatives with projects in Kenya, Korea and Tanzania.

IAN C. HORSWILL, P. ENG.
SENIOR VICE PRESIDENT ENGINEERING, CHIEF OPERATIONS OFFICER AND DIRECTOR

Mr. Horswill has 22 years of experience in oil and gas operations, production, project management and business development in the international and Canadian petroleum industry. He has also advised several energy companies on the development of international assets. Mr. Horswill was Managing Director Operations and Manager of Engineering for First Calgary Petroleums Ltd., which was active in a gas/condensate project in Algeria and oil exploration in Yemen. Mr. Horswill was in charge of Pacalta Resources's aggressive development and highly successful operations in Ecuador. Mr. Horswill holds a B.Sc. in Civil Engineering from the University of Waterloo and is a member of APEGGA (Association of Professional Engineers, Geologists and Geophysicists of Alberta) and the Society of Petroleum Engineers.

MARTIN H. EDEN, C.A., B.SC., MBA
CHIEF FINANCIAL OFFICER

Mr. Eden has over 25 years experience in accounting and finance in the energy industry in Canada and overseas. He has held the position of Chief Financial Officer for a number of publicly listed junior oil and gas companies in Canada. He spent nine years with Nexen Inc, including three years as Finance Manager for Nexen's Yemen operations and six years in Nexen's financial reporting and special projects areas in its Canadian head office. Mr Eden has worked in public practice including two years as an audit manager for Coopers & Lybrand in East Africa. Mr. Eden holds a B.Sc. in Economics from Birmingham University, England, an MBA from Henley Management College/Brunel University, England, and is a member of the Institute of Chartered Accountants of Alberta and the Institute of Chartered Accountants in England and Wales.

RICHARD J.C. GRANT, BA, LLB
CORPORATE SECRETARY AND DIRECTOR

Mr. Grant has 25 years of extensive business, legal, land and management experience in the domestic and international energy industries. Mr. Grant is a partner with Gowling Lafleur Henderson LLP, a leading Canadian-based international law firm. He has worked with several major multi-national energy companies, including Phillips Petroleum Company, Texaco Canada, Imperial Resources Canada and Gulf Canada; and at Ernst & Young LLP and Heenan Blaikie LLP. Mr. Grant practices energy, corporate commercial and international law and continues to advise several large energy companies and early-stage junior oil and gas and technology companies. Mr. Grant holds a Bachelor of Laws degree from the University of Saskatchewan and a BA from the University of Regina. He is a member of multiple legal, land and international associations and committees.

Richard J.C. Grant   Peter Gathercole

PETER GATHERCOLE

MANAGING DIRECTOR, TANZANIA

Mr. Gathercole has over 24 years experience in power project development in the private and public sector, including construction, commissioning and operations. Recently, Mr. Gathercole was responsible for the East African region as Development Manager for Rolls Royce Power Ventures. Mr. Gathercole resides in Dar es Salaam, Tanzania, and is responsible for the Mtwara Energy Project's development, including construction, commissioning and ongoing operations.

THEODOR D. VAN GOLF, PhD

DIRECTOR

Mr. van Golf has 47 years of experience with the oil industry. He is a professor at the Petroleum Institute of the University of Trondheim and at the Geological Institute of the Catholic University of Paris. He is a guest professor in universities across the world. Mr. van Golf has held four advisory positions in large institutions, including the United Nations. In 1982 Mr. van Golf wrote the book Fundamentals of Fractured Reservoir Engineering, which has received international acclaim. He has published 29 papers, as well. Mr. van Golf has studied and evaluated oil fields located in eight countries and he has received five honorary awards in recognition of his contribution to petroleum engineering. He is also the Executive Vice-President of Verdier Petroleum. Mr. van Golf has a doctorate in petroleum reservoir engineering and a PhD in mining engineering.

ANTHONY REINSCH, BA, MA, M.SC.

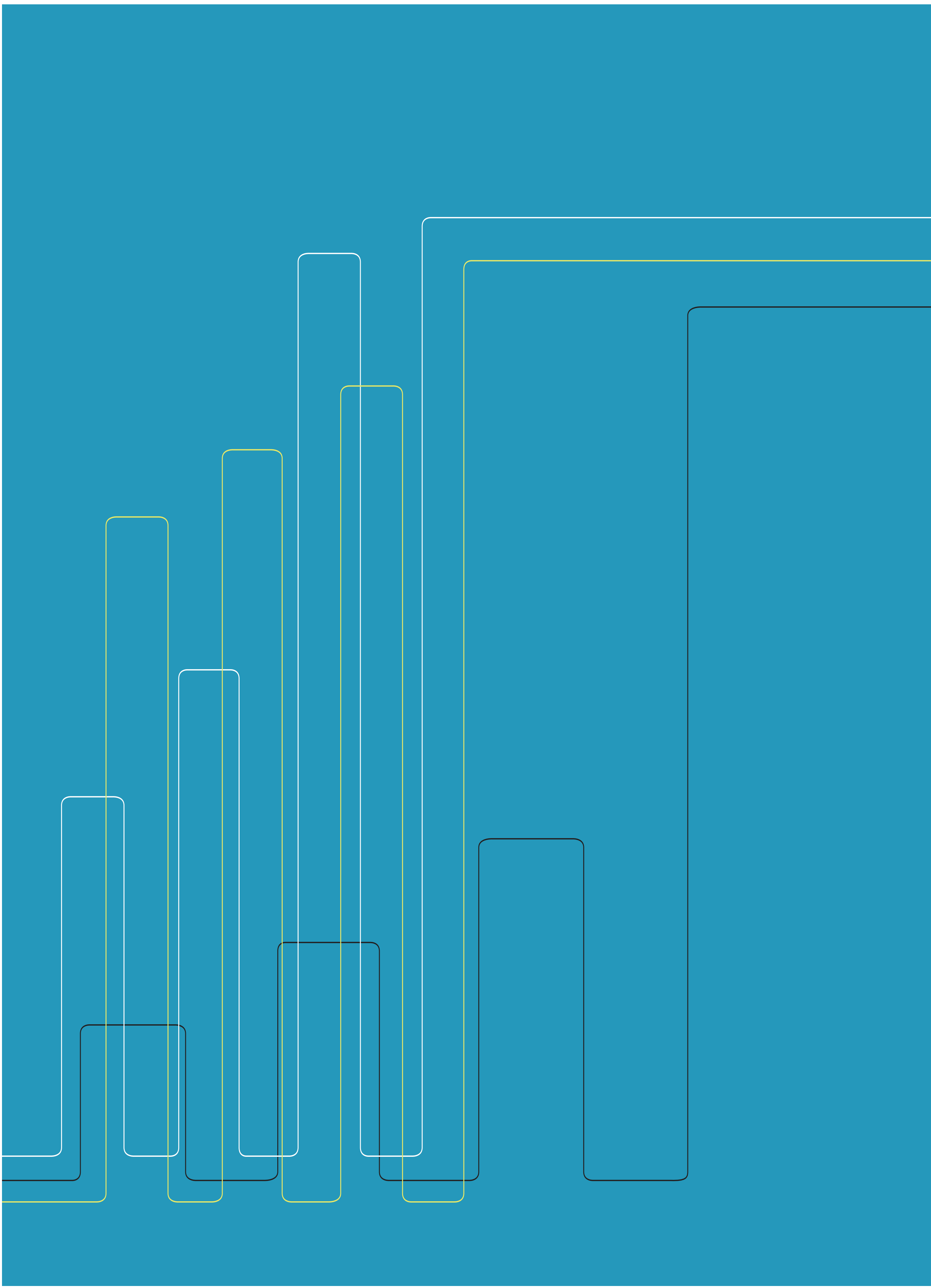
DIRECTOR

During the past 24 years, Mr. Reinsch has been involved in research and analysis of the domestic and international energy sector, addressing a wide range of issues including petroleum, natural gas and electric power sector deregulation and restructuring in Central and South America, India and the Commonwealth of Independent States; natural gas market deregulation and electric power restructuring in North America; and world oil market analysis. He has held senior positions within the utility, finance, government, research and corporate sectors of the Canadian energy industry. Mr. Reinsch is currently engaged as an advisor on strategy, planning, competitor landscape and country entry to the international E&P community and to the emerging national/state oil and energy companies. Mr. Reinsch holds a BA and MA in Economics from the University of Calgary, and an M.Sc. Economics from the London School of Economics (LSE).

