A copy of this preliminary prospectus has been filed with the securities regulatory authorities in all the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any state securities laws. Accordingly, except as permitted by the Underwriting Agreement (as defined below) and pursuant to an exemption from the registration requirements of the 1933 Act and state securities laws, these securities may not be offered or sold within the United States or to U.S. Persons (as such term is defined in Regulation S under the 1933 Act) and this prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Initial Public Offering and Secondary Offering **January 14, 2005**

PRELIMINARY PROSPECTUS

GREY WOLF EXPLORATION INC.

$●

● Common Shares

An aggregate of ● Common Shares in the capital of Grey Wolf Exploration Inc. ("Grey Wolf" or the "Corporation") are being offered of which ● Common Shares will be issued and sold by Grey Wolf (the "Treasury Offering") and ● Common Shares will be sold (the "Secondary Offering") by Abraxas Petroleum Corporation ("Abraxas"), the sole shareholder of Grey Wolf (the Treasury Offering and the Secondary Offering, collectively, the "Offering"). See "Plan of Distribution" and "Principal Shareholder and Selling Securityholder". The Offering price of the Common Shares offered under this prospectus was determined by negotiation between the Corporation, Abraxas and the Underwriters (as defined below).

Price: $● per Common Share

	Price to the Public	Underwriters' Fee(1)	Net Proceeds to the Corporation(2)	Net Proceeds to Abraxas(2)(3)
Per Common Share	$●	$●	$●	$●
Total Offering	$●	$●	$●	$●

Notes:
(1) The Underwriters will be paid a fee equal to 6% of the gross proceeds of the Offering. The Underwriters' Fee relating to the distribution of the Common Shares in connection with the Treasury Offering and the Secondary Offering will be paid proportionately by the Corporation and Abraxas.
(2) Before deducting expenses of the Offering, estimated to be $●. The expenses of the Offering will be paid proportionately by the Corporation and Abraxas.
(3) Abraxas has granted to the Underwriters an Over-Allotment Option, exercisable in whole or in part, for a period of 30 days from Closing, to purchase up to an additional ● Common Shares on the terms set forth in the Underwriting Agreement referred to under "Plan of Distribution" to cover over-allotments, if any, and for market stabilization purposes, which additional Common Shares are qualified for distribution under this prospectus.

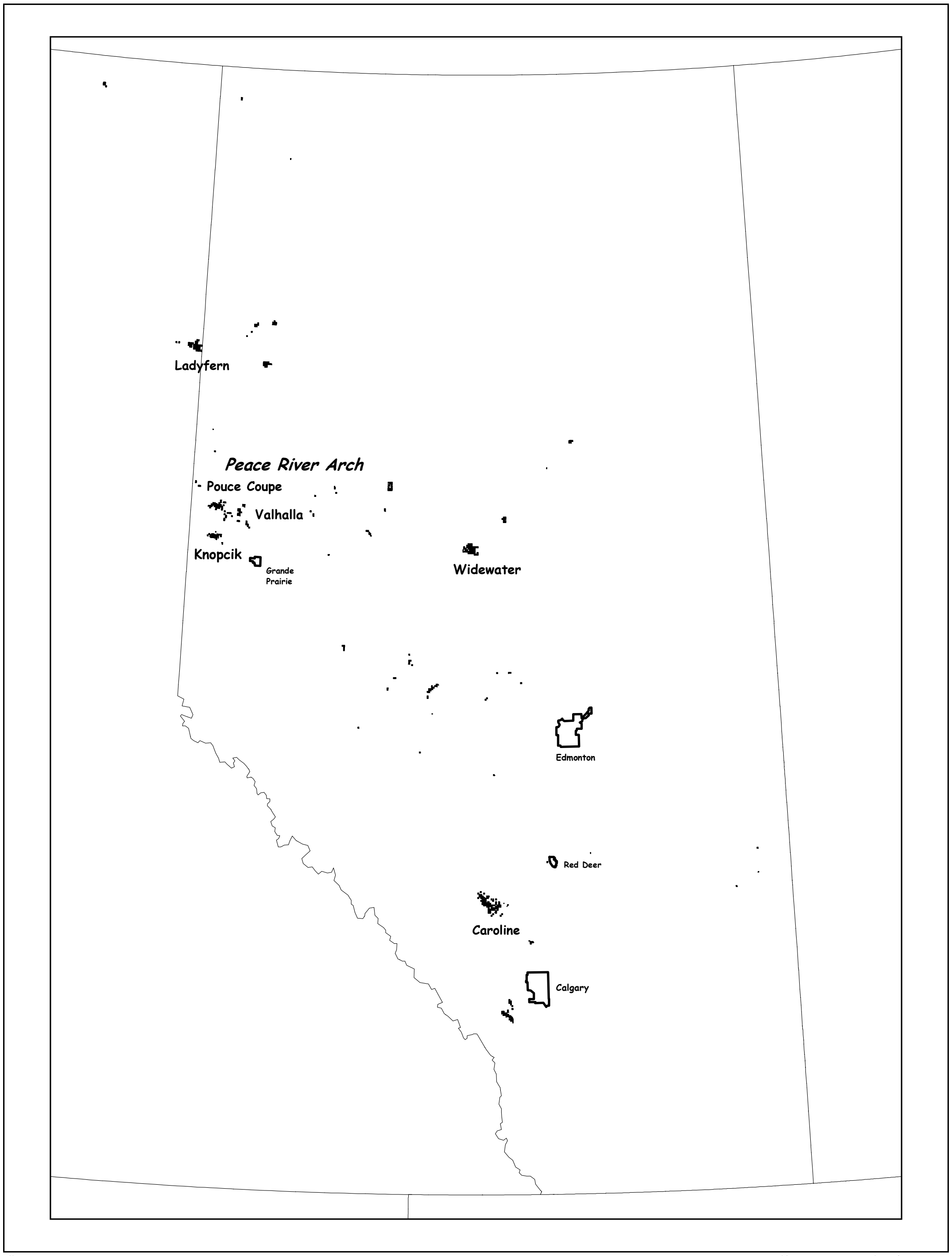
CIBC World Markets Inc., BMO Nesbitt Burns Inc., GMP Securities Ltd. and Canaccord Capital Corporation (collectively, the "Underwriters"), as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued by the Corporation or in the case of the Secondary Offering, if, as and when sold by Abraxas and delivered to and accepted by the Underwriters in accordance with the conditions contained in the Underwriting

Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters relating to the Offering on behalf of the Corporation and Abraxas by Osler, Hoskin & Harcourt LLP and on behalf of the Underwriters by Macleod Dixon LLP. Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

Abraxas is incorporated under the laws of the state of Nevada and resides outside of Canada. Although Abraxas has appointed Osler, Hoskin & Harcourt LLP as its agent for service of process, it may not be possible for investors to collect from Abraxas judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation. See “Risk Factors”.