BRANDON SWIM, B.SC.

DIRECTOR

Mr. Swim is Managing Director of Chasm Lake Management Services, LLC (CLMS), an investment management advisor in New York City that provides investment management and administrative services to Perseverance Ltd., a private investment group. With the board of Perseverance Ltd., Mr. Swim is responsible for developing and executing the Group's investment and corporate finance function. Perseverance Ltd. takes large stakes in a few major global companies; holds an international real estate portfolio; is a long-term investor in the Lloyds underwriting market and underwriting agencies; and has invested and nurtured specialty investment management businesses. Prior to joining CLMS, Mr. Swim was with Ernst & Young LLP in the Denver office's Entrepreneurial Services Group and Ernst and Young's London Capital Markets Group. He holds a B.Sc. in Finance and Accounting from the Indiana University Kelley School of Business.



CAPITALIZE

YEARS ENDED DECEMBER 31, 2004 AND 2003

The following management's discussion and analysis (MD&A) dated May 31, 2005, of the results of operations of Artumas Group Inc. (Artumas or the Company) for the year ended December 31, 2004, and the financial condition of Artumas at December 31, 2004, should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2004 and 2003. Dollar amounts in the MD&A are in Canadian dollars unless otherwise stated.

The MD&A includes forward-looking estimates that are subject to unknown risks and uncertainties, certain of which are outside the Company's control. These risks and uncertainties include but are not limited to, changes in market conditions, law or governing policy, operating conditions and costs, operating performance, commodity prices, exchange rates, and technical and economic factors. The Company's actual results, performance or achievement could differ materially from those expressed in or implied by, these forward looking estimates and accordingly Artumas can give no assurances that any of the events anticipated by the forward looking estimates will transpire or occur.

OVERVIEW

Artumas is a Canadian-based independent energy producer, specializing in delivering total energy solutions to targeted regions in rural Africa. The Company's goal is to provide low-cost electricity through development of stranded natural gas reserves, conversion of natural gas into electricity and upgrading and operating regional electricity transmission and distribution systems. In addition, Artumas will pursue opportunities for further exploration, development, production and marketing of petroleum reserves.

In pursuit of its goal, Artumas is focused on the Mtwara Energy Project (the Project) involving the development, construction, ownership and operation of an integrated natural gas fired electric power generation project in the Mtwara and Lindi regions of Southern Tanzania.

MTWARA ENERGY PROJECT

PROJECT AGREEMENTS AND OWNERSHIP **On August 25, 2003, Artumas entered into an Agreement of Intent with the Ministry of Energy and Minerals for the United Republic of Tanzania (MEM) and the Tanzania Petroleum Development Corporation (TPDC) in relation to the Mtwara Region Gas-to-Power Project for Generation, Distribution and Transmission in the Mtwara and Lindi Regions of Southeast Tanzania. Subsequently, AG&P Gas Ltd. (AG&P Gas), a wholly owned subsidiary of Artumas, signed a Production Sharing Agreement (PSA) with the Government of Tanzania in May 2004 relating to the Mnazi Bay Gas Development Project for Power Generation, Distribution and Transmission in the Mtwara and Lindi Regions of Southeast Tanzania. The PSA governs the development of the Mnazi Bay natural gas concession and sets out the terms of the relationship between AG&P Gas and the Tanzanian government. A number of related agreements are currently being negotiated including a Transmission and Distribution Franchise Agreement (TFDA), Asset Purchase Agreement, Infrastructure Liquidity Agreement, Gas Purchase Agreement and Power Purchase Agreement.**

DESCRIPTION OF PROJECT **The gas-to-power portion of the Project is structured as a build-own-operate (BOO) underpinned by a TFDA. The TFDA will cover the administrative districts of Mtwara and Lindi. The TFDA will call for an initial franchise period of 25 years, renewable by mutual agreement of Artumas and the MEM. This time frame is consistent with the expected life of the PSA. Ownership of the Project will be through the Company's Tanzanian registered subsidiary companies. Artumas is the operator of the Project trough a subsidiary company and its partner, the Netherlands Development Financial Institution (FMO), may acquire up to a 20% interest in the Project by paying its proportionate share of the costs.**

Further commercialization opportunities lie in finding markets for natural gas production in excess of the volumes required for the gas-to-power project. Artumas is investigating the potential of providing natural gas to a medium-scale liquid natural gas (LNG) facility near to the well site. The LNG facility will be owned and operated by a third-party company that will transport the LNG by ship to Mombassa in Kenya where it will be stored, re-gasified and sold to the Kenyan government-owned electricity generating company.

Phase 1 of the Project from December 2004 to May 2005, comprising the initial development of the Mnazi Bay natural gas concession, was completed at the end of May 2005 at an estimated cost of US $9.5 million and included:

- Sourcing and mobilization of well service and seismic equipment and a 100-person camp;
- Re-entry of the Mnazi Bay #1 well (previously drilled and abandoned by AGIP, the Italian national oil company, in 1982);
- Production testing of the Mnazi Bay #1 well to confirm natural gas reserves;
- Acquisition of approximately 220 kilometres (km) of two-dimensional (2D) seismic.

Phase 2 of the Project, comprising the drilling program and facilities construction, is scheduled to commence in July 2005 at an estimated cost of US$80 million including:

- Full development of the Mnazi Bay gas field by drilling up to five new wells;
- Installation of production facilities;
- Construction and operation of a 27-km pipeline from the Mnazi Bay well site to the power generation facilities at Mtwara;
- Installation and operation of a 30-megawatt (MW) power generation facility at Mtwara;
- Upgrading the existing transmission and distribution system.

Commercial operation of the gas-to-power project, involving the supply and sale of electricity to industrial and retail consumers, is anticipated in the first quarter of 2006.

The LNG facility is slated to come on stream in 2008.

FINANCING Artumas anticipates that financing for Phase 2 of the Project will be provided through a combination of proceeds from equity private placements completed in the first half of 2005; proceeds of US$30 million from an Initial Public Offering (IPO) on the Oslo Stock Exchange anticipated to close July 2005; a debt facility of US $25 million, currently being negotiated with the Emerging Africa Infrastructure Fund; a US$10 million infrastructure grant currently being negotiated with the World Bank; and the participation of FMO in up to 20% of the Project costs. Artumas also anticipates that it will enter into a joint venture agreement with a suitable partner to share the costs and risk of the drilling operations.

RETURN ON INVESTMENT Artumas management is confident of the profitability of its investment having negotiated an after-tax 23% return on equity on the power component of the Project. The Tanzanian government has committed to providing credit guarantees to ensure that the power is purchased.

Artumas anticipates that the selling price for LNG will be linked to energy prices in the Kenyan market (most likely heavy fuel oil). This will provide a floor price sufficient to cover the costs of third-party charges for liquefaction and shipping and the cost of natural gas provided to the LNG facility, as well as providing an adequate return to the Company.

RESULTS OF OPERATIONS

At December 31, 2004, Artumas was in the process of mobilizing equipment and supplies for Phase 1 of the Project. The well re-entry and seismic work commenced in March 2005.

Artumas is in the development stage of the Project and has not earned revenues to date, except for interest income on its cash balances and foreign exchange gains. The Company has an accumulated deficit of $1,821,169, comprising $1,997,216 of overhead costs incurred during the period from inception of the Company on August 8, 2000, to December 31, 2004, offset by revenue of $34,541 from interest and foreign exchange gains and $141,506 from cost recoveries. During 2004 the Company's net loss was $1,554,307 due to overhead costs of $1,588,848 less revenue of $34,541. The loss of $137,127 in 2003 consisted of overhead costs of $200,251 less cost recoveries of $63,124.

ANNUAL FINANCIAL INFORMATION A summary of selected financial information of the Company for the three years ended December 31, 2004, is as follows:

	2004	2003	2002
NET LOSS	$ (1,554,307)	$ (137,127)	$ (100,080)
NET LOSS PER SHARE	$ (0.57)	$ (0.24)	$ (0.10)
TOTAL ASSETS	$ 11,728,460	$ 1,519,777	$ 82,678

QUARTERLY INFORMATION (UNAUDITED) A summary of the results of operations on a quarterly basis is as follows:

	2004				
	Q1	Q2	Q3	Q4	TOTAL
NET LOSS	$ (455,749)	$ (395,875)	$ (587,567)	$ (115,116)	$ (1,554,307)

	2003				
	Q1	Q2	Q3	Q4	TOTAL
NET INCOME (LOSS)	$ (37,955)	$ (75,821)	$ (106,970)	$ 83,619	$ (137,127)

OVERHEAD COSTS A summary of the Company's overhead expenses for 2004 and 2003 and on a cumulative basis is as follows:

FOR THE YEARS ENDED DECEMBER 31	2004	2003	CUMULATIVE SINCE INCEPTION
PROJECT DEVELOPMENT	$ –	$ 6,000	$ 52,822
GENERAL AND ADMINISTRATIVE	1,266,518	91,339	1,516,759
STOCK BASED COMPENSATION	223,594	100,000	323,594
FINANCING COSTS	86,556	–	86,556
AMORTIZATION	12,180	2,912	17,485
TOTAL EXPENSES	$ 1,588,848	$ 200,251	$ 1,997,216

Overhead costs were $1,588,848 in 2004 compared to $200,251 in 2003 and $1,997,216 on a cumulative basis. These costs relate primarily to those activities involved in establishing the Project that cannot be allocated and capitalized directly to the Project and to the costs of operating and maintaining the Company's head office in Calgary. Project related overhead expenditures include management salaries, legal expenses, consultant's fees and travel expenses. Calgary office costs include salaries and benefits, rent and office expenses. The increase in costs in 2004 compared to 2003 reflects the increased level of activity and the preparations for the commencement of the Project as a result of signing the PSA in May 2004.

The majority of the Company's overhead costs have been recorded as general and administrative expenses. An analysis of these expenses by category for 2004 and 2003 and on a cumulative basis is as follows:

FOR THE YEARS ENDED DECEMBER 31	2004	2003	CUMULATIVE SINCE INCEPTION
SALARIES AND BENEFITS	$ 149,245	$ –	$ 149,245
CONSULTANTS	310,147	16,796	360,507
PROFESSIONAL FEES	417,324	34,463	469,404
AGENCY AND FILING FEES	41,444	–	41,444
OFFICE RENT	106,957	11,649	145,486
OFFICE EXPENSES	82,040	22,316	150,293
TRAVEL AND ACCOMMODATION	159,361	6,115	200,380
	$ 1,266,518	$ 91,339	$ 1,516,759

Overhead costs also include stock-based compensation expense of $223,594 for stock options issued in 2004 and $100,000 in 2003 for shares issued as compensation expense.

Financing costs of $86,556 in 2004 comprise bank fees for standby credit facilities and legal costs incurred in pursuing debt-financing alternatives.

Amortization expense of $12,180 in 2004, $2,912 in 2003 and $17,485 on a cumulative basis has been recorded for office equipment in the Calgary, Canada office.

During 2003 the Company recorded a cost recovery of $63,124 as part of a contribution from Sunorca Development Corporation (see Note 8 (d) to the Consolidated Financial Statements and also the Commitments and Contingencies section of the MD&A).

CAPITAL EXPENDITURES At December 31, 2004, Artumas was in the process of mobilizing equipment and supplies for Phase 1 of the Project, the well re-entry and seismic work, which commenced in March 2005. During 2004 Artumas spent $5,305,683 on Project capital costs compared to $420,772 in 2003, reflecting the commencement of mobilization activities towards the end of 2004. Cumulative Project capital expenditures to year-end 2004 were $5,791,100 and these assets were all located in Tanzania.

At December 31, 2004, $85,213 had been spent on office equipment located in the Calgary office of which $65,717 was spent in 2004 and $5,999 spent in 2003.

FINANCIAL CONDITION

Artumas has adequate financial resources to fund the capital expenditure program under Phase I of the Project. This program was almost complete by the end of May 2005. The Company had no expenditure commitments at December 31, 2004 other than those under the PSA and those necessary to maintain its operations and normal commitments in the ordinary course of business, as disclosed under the Commitments and Contingencies section of this MD&A. The Company's ability to complete Phase 2 of the Project will depend on its ability to raise sufficient funds from equity, debt, grants and partner contributions as discussed in the Financing section of the MD&A. Artumas has the flexibility to delay the anticipated dates of drilling additional wells if it is unable to raise the necessary funds during 2005 and 2006 for the drilling program.

SOURCES OF CASH During the year ended December 31, 2004, the Company's cash and bank balances increased by $5,230,482. Cash inflows comprised proceeds of $10,449,168 from issue of shares (net of share issue costs) and $1,499,541 from a reduction of working capital (primarily an increase in accounts payable). Cash outflows consisted of capital expenditures of $5,371,400, overhead costs (net of revenues) of $1,318,533 and repayment of amounts due to shareholders of $28,294.

WORKING CAPITAL **Working capital, including cash balances was $4,382,075. The components of working capital are as follows:**

- **Cash balances at December 31, 2004, were $5,550,729. The majority of these funds is in US dollars and is mainly held in Canada except for $135,155 held in Tanzanian bank accounts. These funds were raised from the November 2004 private placement and were available for the capital expenditure requirements for Phase I of the Project.**
- **Accounts receivable of $76,563 consist of input tax credits for Canadian GST (Goods and Services Tax) and Tanzanian Value Added Tax. Prepaid expense and short-term investments of $242,339 consist of prepaid expenses including travel and office rentals, term deposit, advances on expenses, pre-paid capital expenditures, and legal retainer.**
- **Accounts payable and accrued liabilities of $1,222,062 primarily comprise seven large vendors whose submitted December invoices were not recorded or paid until January 2005. It is the policy of Artumas to remit payment of all invoices within 30 days of receipt.**
- **$215,494 due to shareholders relates to consulting services provided to the Company. The shareholders have agreed to the deferral of payment for these services. The amounts are non-interest bearing, unsecured and due on demand.**
- **A demand promissory note of $50,000 is due to Sunorca Development Corporation. The note bears simple interest of 5% per annum commencing January 1, 2004.**

SHARE CAPITAL AND WARRANTS **At December 31, 2004, Artumas had issued the following common shares and warrants and options to purchase common shares:**

- **7,200,000 common shares for proceeds of $11,459,604, net of share issue costs. During 2004 Artumas issued 5,000,000 shares for proceeds of $10,449,168, net of share issue costs.**
- **982,000 warrants to purchase common shares at an average exercise price of US$2.03. The value of $378,875 attributed to the warrants was determined at the grant date using the Black-Scholes model assuming a risk-free interest rate of 4% and an expected volatility of 49%.**
- **370,000 options to purchase common shares at an average exercise price of US$1.75.**

Subsequent to the end of the year, Artumas issued additional common shares and options and currently has issued and outstanding 9,720,000 common shares, 982,000 warrants to purchase common shares and 820,000 options to purchase common shares. Issuances of shares and options during 2005 to date are as follows:

- **In February 2005 the Company issued 1,520,000 common shares at a price of US$2.25 (approximately $2.79) per share for gross proceeds of $4,249,629. During the first quarter of 2005 the Company incurred share issue costs of $681,299.**
- **In May 2005 the Company completed a private placement issuance for 1 million common shares at a price of US$ 2.65 per share for proceeds of approximately $3,339,000 million *(this can't be right?).***
- **In May 2005 the Company issued a US$2,000,000 non-interest bearing unsecured note convertible into common shares of the Company on the date the Company obtains a stock exchange listing or October 31, on the earliest of those two dates. The conversion price is 68.75% of the price at which the Company's shares are issued pursuant to an IPO in conjunction with a stock exchange listing or, if the Company does not complete an IPO at the time of obtaining a stock exchange listing, 68.75% of the weighted average price at which the Company's common shares are traded on the exchange during the 10 business days immediately following admission to the exchange, or such other weighted average price and period as agreed to by the Company and the holder of the notes. The conversion price is US$2.50 if the Company does not obtain a public listing by October 31, 2005.**
- **The Company has agreed on terms with a second subscriber on the same terms as above for an additional US$2,000,000. The transaction is anticipated to close by during the second quarter of 2005.**

The Company reserved an additional 450,000 common shares under its stock option plan for issuance to directors, officers, employees and consultants. The Company granted 300,000 options to purchase common shares at US$2.25 per share effective January 1, 2005, and 50,000 options to purchase common shares at US$3 per share effective April 13, 2005, leaving 100,000 options authorized but not yet allocated.

CONTRIBUTION FROM FMO FMO made the first disbursement of U.S. $850,000 of its contribution to the Project on March 2, 2005. The Company anticipates that the remaining contribution of US$850,000 will be received in the third quarter of 2005 upon tendering final reports and verification of Phase 1 of the Project. The contributions are convertible into an ownership interest of up to 20% in the Project.