It is expected that Closing will take place on or about ●, 2005, but may occur on such other date as the Corporation, Abraxas and the Underwriters may agree, provided that such other date is not later than ●, 2005.

An investment in the Common Shares is speculative due to the nature of the Corporation’s involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves. The Corporation’s business is subject to the risks normally encountered in the oil and natural gas industry and the Corporation’s early stage of development. There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. See “Risk Factors”. The Corporation intends to apply to list the Common Shares distributed under this prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.



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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus constitute forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes the expectations reflected in these forward-looking statements are based on reasonable assumptions but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this prospectus should not be unduly relied upon. These statements speak only as of the date of this prospectus.

In particular, this prospectus contains forward-looking statements pertaining to the following:

- oil and natural gas production levels;
- capital expenditure programs;
- the quantity of oil and natural gas reserves;
- projections of commodity prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the Corporation’s ability to raise capital and to continually add to reserves through acquisitions, exploration and development; and
- treatment under governmental regulatory regimes and tax laws.

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this prospectus:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- the other factors discussed under “Risk Factors” in this prospectus.

These lists of factors should not be construed as being exhaustive. The Corporation undertakes no obligation to update or revise any forward-looking statements.

SUMMARY OF THE PROSPECTUS

The following is a summary of the principal features of this Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Reference is made to the Glossary for the definitions of certain terms with initial capital letters used in this prospectus and in this summary.

Grey Wolf Exploration Inc.

Business: Grey Wolf is an Alberta-based oil and natural gas company involved in the development and production of natural gas and crude oil in the Western Canadian Sedimentary Basin. Grey Wolf has implemented a strategy of developing and exploiting producing properties, principally through the redevelopment of old fields utilizing new technologies such as modern log analysis and reservoir modelling techniques as well as 3-D seismic surveys and horizontal drilling. The Corporation also intends to expand upon its exploitation and development activities with complementary exploration projects in its core areas of operation. See "Grey Wolf Exploration Inc. – Business and Strategy".

Management and Directors: Grey Wolf's directors and senior officers are listed in the following table:

Name	Position Held
Robert L.G. Watson	Chairman, Chief Executive Officer and Director
Vincent J. Tkachyk	President, Chief Operating Officer and Director
Robert A. Johnson	Executive Vice President, Exploration
J. Michael Fabi	Vice President, Engineering
Francis T.W. Cheung	Controller
John B. Maher	Director
Mark R. Smith	Director
Murray B. Todd	Director

See "Directors and Officers".

The Offering

Offering: The Offering consists of ● Common Shares. Abraxas has also granted the Underwriters an Over-Allotment Option exercisable for a period of 30 days from Closing to purchase an additional ● Common Shares at a price of $● per Common Share to cover over-allotments, if any, and for market stabilization purposes. See "Plan of Distribution".

Amount: $●

Price: $● per Common Share.

Closing: Closing is expected to take place on or about ●, 2005, but may occur on such later date as the Corporation, Abraxas and the Underwriters may agree provided such date is not later than ●, 2005. See "Plan of Distribution".

Use of Proceeds: The net proceeds to the Corporation of the Treasury Offering are estimated to be $● (after deducting its proportionate share of the Underwriters' Fee and the expenses of the Offering estimated to be $● and $● respectively). A portion of the net proceeds of the Treasury Offering will be used by the Corporation to repay the inter-company debt owing to Abraxas and the Term Loan in their entirety. The balance of the net proceeds of the Treasury Offering will be used to eliminate the Corporation's working capital deficit.

The net proceeds to Abraxas of the Secondary Offering are estimated to be $● (after deducting its proportionate share of the Underwriters' Fee and the expenses of the Offering, estimated to be $● and $● respectively). The Corporation will not receive any of the net proceeds relating to the Common Shares sold by Abraxas in the Secondary Offering or in the event that the Over-Allotment Option is exercised.

If the Over-Allotment Option is exercised in full, the total Offering proceeds, the Underwriters' Fee, the net proceeds to the Corporation and the net proceeds to Abraxas will be $●,$●, $● and $●, respectively.

See "Use of Proceeds".

Eligibility for Investment: In the opinion of Counsel, provided the Common Shares are listed on a prescribed stock exchange at the relevant time, the Common Shares will be qualified investments, within the meaning of the Tax Act, for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, and would not constitute "foreign property" under the Tax Act and the regulations thereunder for persons subject to tax under Part XI of the Tax Act.

Summary Financial and Operational Information

Summary Financial Information

The following is a summary of selected financial information of the Corporation as at and for the periods indicated and should be read in conjunction with the financial statements of the Corporation and the notes to such financial statements included in Appendix A hereto.