COMMITMENTS AND CONTINGENCIES Commitments and contingencies are disclosed in Note 8 to the Consolidated Financial Statements. A summary is as follows:

OFFICE LEASE

Future minimum lease payments under an operating lease for the Company's office premises in Calgary are as follows:

2005	$ 152,996
2006	161,959
2007	169,433
2008	171,924
2009	171,924
Thereafter	214,903
Total	$ 1,043,139

CAPITAL EXPENDITURES

Under the PSA, AG&P Gas was required to spend US$4.4 million ($5.3 million) on the Appraisal Work Program for the Project. These amounts had been spent by the end of the first quarter of 2005.

LETTERS OF CREDIT

At December 31, 2004, the Company had provided letters of credit for US$982,763 ($1,183,640) with expiry dates of April 18 and June 10, 2005, to certain contractors to cover the cost of services to be carried out in Tanzania under the Appraisal Work Program. The letters of credit were secured by the Company's cash balances.

SUNORCA DEVELOPMENT CORPORATION

The Company entered into a due diligence and confidentiality agreement with Sunorca Development Corporation ("Sunorca") on October 1, 2001, whereby Sunorca had the right to earn 50% of the Company's interest in Phase 1 of the Project. Among other things, the agreement would grant to Sunorca an initial 50% interest in the Project upon payment to the Company of $250,000. In order for Sunorca to maintain its interest in the Project, the draft agreement contemplates that additional Project costs would be funded jointly by the two parties, with the participating interest of each adjusted proportionately to their relative contributions toward future costs. As of December 31, 2004, Sunorca has contributed a total of $344,000 including the initial payment of $250,000.

Due to Sunorca's inability to provide additional contributions to the Project, the Company had proposed that Sunorca's participating interest be reduced to 3.67% of Artumas's interest in the Project based on the funding actually received. Artumas has made a further proposal to Sunorca to buy out Sunorca's reduced interest in the Project through a cash payment of $400,000 and a gross overriding royalty of 2.35% on the Company's working interest. Negotiations are continuing and the Company and Sunorca have not reached an agreement at this time.

CLAIM BY SHAREHOLDER AND FORMER CONSULTANT

A shareholder and former consultant has made a claim against the Company in he amount of $73,000 for loss of employment. The Company believes that the claim is without merit and does not anticipate that any amounts will be paid out under this claim.

EMPLOYMENT AGREEMENT

The Company has entered into an employment agreement with an individual who is an officer, director and shareholder of the Company. If the Company terminates the agreement without cause, or if there is a change in control of the Company, which is greater than 25%, the individual will receive severance pay amounting to two years compensation from the Company.

INDEMNIFICATION AND GUARANTEES

The Company has agreed to indemnify certain individuals, who have acted at the Company's request to be an officer or director of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individual as a result of their service. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to a beneficiary of such indemnification agreement.

Additionally, in the ordinary course of business, other indemnifications may have also been provided pursuant to provisions of agreements for services and equipment. The Company has purchased various insurance policies to reduce the risks associated with such indemnification. As at the date of these consolidated financial statements, the contracts for the well re-entry and seismic program have been substantially performed without any incident or claim triggering any indemnity.

RELATED PARTY TRANSACTIONS The Company had the following related party transactions:

- Artumas has entered into an agreement with a company, which is wholly owned by an individual who is an officer, director and shareholder of the Company and through which the individual provides services as an officer and employee of Artumas. Services provided under the agreement were $72,000 in 2004 (2003 – $60,000), which transactions were recorded at the exchange amount. No amounts were owing under the agreement at December 31, 2004 and 2003. During 2004, the Company paid $62,357 for consulting services to a company that is owned by an individual who is related to an officer, director and shareholder of the Company. At December 31, 2004, Artumas owed $10,000 to this company.
- In the normal course of business during the year, legal services of $497,361 (2003 – $28,069) were provided by law firms in which one of the directors of the Company was a senior lawyer and in the other is a partner. The transactions have been recorded at the exchange amount. At December 31, 2004, the amount payable to the law firm was $84,056 (2003 – $8,222).

ESTIMATED TAX POOLS The Company has non-capital losses for Canadian income tax purposes of approximately $1,480,000, which are available for application against future taxable income and which expire beginning in the year 2007. In addition, the Company has temporary tax differences of $5,791,100 relating to capital expenditures on the Project and $85,213 relating to expenditures on office equipment, and $1,658,863 relating to share issue costs, which are available for application against future taxable income. The potential benefits resulting from these non-capital losses and tax pools have not been recorded in the financial statements, as there is no certainty of their ultimate realization.

CRITICAL ACCOUNTING ESTIMATES Artumas uses certain assumptions and estimates in applying generally accepted accounting principles (GAAP) in the preparation of its financial statements. Changes in these assumptions and estimates could have a significant impact on the Company's financial results. Significant accounting estimates include the following:

- The consolidated financial statements have been prepared in accordance with Canadian GAAP on the going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As a start-up company without a current source of operating revenues, the Company is relying upon its ability to complete its initial project. The Company's ability to continue as a going concern is dependent on its ability to generate future profitable operations, secure additional sources of

financing, and on the continued support of its lenders, creditors, and shareholders. The outcome of these matters cannot be predicted at this time. The consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue its operations.

- The Company accounts for crude oil and natural gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry. Under this method, all costs associated with the acquisition of, exploration for and the development of, natural gas and crude oil reserves, including asset retirement costs, are capitalized within a separate cost center for each country in which the Company has oil and gas activities. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. All costs have been capitalized in a single Tanzanian cost center, which is currently in the preproduction stage, and such costs are excluded from costs subject to depletion. Capitalized costs are assessed at the end of each reporting period to determine if the total of such costs may be recovered in the future. Any costs considered unlikely to be recovered are written off and a corresponding loss is recognized in net earnings.
- Capitalized costs no longer in the preproduction stage will be depleted, depreciated and amortized on a unit of production basis over the life of estimated proven petroleum and natural gas reserves. The recoverability of the carrying value of capitalized costs is determined based on a ceiling value utilizing these reserve estimates. Revisions in reserve estimates could have a material impact on earnings. Artumas mitigates this risk by using APA Petroleum Engineering, independent reserve engineers, to evaluate its reserve estimates in accordance with regulatory standards.
- Pursuant to the PSA, the Company is not liable for asset retirement obligations until commercial production is achieved. The Company is not liable for any reclamation or abandonment costs if the Project is abandoned prior to commercial production. Upon commencement of commercial production, an estimate of clean-up costs will be made and a reserve fund set up.

BUSINESS RISKS

Artumas is in the development stage. The Company has no commercial revenue and is dependent on its financing activities to fund its ongoing overheads and the capital expenditure program for Phase 2 of the Project. The Company is subject to all the risks of establishing a new business enterprise.

Artumas is subject to operational and technical risks inherent in construction and implementation of the Project, and is subject to the same business risks as any other participant in the energy industry. Artumas mitigates this risk by employing qualified and competent staff and contractors and ensuring it has adequate insurance in place.

The Company's asset value is based on petroleum reserves that were independently evaluated and reviewed. It is important to note that reserves reports include assumptions about the productive capability of each reservoir and each well into those reservoirs. Being estimates, each well and reservoir could perform differently than estimated, significantly altering the net production revenue ultimately realized.

The Company's strategy is dependent on exploring for and developing natural gas reserves required for the Project. Artumas uses the latest technology for finding and developing reserves but there is no certainty that the Company's experience, knowledge and careful evaluation will be able to overcome the numerous risks involved in this process.

Commodity price volatility may impact the profitability of the Company's operations. Artumas has entered into long-term contracts, which provide a guaranteed return on equity invested in the Project, which reduce the impact of commodity price risk on the Company's future earnings.

The majority of the Company's operations and related assets are located in countries outside Canada, which impose different economic and political risks. Exploration or development activities in countries like Tanzania may require protracted negotiations with host governments, renegotiation or nullification of existing contracts and changes in taxation policies. There are a number of social and environmental risks when drilling for natural resources in a remote area that may impact the Company's operations. Artumas is managing this risk by choosing to operate in countries such as Tanzania that have acceptable foreign investment policies. Artumas emphasizes corporate social responsibility in the conduct or its operations and employs a high proportion of local workers as part of its efforts to promote a long-term mutually beneficial relationship with Tanzania. Artumas has also developed a comprehensive Sustainable Development Initiative (SDI) that allows the Company to work with local communities and organizations to build programs that help them develop economically and socially. Artumas has adopted a high level of environmental standards in its operations.

A substantial portion of the Company's operations are denominated in or referenced to US dollars. Artumas manages its exposure to fluctuations between the US and Canadian dollar by issuing equity and debt in US dollars. Revenues from the Project will be in Tanzanian shillings, but converted to US dollars. There are no restrictions on the Company's ability to export foreign currency from Tanzania.

With worldwide increases in oil and gas production, availability of equipment and supplies and qualified employees is increasingly more difficult to obtain. The Company's success is dependent upon its ability to procure the necessary equipment and services and its ability to attract and retain experienced management and qualified, professional staff. Other energy companies face these challenges, but Artumas is competing for these resources with other companies, which may have greater financial resources than Artumas.

OUTLOOK

During the period January to May 2005, Artumas completed Phase I of the Project and issued additional common shares for proceeds of approximately US $9.5 million. In addition, Artumas received US$850,000 from FMO as the first disbursement of its initial US$1.7 million contribution to the Project.

The Company will commence Phase 2 of the Project in July 2005 and is intending to raise additional funds during the remainder of 2005 through an IPO, debt facilities, infrastructure grant and contributions from FMO to finance the Project expenditures.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented, fairly, in all material respects. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

BDO Dunwoody LLP, the external auditors, conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors have reviewed the financial statements, including notes thereto, with management and BDO Dunwoody LLP and have approved the financial statements.

Steven W. Mason
PRESIDENT

Martin H. Eden
CHIEF FINANCIAL OFFICER

MAY 31, 2005

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ARTUMAS GROUP INC.

We have audited the consolidated balance sheet of Artumas Group Inc. (a Development Stage Enterprise) as at December 31, 2004 and the consolidated statement of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

The comparative figures for the years ended December 31, 2003 were reported on by another firm of Chartered Accountants who issued their report without reservation on November 8, 2004.

BDO Dunwoody LLP

CHARTERED ACCOUNTANTS
CALGARY, ALBERTA
MAY 3, 2005

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 (CANADIAN DOLLARS)	2004	2003
ASSETS		
CURRENT		
CASH (NOTE 8 (c))	$ 5,550,729	$ 320,247
ACCOUNTS RECEIVABLE	76,563	18,963
SHARE SUBSCRIPTION RECEIVABLE (NOTE 7(b)(i))	–	635,285
PREPAID EXPENSES AND SHORT-TERM INVESTMENTS	242,339	45,673
	5,869,631	1,020,168
PROPERTY AND EQUIPMENT (NOTE 3)	5,858,828	499,608
INTANGIBLE ASSETS (NOTE 4)	1	1
	$ 11,728,460	$ 1,519,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,222,062	$ 103,540
DUE TO SHAREHOLDERS (NOTE 5)	215,494	243,788
DEMAND PROMISSORY NOTE (NOTE 6)	50,000	50,000
	1,487,556	397,328
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (NOTE 7(b))	11,459,604	1,389,311
SHARE PURCHASE WARRANTS (NOTE 7(c))	378,875	–
CONTRIBUTED SURPLUS (NOTE 7(e))	223,594	–
DEFICIT	(1,821,169)	(266,862)
	10,240,904	1,122,449
	$ 11,728,460	$ 1,519,777

NATURE OF OPERATIONS AND BASIS OF PRESENTATION (NOTE 1)

COMMITMENTS AND CONTINGENCIES (NOTE 8)

APPROVED ON BEHALF OF THE BOARD

DIRECTOR

DIRECTOR

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31 (CANADIAN DOLLARS)	2004	2003	CUMULATIVE SINCE INCEPTION
REVENUE			
INTEREST INCOME	$ 15,478	$ –	$ 15,478
EXCHANGE GAIN	19,063		19,063
	34,541	–	34,541
EXPENSES			
PROJECT DEVELOPMENT	–	6,000	52,822
GENERAL AND ADMINISTRATIVE	1,266,518	91,339	1,516,759
STOCK BASED COMPENSATION	223,594	100,000	323,594
FINANCING COSTS	86,556	–	86,556
AMORTIZATION	12,180	2,912	17,485
TOTAL EXPENSES	1,588,848	200,251	1,997,216
COST RECOVERY (NOTE 8(d))	–	(63,124)	(141,506)
EXPENSES AFTER COST RECOVERY	1,588,848	137,127	1,855,710
NET LOSS FOR THE YEAR	(1,554,307)	(137,127)	(1,821,169)
DEFICIT, BEGINNING OF YEAR	(266,862)	(129,735)	–
DEFICIT, END OF YEAR	$ (1,821,169)	$ (266,862)	$ (1,821,169)
BASIC AND DILUTED LOSS PER SHARE*	$ (0.57)	$ (0.24)	
WEIGHTED AVERAGE NUMBER OF SHARES	3,175,627	1,128,369	

*THE EFFECT OF ANY CONVERSION OF OPTIONS AND WARRANTS WOULD BE ANTIDILUTIVE.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 (CANADIAN DOLLARS)	2004	2003	CUMULATIVE SINCE INCEPTION
OPERATING ACTIVITIES			
NET LOSS FOR THE YEAR	$ (1,554,307)	$ (137,127)	$ (1,821,169)
ADD ITEMS NOT REQUIRING CASH			
STOCK BASED COMPENSATION	223,594	100,000	323,594
AMORTIZATION	12,180	2,912	17,485
	(1,318,533)	(34,215)	(1,480,090)
NET CHANGE IN NON-CASH WORKING CAPITAL (NOTE 11)	444,901	(630,295)	(151,480)
	(873,632)	(664,510)	(1,631,570)
FINANCING ACTIVITIES			
PROCEEDS FROM DEMAND PROMISSORY NOTE	–	50,000	50,000
ADVANCES FROM SHAREHOLDERS	(28,294)	70,850	215,494
PROCEEDS FROM ISSUANCE OF COMMON SHARES	10,449,168	1,289,310	11,738,478
	10,420,874	1,410,160	12,003,972
INVESTMENT ACTIVITIES			
MNAZI BAY PROJECT CAPITAL COSTS	(5,305,683)	(420,772)	(5,791,100)
ACQUISITION OF OFFICE EQUIPMENT	(65,717)	(5,999)	(85,213)
	(5,371,400)	(426,771)	(5,876,313)
NET CHANGE IN NON-CASH WORKING CAPITAL (NOTE 11)	1,054,640	–	1,054,640
	(4,316,760)	(426,771)	(4,821,673)
INCREASE IN CASH	5,230,482	318,879	5,550,729
CASH, BEGINNING OF YEAR	320,247	1,368	–
CASH, END OF YEAR	$ 5,550,729	$ 320,247	$ 5,550,729

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

1. NATURE OF OPERATIONS AND BASIS OF PREPARATION

Artumas Group Inc. ("AGI" or the "Company") was incorporated under the laws of Alberta, Canada on August 8, 2000.

The Company is a development stage independent energy producer engaged in developing complete-energy-solutions to provide low-cost electricity through conversion of stranded natural gas reserves to electricity generation together with the connection and distribution of electricity to specific regions in rural Africa. AGI is also actively involved in developing off-take gas markets to allow for the monetization and exploitation of the identified gas pools.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on the going concern basis, which presumes that AGI will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As a start-up company without a current source of operating revenues, AGI is relying upon its ability to complete its initial project. The Company's ability to continue as a going concern is dependent on its ability to generate future profitable operations, secure additional sources of financing, and on the continued support of its lenders, creditors, and shareholders. The outcome of these matters cannot be predicted at this time. The consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue its operations.

On August 25, 2003 AGI entered into an Agreement of Intent with the Ministry of Energy and Minerals for the United Republic of Tanzania ("MEM") and the Tanzania Petroleum Development Corporation ("TPDC") in relation to the Mtwara Region Gas-to-Power Project for Generation, Distribution and Transmission in the Mtwara and Lindi Regions of Southeast Tanzania (the "Project"). A Production Sharing Agreement ("PSA") between AG&P Gas Ltd. (a wholly owned subsidiary of AGI) and the MEM and TPDC relating to the Mnazi Bay Gas Development Project for Power Generation, Distribution and Transmission in the Mtwara and Lindi Regions was ratified by the Tanzanian Parliament on May 18, 2004, defining the Development and Exploration Blocks to which Mineral Rights may be earned, and the responsibilities of each of the parties to the PSA. Further to these agreements, a number of definitive agreements are currently being negotiated including a Transmission and Distribution Franchise Agreement, Asset Purchase Agreement, Infrastructure Liquidity Agreement, Gas Purchase Agreement and Power Purchase Agreement.