	9 Months Ended September 30, 2004 ($000)(1)	**390 Day Period Ended December 31, 2003 ($000)(1)**
Revenue, net of royalties	14,100.00	7,343.00
Operating expenses	3,467.00	1,145.00
Cash flow from operations	8,800.00	3,498.00
Per Equity Share (basic)	1,821.95	825.97
Per Equity Share (diluted)	1,821.95	825.97
Net earnings (loss)	1,610.00	(135.00)
Per Equity Share (basic)	333.33	(31.88)
Per Equity Share (diluted)	333.33	(31.88)
Total assets	53,804.00	52,287.00
Working capital (deficiency) (before inter-company debt)(2)	(269.00)	(350.00)
Inter-company debt(2)	9,045.00	9,420.00
Working capital (deficiency) (including inter-company debt)(2)	(9,314.00)	(9,770.00)
Shareholders' equity	41,111.00	39,501.00

Notes:
(1) Except per share amounts.
(2) The inter-company debt was reduced on October 28, 2004 with a portion of the proceeds of the Term Loan. As of December 31, 2004, the balance of the inter-company debt owed by Grey Wolf was approximately US$1 million and Grey Wolf's working capital deficiency, net of such debt, was approximately $3.1 million. The Corporation intends to use a portion of the net proceeds of the Treasury Offering to repay all outstanding inter-company debt and to eliminate its working capital deficit. See "Use of Proceeds".
(3) On October 28, 2004, the Term Loan in the amount of US$35 million was provided to Grey Wolf by an arm's length third party lender. Grey Wolf intends to use a portion of the net proceeds of the Treasury Offering to repay the Term Loan in its entirety. See "Capitalization" and "Use of Proceeds".

Summary Production Information

Prior to the Acquisition on January 23, 2003, Grey Wolf held no interests in any oil or natural gas properties. See "Grey Wolf Exploration Inc. - Development of the Business". Grey Wolf's estimated average daily production for the month ending December 31, 2004 was 1,658 Boe/d. The following table sets forth certain historical production information relating to Grey Wolf.

	Month Ending December 31, 2004[(1)]	Year Ended December 31, 2004[(1)]	390 Day Period Ended December 31, 2003[(2)]
Average Daily Production			
Oil (Bbl/d)	184	121	90
Natural Gas (MMcf/d)	7,712	7,664	2595
NGL (Bbl/d)	189	153	36
Boe/d	1,658	1,551	559

Notes:
(1) Estimated production.
(2) Production values are diluted because Grey Wolf only recorded production for the 342 day period following the Acquisition. Actual estimated average production for that 342 day period was 637 Boe/d.

See "Grey Wolf Exploration Inc. – Other Oil and Natural Gas Information - Production History".

Summary Landholding Information

The following table summarizes Grey Wolf's developed and undeveloped landholdings (in acres) as at December 31, 2004. Approximately 28,318 gross (13,240 net) acres of undeveloped land is considered non-prospective and may be permitted to expire in 2005.

	Undeveloped	Developed	Total[(2)]
Gross[(1)]	120,549	30,583	151,132
Net[(1)]	71,246	15,525	86,771

Notes:
(1) "Gross" means the total number of acres in which Grey Wolf has an interest and "net" means the aggregate of the percentage working interest of Grey Wolf in the gross acres.
(2) As of December 31, 2004, approximately 12,640 gross (10,843 net) undeveloped acres were subject to the Caroline Farmout Agreement. See "Grey Wolf Exploration Inc. – Principal Properties – Caroline Property".

See "Grey Wolf Exploration Inc. – Other Oil and Gas Information - Landholdings".

Summary Landholdings Valuation

The following table summarizes as of September 1, 2004 the fair value of Grey Wolf's non-reserve oil and gas properties as assessed by the Seaton-Jordan Report.

	Hectares		
	Gross	**Net**	**Value ($)**
Alberta	60,142	27, 270	10,697,369
British Columbia	8,964	2,073	997,605
	69,106	29,343	11,694,974

See "Grey Wolf – Development of the Business – Other Oil and Gas Information – Landholdings Valuation".

Summary of Reserves

The following tables set forth certain information relating to the oil, natural gas and NGL reserves of Grey Wolf and the present value of future net revenue associated with such reserves as at September 30, 2004. The information set forth below is derived from the D&M Report, which has been prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101 and the COGE Handbook. **All evaluations of future net revenue are stated prior to provision for indirect costs and after deduction of royalties and estimated future operating expenses, capital expenditures and well abandonment and lease reclamation costs. It should not be assumed that the present values of estimated future net revenue shown below is representative of the fair market value of the oil, natural gas and NGL reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of oil, natural gas and NGL reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual oil, natural gas and NGL reserves may be greater than or less than the estimates provided herein**. See "Grey Wolf Exploration Inc. – Disclosure of Resources Data - Reserves".

Summary of Oil and Natural Gas Reserves and Net Present Values of Future Net Revenue as of September 30, 2004 Constant Prices and Costs

	RESERVES					
	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
Reserves Category	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved						
Developed Producing	336	299	8,969	8,128	215	189
Developed Non-Producing	14	13	5,639	3,999	108	67
Undeveloped	0	0	736	544	28	19
Total Proved	350	312	15,344	12,671	351	275
Probable	405	334	10,156	7,543	201	130
Total Proved Plus Probable	755	646	25,500	20,214	552	405

	NET PRESENT VALUES OF FUTURE NET REVENUE									
	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
Reserves Category	0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)	0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)
Proved										
Developed Producing	66	53	43	38	33	61	48	40	35	31
Developed Non-Producing	23	17	14	11	9	16	12	9	7	6
Undeveloped	4	3	3	2	2	3	2	2	1	1
Total Proved	93	73	60	51	44	80	62	51	43	38
Probable	55	35	25	18	14	37	24	16	12	8
Total Proved Plus Probable	148	108	85	69	58	117	86	67	55	46

Summary of Oil and Natural Gas Reserves and Net Present Values of Future Net Revenue as of September 30, 2004 Forecast Prices and Costs

	RESERVES					
	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
Reserves Category	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved						
Developed Producing	336	300	8,902	8,066	214	189
Developed Non-Producing	14	13	5,641	3,999	108	68
Undeveloped	0	0	736	544	28	19
Total Proved	350	313	15,279	12,609	350	276
Probable	405	339	10,155	7,542	201	131
Total Proved Plus Probable	755	652	25,434	20,151	551	407