Phase 1 of the Project involves the re-entry, testing and completion of an existing natural gas well in the Mnazi Bay natural gas concession and the acquisition of seismic. Phase 2 will entail the development of the Mnazi Bay gas field by drilling up to five new wells, installing production facilities, construction of a 27-kilometre pipeline, installing and operating a 30-megawatt ("MW") power generation facility, and upgrading the existing transmission and distribution system. The capital program for the Project commenced during the fourth quarter of 2004, with commercial operations expected to begin during the third quarter of 2006. Additional projects involving the marketing of the gas reserves through the sale of liquefied natural gas have been identified and are in the process of negotiation. Under the terms of the PSA, the Company has certain commitments as detailed in Note 8(b).

The Netherlands Development Financial Institution ("FMO") is committed to contribute, subject to finalizing the terms of a grant agreement and certain representations, a minimum of US $1.7 million to Artumas Tanzania (Jersey) Limited ("ATJL"), a wholly-owned subsidiary of AGI, in exchange for warrants convertible into a maximum of 20% of the shares of ATJL, by paying a proportionate share of the sunk costs in the Project at the time of the election to convert (Note 13 (b)).

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

(b) PROPERTY AND EQUIPMENT

The Company accounts for crude oil and natural gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry. Under this method, all costs associated with the acquisition of, exploration for and the development of, natural gas and crude oil reserves, including asset retirement costs, are capitalized within a separate cost center for each country in which the Company has oil and gas activities. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. All costs have been capitalized in a single Tanzanian cost center, which is currently in the preproduction stage, and such costs are excluded from costs subject to depletion. Capitalized costs are assessed at the end of each reporting period to determine if the total of such costs may be recovered in the future. Any costs considered unlikely to be recovered are written off and a corresponding loss is recognized in net earnings.

For cost centers no longer in the preproduction stage, costs accumulated within each cost centre are depreciated, depleted and amortized using the unit-of-production method based on estimated gross proved reserves as determined by independent engineers. For purposes of this calculation, gas is converted to oil on an energy equivalent basis. Capitalized costs subject to depletion are net of equipment salvage values and include estimated future costs to be incurred in developing proved reserves. Proceeds from the disposal of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depreciation, depletion and amortization of 20 percent or greater in which case a gain or loss is recorded. Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or impairment has occurred. An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of: (a) the fair value of proved and probable reserves; and (b) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves. At December 31, 2004, all the Company's cost centers were in the preproduction stage.

Office equipment is recorded at cost and amortized over its estimated useful life at rates of 20% per annum for furniture and equipment and 30% per annum for computer equipment.

(c) ASSET RETIREMENT OBLIGATIONS

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the consolidated statement of operations and deficit. The fair value of the obligation is periodically adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimates on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of operations and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based on estimated gross proven reserves as determined by independent engineers. Pursuant to the PSA, the Company is not liable for asset retirement obligations until commercial production is achieved. The Company is not liable for any reclamation or abandonment costs if the Project is abandoned prior to commercial production. Upon commencement of commercial production, an estimate of clean up costs will be made and a reserve fund is required to be set up.

(d) REVENUE RECOGNITION

Natural gas and electricity sales will be recognized as revenue when the commodities are delivered to purchasers.

(e) STOCK-BASED COMPENSATION

The Company records compensation expense in the consolidated financial statements for stock options granted to employees and directors using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of the options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(f) FUTURE INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse. Future income tax assets are recorded in the consolidated financial statements if realization is considered more likely than not.

(g) FOREIGN CURRENCY TRANSLATION

Transactions originating in foreign currencies are translated into Canadian dollars at the exchange rate on the date of the transaction. Monetary items are translated at the rates in effect at the balance sheet date and non-monetary items are translated at the rates prevailing at the respective transaction dates. Exchange gains and losses arising on translation are included in the determination of losses for the year.

Monetary assets and liabilities of integrated operations that are not denominated in Canadian dollars are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates and expenses are translated at average rates of exchange during the year. Exchange gains and losses arising on translation of the accounts of integrated operations are included in the consolidated statements of operations and deficit. All of the Company's foreign operations are considered to be integrated.

(h) FINANCIAL INSTRUMENTS

The fair values of financial instruments approximate their carrying values, unless otherwise noted.

(i) JOINT VENTURES

The Company's exploration and development activities may be conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(j) SHARE ISSUE COSTS

Included in share issue costs are legal, broker and travel costs associated with various private placements completed by the Company.

(k) MEASUREMENT UNCERTAINTY

The amount of likely loss or recoverability of capitalized pre-production costs is not determinable and there is uncertainty as to the likelihood of loss. Recovery of these capital costs is uncertain and dependent upon the completion of the Company's initial project. By their nature, the estimate of recoverability is subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

The valuation of stock options and warrants is based on a number of assumptions. The valuation is significantly affected by the assumptions made with respect to the expected volatility over the expected life of the option at the time of the grant. As the assumption is based on management's best estimate, it is subject to measurement uncertainty. The Company does not plan to amend the assumptions once they have been determined at the grant date.

3. PROPERTY AND EQUIPMENT

DECEMBER 31, 2004	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
MNAZI BAY PROJECT COSTS	$ 5,791,100	$ –	$ 5,791,100
OFFICE EQUIPMENT	85,213	17,485	67,728
	$ 5,876,313	$ 17,485	$ 5,858,828
DECEMBER 31, 2003			
MNAZI BAY PROJECT COSTS	$ 485,417	$ –	$ 485,417
OFFICE EQUIPMENT	19,496	5,305	14,191
	$ 504,913	$ 5,305	$ 499,608

At December 31, 2004, pre-development project capital costs of $5,791,100 (2003 – $485,417) relating to Phase 1 of the Project , the exploitation and development of the Mnazi Bay natural gas concession in Tanzania, which are in the pre-production stage, are excluded from costs subject to depletion. During 2004, $701,951 (2003 – $305,327) of general and administrative costs directly related to the Project were capitalized to oil and gas properties. The Mnazi Bay property and equipment is located in Tanzania and the office equipment is located in Canada.

The Company has recorded an amount of $200,000 in capitalized Project costs (with an offsetting liability of $200,000 included in accounts payable and accrued liabilities) to cover the estimated amount of Tanzanian withholding tax not deducted by Artumas from payments made to its foreign contractors who provided services in Tanzania but were not registered for Tanzanian tax purposes. The Company anticipates that it will receive an exemption from the requirement to deduct withholding taxes for these contractors and will be able to reduce its capitalized costs and accounts payable by the amount of the provision.

4. INTANGIBLE ASSETS

On August 1, 2001, the founding shareholder of AGI transferred the rights to further development of certain existing Gas-to-Power Projects in East Africa (the "Project Rights") to the Company as consideration for the issuance of 1,000,000 common shares (as adjusted for the September 1, 2002 stock split – see Note 7(b)). These Project Rights include, but are not limited to, various financial data, business plans, engineering studies, seismic records and evaluations, accounting information, customer names and lists, strategies, techniques, approaches, and experiment and test results. The actual costs incurred over the six years prior to August 1, 2001 to develop the project were in excess of $1 million. The Project Rights and the common shares issued have been recorded at $1 in the consolidated financial statements, due to the uncertainty and subjectivity of the valuation of these costs.

5. DUE TO SHAREHOLDERS

Certain shareholders have agreed to the deferral of payment for consulting services they have provided to the Company, which amounts have been recorded as Due to Shareholders in the consolidated financial statements. The amounts totalled $215,494 at December 31, 2004 (2003 – $243,788). These transactions were recorded at the exchange amount. The amounts are non-interest bearing, unsecured and due on demand.

6. DEMAND PROMISSORY NOTE

The unsecured demand promissory note bears interest at an annual rate of 5% beginning January 1, 2004, and is due to Sunorca Development Corporation ("Sunorca"). AGI and its management and directors own approximately 13% of the shares of Sunorca.

7. SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of voting common shares without nominal or par value.Unlimited number of non-voting preferred shares to be issued in series, without nominal or par value.