	NET PRESENT VALUES OF FUTURE NET REVENUE									
	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
Reserve Category	0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)	0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)
Proved										
Developed Producing	66	51	42	37	33	61	47	39	34	30
Developed Non-Producing	24	17	14	11	9	17	12	9	7	6
Undeveloped	4	3	3	2	2	3	2	2	1	1
Total Proved	94	71	59	50	44	81	61	50	42	37
Probable	58	34	22	17	12	39	23	15	11	8
Total Proved Plus Probable	152	105	81	67	56	120	84	65	53	45

Risk Factors

An investment in Common Shares is speculative due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves. The Corporation's business is subject to the risks normally encountered in the oil and natural gas industry such as: the marketability of, and prices for, oil and natural gas; competition with companies having greater resources; acquisition, exploration, development and production risks; the need for access to substantial capital; fluctuations in the market price and demand for oil and natural gas; and regulation of the oil and natural gas industry by various levels of government. The reserve and recovery information contained in this prospectus are estimates only and the actual production and ultimate reserves recovered from the Corporation's properties may be greater or less than the estimates contained in this prospectus. The success of further exploration or development projects cannot be assured. The Corporation's business is subject to the risks normally encountered in the Corporation's early stage of development. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. See "Risk Factors".

GLOSSARY

In this prospectus, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c.B-9, together with any amendments thereto and all regulations promulgated thereunder;

"**Abraxas**" means Abraxas Petroleum Corporation, a corporation incorporated pursuant to the laws of the State of Nevada;

"**Acquisition**" means the acquisition by Grey Wolf on January 23, 2003 of the Grey Wolf Property pursuant to the Conveyance Agreements;

"**AEUB**" means the Alberta Energy and Utilities Board;

"**ARTC**" means Alberta Royalty Tax Credit;

"**Board**" means the board of directors of the Corporation;

"**Canaxas**" means Canadian Abraxas Petroleum Limited, a corporation incorporated under the ABCA that amalgamated with Former Grey Wolf and 1022789 Alberta Ltd. to form PrimeWest Gas Corp. on January 24, 2003;

"**Canaxas Petroleum and Natural Gas Rights Conveyance Agreement**" means the Petroleum and Natural Gas Rights Conveyance Agreement made January 23, 2003, and effective October 1, 2002, between Grey Wolf and Canaxas pursuant to which Grey Wolf acquired all the undeveloped property of Canaxas and a portion of the Retained Producing Properties;

"**Canaxas Receivables Assignment Agreement**" means the Receivables Assignment Agreement made January 23, 2003 between Grey Wolf and Canaxas pursuant to which Grey Wolf acquired certain receivables;

"**Canadian Subsidiaries**" means Former Grey Wolf and Canaxas;

"**Caroline Farmout Agreement**" means the Caroline Farmout Agreement dated January 23, 2003 between Grey Wolf and PrimeWest as more particularly described under the heading "Grey Wolf Exploration Inc. – Principal Properties – Caroline Property";

"**CICA**" means the Canadian Institute of Chartered Accountants;

"**CICA Handbook**" means the Handbook of the Canadian Institute of Chartered Accountants, as amended from time to time;

"**Closing**" means the closing of the sale of Common Shares pursuant to this Offering;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society);

"**Common Share**" means a common share in the capital of Grey Wolf;

"**Conveyance Agreements**" means collectively the Petroleum and Natural Gas Rights Assignment Agreements, the Receivables Assignment Agreements and the Royalty Assignment Agreement;

"**Corporate Services Agreement**" means the Corporate Services Agreement dated January 13, 2005 between Grey Wolf and Abraxas and more fully described under the heading "Arrangements Between Grey Wolf and Abraxas";

"**Corporation**" or "**Grey Wolf**" means Grey Wolf Exploration Inc., a corporation incorporated under the ABCA;

"**Counsel**" means Osler, Hoskin & Harcourt LLP, counsel to Grey Wolf, and Macleod Dixon LLP, counsel to the Underwriters;

"**D&M**" means DeGolyer and MacNaughton, a corporation of independent oil and natural gas reservoir engineers incorporated under the laws of the State of Delaware and having offices in Dallas, Houston, Moscow and Calgary;

"**D&M Report**" means the report prepared by D&M signed January 14, 2005 evaluating the crude oil, natural gas and NGL reserves of Grey Wolf as of September 30, 2004 entitled, "Appraisal Report as of September 30, 2004 on Certain Properties Owned by Grey Wolf Exploration Inc. in Canada";

"**First Over-Riding Royalty Agreement**" means the First Over-Riding Royalty Agreement dated December 20, 2001 wherein Former Grey Wolf granted a 2.5% over-riding royalty interest in certain producing properties to a third party grantee;

"**Former Grey Wolf**" means the corporation incorporated under the ABCA, formerly named Grey Wolf Exploration Inc., which amalgamated with 1027789 Alberta Ltd. and Canaxas to form PrimeWest Gas Corp. on January 24, 2004;

"**Former Grey Wolf Petroleum and Natural Gas Rights Conveyance Agreement**" means the Petroleum and Natural Gas Rights Conveyance Agreement made January 23, 2003, and effective October 1, 2002, between Grey Wolf and Former Grey Wolf pursuant to which Grey Wolf acquired all the undeveloped property of Former Grey Wolf and a portion of the Retained Producing Properties;

"**Former Grey Wolf Receivables Assignment Agreement**" means the Receivables Assignment Agreement dated January 23, 2003 between Grey Wolf and Former Grey Wolf pursuant to which Grey Wolf acquired certain receivables;

"**GAAP**" means Canadian generally accepted accounting principles;

"**Grey Wolf Property**" means: (i) all the undeveloped property owned by the Canadian Subsidiaries as of January 23, 2003 and certain facilities thereon; (ii) the Retained Producing Properties; (iii) certain receivables owing to the Canadian Subsidiaries; (iv) the Canadian Subsidiaries' interest in, and obligations under, certain agreements between the Canadian Subsidiaries and third parties, including employment agreements between Former Grey Wolf and certain officers thereof; and (v) the Royalty;

"**Indemnity Agreement**" means the Indemnity Agreement dated January 13, 2005 between Grey Wolf and Abraxas and more fully described under the heading "Arrangements Between Grey Wolf and Abraxas";

"**Loan Agreement**" means the Loan Agreement dated October 28, 2004 between Grey Wolf and an arm's length third party lender pursuant to which Grey Wolf was granted the Term Loan;

"**National Policy 2B**" means National Policy 2B, *Guide for Engineers and Geologists Submitting Oil and Gas Reports to Canadian Provincial Securities Administrators*;

"**NI 51-101**" means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;

"**Non-Competition Agreement**" means the Non-Competition Agreement dated January 13, 2005 between Grey Wolf and Abraxas and more fully described under the heading "Arrangements Between Grey Wolf and Abraxas";

"**Offering**" means collectively the Treasury Offering and the Secondary Offering;

"**Option**" means an option to acquire a Common Share, or such other shares in the capital of the Corporation as the Board may determine, pursuant to the Option Plan;

"**Option Plan**" means the Stock Option Plan of the Corporation dated January 13, 2005;

"**Over-Allotment Option**" means the option granted by Abraxas to the Underwriters exercisable for a period of 30 days from Closing, to purchase up to an additional ● Common Shares at a price of $● per Common Share to cover over-allotments, if any, and for market stabilization purposes;

"**Petroleum and Natural Gas Rights Conveyance Agreements**" means collectively the Former Grey Wolf Petroleum and Natural Gas Rights Conveyance Agreement and the Canaxas Petroleum and Natural Gas Rights Conveyance Agreement;

"**PrimeWest**" means PrimeWest Energy Trust, an open-ended investment trust created under the laws of Alberta and its subsidiaries, or any one of them;

"**Receivables Assignment Agreements**" means collectively the Canaxas Receivables Assignment Agreement and the Former Grey Wolf Receivables Assignment Agreement;

"**Retained Producing Properties**" means working interests in two producing wells in the Ladyfern area and one producing well in each of the Knopcik, Manola and Pouce Coupe areas together with certain over-riding royalty interests, all of which were acquired by Grey Wolf on January 23, 2003 pursuant to the Acquisition;

"**Royalty**" means the aggregate 5% over-riding royalty interest granted by Former Grey Wolf in certain producing properties pursuant to the Royalty Agreements;

"**Royalty Agreements**" means collectively the First Over-Riding Royalty Agreement and the Second Over-Riding Royalty Agreement;

"**Royalty Assignment Agreement**" means the Petroleum and Natural Gas Rights Assignment Agreement dated January 23, 2003, pursuant to which Grey Wolf acquired the Royalty from a third party;

"**Seaton-Jordan**" means Seaton-Jordan & Associates Ltd., an independent corporation of mineral management consultants incorporated under the ABCA;

"**Seaton-Jordan Report**" means the report prepared September 7, 2004 assessing the non-reserve oil and gas properties of Grey Wolf as at September 1, 2004;

"**Second Over-Riding Royalty Agreement**" means the Second Over-Riding Royalty Agreement dated December 20, 2001, wherein Grey Wolf granted a 2.5% over-riding royalty interest in certain producing properties to a third party grantee;

"**Secondary Offering**" means the public offering hereunder of ● Common Shares being sold by Abraxas;

"**Tax Act**" means the *Income Tax Act* (Canada) R.S.C. 1985, c.I (5th Supp.), as amended;

"**Term Loan**" means the term loan in the principal amount of US$35 million granted to Grey Wolf pursuant to the Loan Agreement and as more particularly described under the headings "Grey Wolf Exploration Inc. – Development of the Business" and "Capitalization";

"**Treasury Offering**" means the public offering hereunder of ● Common Shares being issued and sold by Grey Wolf;

"**TSX**" means the Toronto Stock Exchange;

"**Underwriting Agreement**" means the Underwriting Agreement dated ●, 2005 between the Corporation, Abraxas and the Underwriters as more particularly described under the heading "Plan of Distribution";

"**Underwriters**" means CIBC World Markets Inc., BMO Nesbitt Burns Inc., GMP Securities Ltd. and Canaccord Capital Corporation; and

"**Underwriters' Fee**" means the fee of 6% of the gross amount raised under the Offering payable to the Underwriters pursuant to the Underwriting Agreement.

CONVENTIONS

Certain terms used herein are defined in the Glossary. Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars and references to M$ and MM$ are references to thousand and million Canadian dollars, respectively. All financial information with respect to the Corporation has been presented in Canadian dollars in accordance with GAAP.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids		**Natural Gas**	
Bbls	barrels	Mcf	thousand cubic feet
Mbbl	thousand barrels	MMcf	million cubic feet
Bbls/d	barrels per day	Bcf	billion cubic feet
Boe	barrels of oil equivalent (6 Mcf:1 Bbl)	Mcf/d	thousand cubic feet per day
MMBoe	million barrels of oil equivalent (6 Mcf:1 Bbl)	MMcf/d	million cubic feet per day
Boe/d	barrels of oil equivalent per day	GJ	gigajoule
NGL	natural gas liquid	GJs/d	gigajoules per day
		Btu	British thermal unit
		MMbtu	million British thermal units

Measurements expressed in Boes may be misleading, particularly if used in isolation. The Boe conversion ratio of 6 Mcf:1 Bbl used in this prospectus is based on an approximate energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

CONVERSION

The following table sets forth certain standard conversions from Standard Imperial units to the International System of Units (or metric units).