(b) COMMON SHARES ISSUED

	NUMBER OF SHARES	AMOUNT
BALANCE, DECEMBER 31, 2000 AND 2001	100	$ 1
SEPTEMBER 1, 2002 STOCK SPLIT (10,000 TO 1)	999,900	–
BALANCE, DECEMBER 31, 2002	1,000,000	1
ISSUED FOR CASH PURSUANT TO PRIVATE PLACEMENTS (i)	1,000,000	1,338,285
ISSUED AS EMPLOYEE COMPENSATION (ii)	200,000	100,000
SHARE ISSUE COSTS	–	(48,975)
BALANCE, DECEMBER 31, 2003	2,200,000	1,389,311
ISSUED FOR CASH PURSUANT TO PRIVATE PLACEMENTS (iii)	4,825,000	11,686,490
LESS: AMOUNT ALLOCATED TO WARRANTS	–	(349,856)
ISSUED AS BROKER'S FEES (iv)	175,000	421,540
SHARE ISSUE COSTS (v)	–	(1,687,881)
BALANCE, DECEMBER 31, 2004	7,200,000	$ 11,459,604

(i) During the year ended December 31, 2003 the Company completed two private placement issuances for a total of 1,000,000 common shares, as follows:

100,000 common shares were issued for cash consideration of $0.50 per share for gross proceeds of $50,000 to an officer and director of the Company. The shares were recorded at the exchange amount which approximated the fair value of the shares.

900,000 units were issued for cash consideration of US $1.10 (approximately $1.30) per unit for gross proceeds of $1,288,285, each unit consisting of one common share and one half of one common share purchase warrant entitling the holder to purchase one common share at an exercise price of US $1.50. Of the 450,000 warrants, 227,272 are exercisable until December 31, 2005 and 222,728 are exercisable until February 15, 2006, subject to the condition that the holder does not own more than 20% of the then issued and outstanding common shares of the Company after giving effect to such exercise. The Company incurred share issue costs of $48,975 related to this transaction. Of the total subscription price, $653,000 (U.S $500,000) was received on December 17, 2003 and the remaining $635,285 (US $490,000) was received on February 12, 2004. No value has been attributed to the warrants, as such value was determined to be immaterial.

(ii) During the year ended December 31, 2003 the Company issued a total of 200,000 common shares to two employees as compensation for services provided. The shares were recorded at the exchange amount of $100,000, which approximated the fair value of these services.

(iii) During the year ended December 31, 2004 the Company completed private placement issuances for a total of 4,825,000 common shares, as follows:

(a) 500,000 units were issued for cash consideration of US $ 2.00 (approximately $2.70) per unit for gross proceeds of $1,348,700, each unit consisting of one common share and one half of one common share purchase warrant entitling the holder to purchase one common share at an exercise price of US $2.50 until June 20, 2007, subject to the condition that the holder does not own more than 20% of the then issued and outstanding common shares of the Company after giving effect to such exercise. The portion of the proceeds attributed to the warrants was $349,856. The fair value of the warrants was determined at the grant date using the Black-Scholes model assuming a risk free interest rate of 4%, an expected volatility of 49% and a dividend yield of nil.

(b) 3,000,000 common shares were issued for cash consideration of US $2.00 (approximately $2.39) per share for gross proceeds of $7,168,800. The Company incurred share issue costs of $537,120 related to this transaction.

(c) 250,000 common shares were issued for cash consideration of US$ 2.00 (approximately $2.39) per share for gross proceeds of $596,800.

(d) 1,000,000 common shares were issued for cash consideration of US$ 2.00 (approximately $2.39) per share for gross proceeds of $2,387,200. The Company incurred share issue costs of $411,768 related to this transaction.

(e) 50,000 common shares were issued for cash consideration of US$ 2.00 (approximately $2.51) per share for gross proceeds of $125,660.

(f) 25,000 common shares were issued for cash consideration of US$ 2.00 (approximately $2.37) per share for gross proceeds of $59,330.

(iv) As at December 31, 2004, the Company has reserved for issuance 175,000 shares at US$ 2.00 (approximately $2.41 per share) that will be issued to a broker as commission fees.

(v) The Company has incurred an additional $317,453 share issue expenses relating to private placements during the year.

(c) ISSUED AND OUTSTANDING WARRANTS

	NUMBER OF SHARES	AMOUNT
BALANCE, DECEMBER 31, 2002	–	$ –
ISSUED IN CONNECTION WITH PRIVATE PLACEMENTS (b)(i)	450,000	–
BALANCE, DECEMBER 31, 2003	450,000	–
ISSUED IN CONNECTION WITH PRIVATE PLACEMENTS (b)(iii)	500,000	349,856
ISSUED IN CONNECTION WITH FINANCING COSTS (c)(i)	32,000	29,019
BALANCE, DECEMBER 31, 2004	982,000	$ 378,875

The following table summarizes information about warrants outstanding at December 31, 2004:

WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF WARRANTS OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE (YEARS)
US $ 2.03	$ 2.44	982,000	1.82

(i) During 2004, the Company issued 32,000 common share purchase warrants in consideration for brokerage services in connection with private placements. Each warrant entitles the holder to purchase one common share at an exercise price of US $2.00 until June 20, 2007. The fair value of the warrants was determined at the grant date using the Black-Scholes model assuming a risk free interest rate of 4%, expected volatility of 49% and a dividend yield of nil.

(d) STOCK OPTIONS

The Company has a stock option plan under which up to 10% of the number of the Company's issued and outstanding common shares (including warrants to purchase common shares) may be reserved for issuance to directors, officers, employees and consultants. Under the plan, the options that have been granted vest over a four year period and expire ten years from the date of grant.

At December 31, 2004 the Company has granted stock options to various directors, consultants, and employees of the Company as follows:

	NUMBER OF OPTIONS	EXERCISE PRICE
BALANCE, DECEMBER 31, 2003 AND 2002	–	–
GRANTED	370,000	US $ 1.75
BALANCE, DECEMBER 31, 2004	370,000	US $ 1.75

The following table summarizes information about the stock options outstanding at December 31, 2004:

WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE (YEARS)	NUMBER OF SHARES EXERCISABLE
US $ 1.75	$ 2.11	370,000	9.29	74,000

The value of stock options granted in 2004 was estimated at $388,000 and this amount will be recognized as stock compensation expense over the five-year vesting period of the options. During 2004, stock compensation expense of $223,594 has been recorded in the consolidated statement of operations and deficit.

The value of stock options granted was determined at the dates of granting the options using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4%; expected term of 5 years; volatility of 49%; and expected future dividend yield of nil.

(e) CONTRIBUTED SURPLUS

BALANCE, DECEMBER 31, 2003	$ –
STOCK COMPENSATION EXPENSE	223,594
BALANCE, DECEMBER 31, 2004	$ 223,594

8. COMMITMENTS AND CONTINGENCIES

(a) LEASE PAYMENTS

The future minimum lease payments as at December 31, 2004 under an operating lease for the Company's office premises, which expires March 31, 2011, are as follows:

2005	$ 152,996
2006	161,959
2007	169,433
2008	171,924
2009	171,924
2010	171,924
2011	42,979
TOTAL FUTURE MINIMUM LEASE PAYMENTS	$ 1,043,139

(b) CAPITAL EXPENDITURES AND OTHER COMMITMENTS

Under the PSA, AG&P Gas Ltd. was required to spend US $4.4 million ($5.3 million) on the Appraisal Work Program for the Project. These amounts had been spent by the end of the first quarter of 2005.

Under the terms of the PSA, the Company is required to reimburse US $4 per km^2 for retained areas once commercial production commences. This increases to US $8 per km^2 and US $16 per km^2 for each extension period. In addition, an annual charge of US $128 per km^2 will be levied for the development license issued.

The PSA has an initial term of four years. The development license derived thereunder has an initial term of 25 years with an extension period of a further 20 years depending on the time required to extract the resources.

(c) LETTERS OF CREDIT

At December 31, 2004 the Company had provided letters of credit for US$ 982,763 ($1,183,640) with expiry dates of April 18 and June 10, 2005 to certain contractors to cover the cost of services to be carried out in Tanzania under the Appraisal Work Program. The letters of credit were secured by AGI's cash balances.