To Convert From	**To**	**Multiply By**
Mcf	thousand cubic meters ("10^3m^3")	0.0282
Thousand cubic meters	Mcf	35.494
Bbls	Cubic meters ("m^3")	0.159
cubic meters	Bbls	6.290
Feet	Meters	0.305
Meters	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

PRESENTATION OF FINANCIAL INFORMATION

Cash flow from operations and operating netback are not recognized measures under GAAP. Management believes that in addition to net income, cash flow from operations and operating netback are useful supplemental measures as they demonstrate the Corporation's ability to generate the cash necessary to repay debt or fund future growth through capital investment. Investors are cautioned, however, that these measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of Grey Wolf's performance. Grey Wolf's method of calculating these measures may differ from other issuers and accordingly, they may not be comparable to measures used by other issuers. For these purposes, Grey Wolf defines cash flow from operations as cash provided by operations before changes in non-cash operating working capital and defines operating netback as revenue less royalties and operating and transportation expenses.

GREY WOLF EXPLORATION INC.

Incorporation

Grey Wolf was incorporated pursuant to the ABCA on December 6, 2002. On January 13, 2005 Grey Wolf filed Articles of Amendment to remove private company and share transfer restrictions and to split its Common Shares on the basis of 2,692 Common Shares for each previously outstanding Common Share.

Grey Wolf's head office is located at Suite 1500, 144 – 4th Avenue S.W., Calgary, Alberta, T2P 3N4, and its registered office is located at Suite 1900, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 4Z1.

Business and Strategy

Grey Wolf is an Alberta-based oil and natural gas company involved in the development and production of natural gas and crude oil in the Western Canadian Sedimentary Basin. Grey Wolf is directed by the executive management team of Former Grey Wolf, being Robert L.G. Watson, Vincent J. Tkachyk and Robert A. Johnson. Under their management during the years 2000-2002, Former Grey Wolf spent approximately $150 million to drill, complete and equip 62 gross (48 net) wells, the majority of which are located within the principal property areas of Grey Wolf, and to acquire land, seismic data and facilities. During this period, more than 18.9 MMBoe of proved and probable reserves were booked as extensions and discoveries by Former Grey Wolf. On January 23, 2003, Former Grey Wolf and an affiliated corporation, Canaxas, were sold by Abraxas to PrimeWest for $217 million. Immediately prior to this sale, all undeveloped properties held by these companies and the Retained Producing Properties were acquired by Grey Wolf and the Former Grey Wolf executive management team assumed operational control of Grey Wolf. See "Grey Wolf Exploration Inc. – Development of the Business".

Since January 23, 2003, Grey Wolf has continued to implement Former Grey Wolf's strategy of developing and exploiting producing properties, principally through the redevelopment of old fields utilizing new technologies such as modern log analysis and reservoir modelling techniques as well as 3-D seismic surveys and horizontal drilling. The Corporation also intends to expand upon its exploitation and development activities with complementary exploration projects in its core areas of operation.

Grey Wolf's average daily production has grown from an average of 483 Boe/d in the 67 day period ending March 31, 2003 to an average of 1,511 Boe/d in the third quarter of 2004. This represents an increase in average daily production of approximately 213%. Grey Wolf's estimated average daily production was 1,551 Boe/d in the year ending December 31, 2004 and 1,658 Boe/d in December 2004.

Grey Wolf's capital budget for 2005 is approximately $14.0 million (which includes $0.7 million of capitalized general and administrative expense) and contemplates the drilling and completion of approximately 16 wells, the recompletion of two wells and various facility related projects. Of the total budget, approximately $3.4 million is allocated to development and exploitation drilling, $5.3 million is allocated to exploration drilling (including undeveloped land acquisition and seismic programs) and $4.6 million is allocated to facility and pipeline construction. By area, approximately $3.2 million is allocated to the Pouce Coupe area for the drilling and completion of four wells, $2.4 million is allocated to the Knopcik area for the drilling and completion of one well, the tie-in of one additional well plus various facility projects and $0.9 million is allocated to the Caroline area for Grey Wolf's share of the drilling and completion of seven wells under the Caroline Farmout Agreement as well as the recompletion of two additional wells. The remaining $7.5 million is allocated to other properties for drilling projects and facilities upgrades and to the acquisition of land and seismic data.

Grey Wolf has identified more than 40 potential drill-ready drilling locations on its properties that have not been classified by the D&M Report as containing proved or probable reserves.

As at September 30, 2004, Grey Wolf had nine full-time employees, all of whom are located at Grey Wolf's head office in Calgary, Alberta. Grey Wolf's Chairman and Chief Executive Officer, Robert L.G. Watson, resides in San Antonio, Texas, and devotes approximately 33% of his time to Grey Wolf.

Development of the Business

The following is a summary of significant events in the development of Grey Wolf's business.

2000-2002

The executive management team of Grey Wolf directed Former Grey Wolf during the years 2000-2002. During the period, Former Grey Wolf spent approximately $150 million to drill, complete and equip 62 gross (48 net) wells, the majority of which are located within the principal property areas of Grey Wolf, and to acquire land, seismic data and facilities. During this period, more than 18.9 MMBoe of proved and probable reserves were booked as extensions and discoveries by Former Grey Wolf.

On December 6, 2002, Grey Wolf was incorporated and Former Grey Wolf changed its name to 967173 Alberta Ltd.

2003

On January 23, 2003, Grey Wolf was a party to a series of transactions involving Grey Wolf, Abraxas, the Canadian Subsidiaries and PrimeWest. As a result of these transactions: (i) Grey Wolf completed the Acquisition; (ii) the Canadian Subsidiaries were sold by Abraxas, their sole shareholder, to PrimeWest; (iii) Abraxas became the sole shareholder of Grey Wolf; and (iv) the Former Grey Wolf executive management team assumed direction of Grey Wolf.

In consideration for the Grey Wolf Property, Grey Wolf, among other things: (i) issued an aggregate of 4,730 Common Shares to the Canadian Subsidiaries; (ii) assumed certain liabilities of, and claims against, the Canadian Subsidiaries, including all environmental liabilities, whenever accruing, relating to the Grey Wolf Property and certain abandoned wells that were acquired by PrimeWest when it acquired the Canadian Subsidiaries; (iii) guaranteed all obligations incurred by Abraxas in favour of PrimeWest in connection with the sale of the Canadian Subsidiaries; and (iv) entered into the Caroline Farmout Agreement with PrimeWest.

Subsequent to the Acquisition, Grey Wolf continued to implement Former Grey Wolf's exploitation and exploration plan on the retained acreage and spent approximately $12.8 million (net) to drill a total of 18 new wells (7.9 net) during the balance of 2003. Grey Wolf enjoyed a success rate of 67% on the gross wells that it drilled in 2003. Grey Wolf's production increased from an estimated average of 483 Boe/d in the 67-day period ending March 31, 2003 to an exit rate on December 31, 2003 that was in excess of 1,300 Boe/d.

2004

Grey Wolf made capital expenditures in 2004 of approximately $14.8 million. Among other things, this amount was spent to drill and complete seven wells, recomplete and tie-in seven additional wells and tie-in one further well. Of the total amount, approximately $8.1 million was allocated to development and exploitation drilling, $2.2 million was allocated to exploration drilling (including the acquisition of undeveloped land and seismic programs) and $4.5 million was allocated to facility construction. By area, approximately $7.8 million was spent in the Knopcik area for the drilling and completion of four wells, the recompletion and tie-in of four additional wells and facilities upgrades, $1.9 million was spent in the Ladyfern area for the drilling and completion of two horizontal wells and the recompletion of one additional well and $2.0 million was spent in the Caroline area for the drilling and completion of one well and recompletion and/or tie-in of eight additional wells. Grey Wolf enjoyed a success rate of 100% on the gross wells it drilled in 2004. The remaining $3.1 million was allocated to other properties for drilling and facilities upgrades and to the acquisition of land and seismic data.

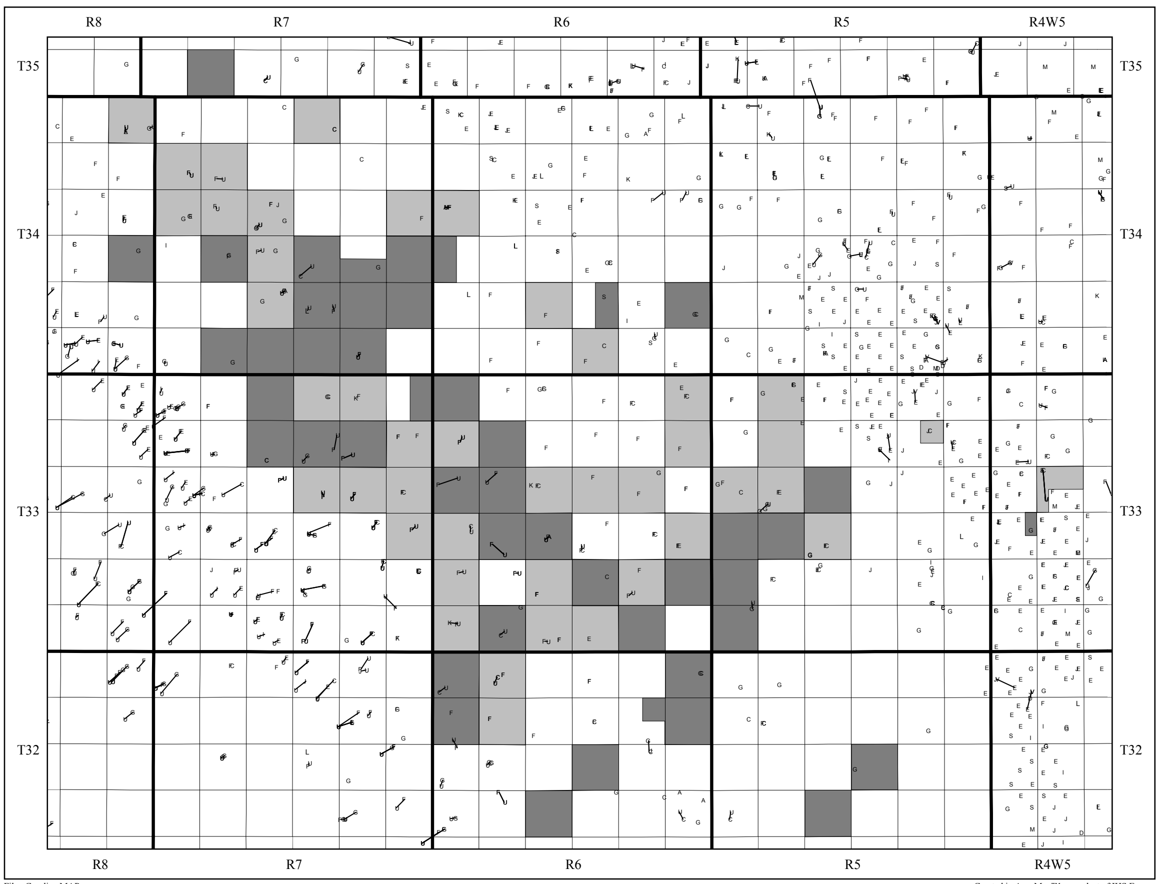
On October 28, 2004, Grey Wolf entered into the Loan Agreement in connection with the provision by an arm's length third party lender of the Term Loan in the amount US$35 million. The proceeds of the Term Loan were paid to Abraxas in order to repay certain inter-company debt, to satisfy a return of paid capital and in consideration for the release of Grey Wolf from all obligations relating to or arising under loan obligations of Abraxas. See "Capitalization". The Term Loan is repayable at Grey Wolf's option for a price equal to the outstanding principal amount plus accrued and unpaid interest. Grey Wolf intends to use a portion of the net proceeds of the Treasury Offering to repay the Term Loan in its entirety. See "Use of Proceeds".

During the first nine months of 2004, Grey Wolf's production increased from an exit rate in excess of 1,300 Boe/d on December 31, 2003 to average daily production of 1,511 Boe/d in the third quarter of 2004. Grey Wolf's estimated average daily production for the month ending December 31, 2004 was 1,658 Boe/d.

Principal Properties

The following is a description of Grey Wolf's principal oil and natural gas properties as at November 1, 2004. Unless otherwise stated, production stated is average gross production for the period indicated in respect of Grey Wolf's working interest before the deduction of royalties. Unless otherwise specified, gross and net acreage and well information is at December 31, 2004.