(d) SUNORCA DEVELOPMENT CORPORATION

The Company entered into a due diligence and confidentiality agreement with Sunorca on October 1, 2001, whereby Sunorca had the right to earn 50% of the Company's interest in Phase 1 of the Project. Among other things, the agreement would grant to Sunorca an initial 50% interest in the Project upon payment to the Company of $250,000. In order for Sunorca to maintain its interest in the Project, the draft agreement contemplates that additional Project costs would be funded jointly by the two parties, with the participating interest of each adjusted proportionately to their relative contributions toward future costs. As of December 31, 2004, Sunorca has contributed a total of $344,000 (2004 – $nil; 2003 – $146,800; 2002 – $172,200; 2001 – $25,000) including the initial payment of $250,000. These contributions have been recorded as a recovery of capital expenditures of $202,494 (2003 – $83,676; 2002 – $118,818; 2001 – $nil) and as a recovery of expenses of $141,506 (2003 – $63,124; 2002 – $53,382; 2001 – $25,000).

Due to Sunorca's inability to provide additional contributions to the Project, the Company had proposed that Sunorca's participating interest be reduced to 3.67% of AGI's interest in the Project based on the funding actually received. AGI has made a further proposal to Sunorca to buy out Sunorca's reduced interest in the Project through a cash payment of $350,000 and settlement of the $50,000 note payable (see Note 6) and a gross overriding royalty of 2.35% on the Company's working interest. Negotiations are continuing and the Company and Sunorca have not reached an agreement at this time.

(e) CLAIM BY SHAREHOLDER AND FORMER CONSULTANT

A shareholder and former consultant has made a claim against the Company in the amount of $73,000 for loss of employment. The Company believes that the claim is without merit and does not anticipate that any amounts will be paid out under this claim.

(f) EMPLOYMENT AGREEMENT

The Company has entered into an employment agreement with an individual who is an officer, director and shareholder of the Company. If the agreement is terminated by the Company without cause, or if there is a change in control of the Company which is greater than 25%, the individual will receive severance pay amounting to up to two years compensation from the Company.

(g) INDEMNIFICATION AND GUARANTEES

The Company has agreed to indemnify certain individuals, who have acted at the Company's request to be an officer or director of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individual as a result of their service. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to a beneficiary of such indemnification agreement. Additionally, in the ordinary course of business, other indemnifications may have also been provided pursuant to provisions of agreements for services and equipment. In these agreements, the Company has indemnified counterparties if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated. The Company has purchased various insurance policies to reduce the risks associated with such indemnification. As at the date of these consolidated financial statements, the contracts for the well re-entry and seismic program have been substantially performed without any incident or claim triggering any indemnity.

9. INCOME TAXES

The effective rate of income tax varies from the statutory rate as follows:

FOR THE YEARS ENDED DECEMBER 31	2004	2003
STATUTORY CANADIAN CORPORATE TAX RATE	38.68%	40.65%
EXPECTED INCOME TAX RECOVERY AT STATUTORY RATE	$ (535,484)	$ (55,744)
NON-DEDUCTIBLE AMOUNTS	25,443	41,835
FUTURE TAX ASSET VALUATION ALLOWANCE	510,041	13,909
	$ –	$ –

The effective tax rate for the Company is approximately 38.68%. The difference between the effective tax rate and the actual rate of nil% is attributable to the fact that no future tax asset has been recorded for available loss carry forwards as their ultimate realization is uncertain.

The Company has non-capital losses for Canadian income tax purposes of approximately $1,480,000 (2003 – $162,000) which are available for application against future taxable income and which expire beginning in the year 2007. In addition, the Company has temporary tax differences of $5,791,100 (2003 – $485,417) relating to capital expenditures on the Project and $85,213 (2003 – $19,496) relating to expenditures on office equipment, and $1,658,863 relating to share issue costs, which are available for application against future taxable income. The potential benefits resulting from these non-capital losses and tax pools have not been recorded in the financial statements as there is no certainty of their ultimate realization.

10. FINANCIAL INSTRUMENTS

The fair value of the Company's cash, accounts receivable, share subscriptions receivable, deposits, accounts payable, due to shareholders and demand promissory note approximate their carrying values due to the short-term nature of these instruments.

The nature of these instruments and the Company's operations expose the Company to fair value and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

The Company holds monetary assets and liabilities that are denominated in foreign currencies and is therefore exposed to foreign currency exchange risk. The Company incurs operating and administrative expenses in Tanzania and accordingly they are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies.

Substantially all of the Company's cash was held at one recognized Canadian financial institution and, as a result, the company was exposed to all of the risks associated with that institution.

11. SUPPLEMENTARY CASH FLOW INFORMATION

(a) NET CHANGE IN NON-CASH WORKING CAPITAL

FOR THE YEARS ENDED DECEMBER 31	2004	2003	CUMULATIVE SINCE INCEPTION
ACCOUNTS RECEIVABLE	$ (57,600)	(16,039)	(76,563)
SHARE SUBSCRIPTION RECEIVABLE	635,285	(635,285)	–
PREPAID EXPENSES AND SHORT-TERM INVESTMENTS	(196,666)	(43,037)	(242,339)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,118,522	64,066	1,222,062
	1,499,541	(630,295)	903,160
LESS: AMOUNTS RELATED TO INVESTING ACTIVITIES	(1,054,640)	–	(1,054,640)
NON-CASH WORKING CAPITAL RELATED TO OPERATING ACTIVITIES	$ 444,901	$ (630,295)	$ (151,480)

(b) INTEREST PAID

FOR THE YEARS ENDED DECEMBER 31	2004	2003	CUMULATIVE SINCE INCEPTION
INTEREST PAID	$ 4,908	–	4,908

12. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions:

(a) AGI has entered into an agreement with a company which is wholly-owned by an individual who is an officer, director and shareholder of the Company and through which the individual provides services as an officer and employee of AGI. Services provided under the agreement were $72,000 in 2004 (2003 – $60,000), which transactions were recorded at the exchange amount. No amounts were owing under the agreement at December 31, 2004 and 2003. During 2004, the Company paid $62,357 for consulting services to a company that is owned by an individual who is related to an officer, director and shareholder of AIG. At December 31, 2004, AIG owed $10,000 to this Company.

(b) During the year in the normal course of business, legal services of $497,361 (2003 – $28,069) were provided by law firms in which one of the directors of the Company was a senior lawyer and in the other is a partner. The transactions have been recorded at the exchange amount. At December 31, 2004 the amount payable to the law firm was $84,056 (2003 – $8,222).

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2004 a number of significant events have occurred.

(a) In February of 2005, the Company completed a private placement issuance for 1,520,000 common shares at a price of US$2.25 (approximately $2.79) per share for gross proceeds of $4,249,629. The offering was fully subscribed and closed February 18, 2005. During the first quarter of 2005, the Company incurred share issue costs of $681,299. The net proceeds from the issue of shares will be used to fund capital requirements for the well re-entry and seismic programs, as well as the on-going costs of negotiating the various agreements required for the Project.

(b) The Company reserved an additional 450,000 common shares under its stock option plan for issuance to directors, officers, employees and consultants. The Company granted 300,000 options to purchase common shares at US $ 2.25 per share effective January 1, 2005 and 50,000 options to purchase common shares at US $3.00 per share effective April 13, 2005, leaving 100,000 options authorized but not yet allocated.

(c) FMO made the first disbursement of US $850,000 of its contribution on March 2, 2005. The Company anticipates that the remaining contribution of US $850,000 will be received in the third quarter of 2005 upon tendering final reports and verification of Phase 1 of the Project (see Note 1).

(d) AGI has initiated an Initial Prospectus Offering through the Oslo Stock Exchange. It is anticipated that, upon approval of the Oslo Exchange, the offering will be available to the market during the second quarter of 2005 with an anticipated closing of July 2005.

CORPORATE INFORMATION

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Stephen W. Mason
President and Chief Executive Officer
Artumas Group Inc.

Ian C. Horswill
Senior Vice President Engineering,
Chief Operating Officer
Artumas Group Inc.

Richard J.C. Grant
Partner
Gowling Lafleur Henderson LLP

Anthony E. Reinsch
Director of Upstream Services
PFC Energy Ltd.

Brandon Swim
Managing Director
Chasm Lake Management Services

Theodor D. van Golf
Professor of Petroleum Engineering
University of Trondheim

OFFICERS & SENIOR PERSONNEL

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President and Chief Executive Officer

Ian C. Horswill
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Chief Operating Officer

Martin H. Eden
Chief Financial Officer

Richard J.C. Grant
Corporate Secretary

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