Caroline Property



Grey Wolf Working Interest Lands

Grey Wolf Royalty Interest Lands

The Caroline property is located approximately 70 miles northwest of Calgary, Alberta. The terrain is mainly forested ranchlands and gentle rolling hills, with lowland creeks and marshes. Access for activity is generally limited to the nine months of the year outside of spring break-up (April through June). The primary target zones in this area are the Cretaceous-aged conglomerates and sandstones within the Cardium and Viking formations and sandstones in the Lower Mannville group.

The Caroline property consists of 9,286 gross (3,853 net) acres of developed land and 18,880 gross (14,107 net) acres of undeveloped land. Grey Wolf has an average 33% working interest in 14 wells in the Caroline area, of which 11 are producing and three are non-producing. Of the three non-producing wells, one is awaiting tie-in and two are standing cased.

Production from this property for the nine months ended September 30, 2004 averaged 353 Boe/d. Since the date of the Acquisition, production on this property has increased from six Boe/d in the 67 day period ending March 31, 2003 to 491 Boe/d in the third quarter of 2004. In December 2004, estimated average daily production from this property was 567 Boe/d.

Production is processed at the PrimeWest owned and operated Sundre gas plant for a pre-determined rate. The Caroline property also enjoys an interconnect to the Petro-Canada Bearberry processing plant.

Under the Caroline Farmout Agreement, PrimeWest has been appointed operator of the Caroline property and Grey Wolf is prohibited from undertaking independent operations thereon. PrimeWest also has an option to spud a well (an "Option Well") every 60 days subject to surface access restrictions and rig availability. Upon the exercise of such option, PrimeWest is required, at its sole risk and cost, to continuously drill the Option Well to contract depth and to either complete or abandon the well. Upon drilling to contract depth and successfully completing, capping or abandoning the well, PrimeWest earns 60% and Grey Wolf retains 40% of Grey Wolf's initial working interest in the Option Well spacing unit. Once PrimeWest has paid such drilling and completion costs, Grey Wolf has the option to pay its proportionate share of any subsequent costs relating to the Option Well spacing unit in order to participate in production from the Option Well.

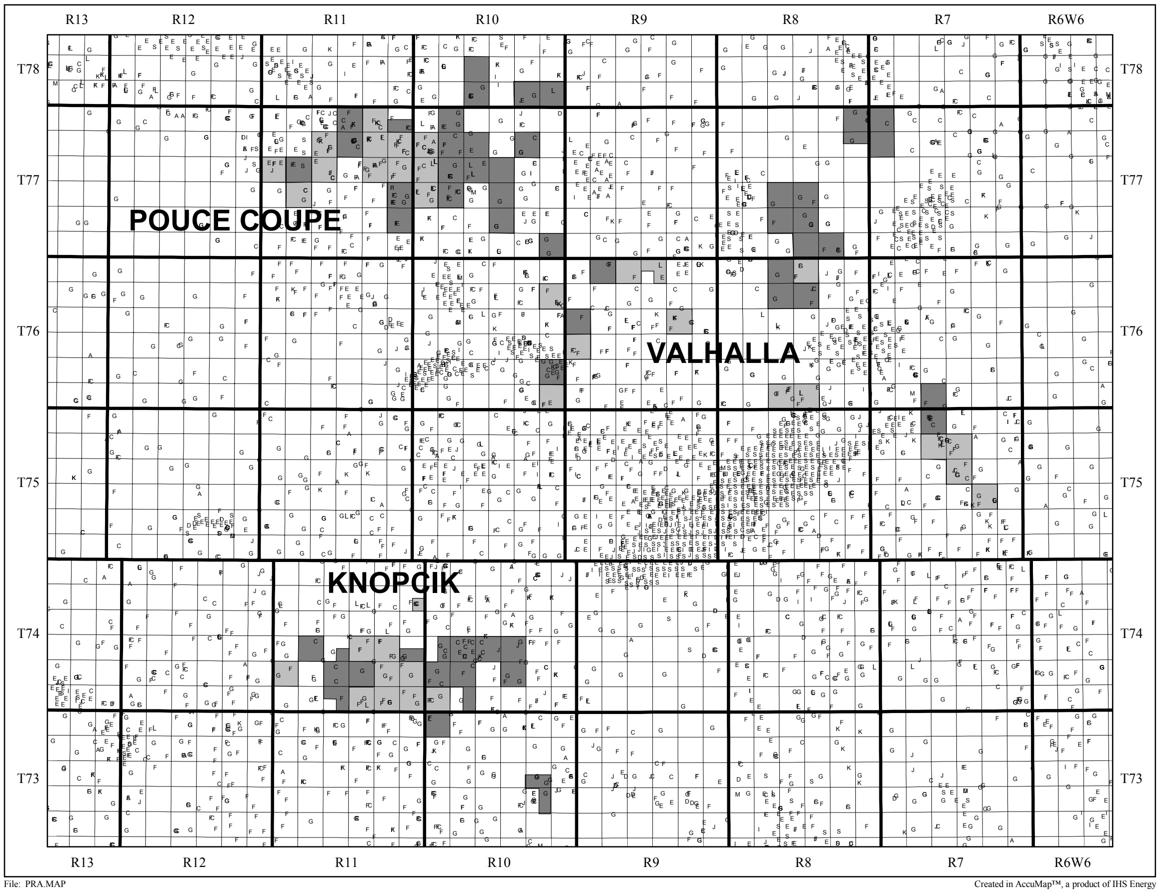
Provided PrimeWest is not in default under the Caroline Farmout Agreement, PrimeWest has the continuing right to drill Option Wells on the Caroline property until: (i) it has earned an interest in all of the lands designated in the Caroline Farmout Agreement; (ii) it has failed to elect to drill an additional Option Well within 30 days of rig release of the previous Option Well; or (iii) it has surrendered its right to drill for Option Wells.

PrimeWest is also granted an option, exercisable within 180 days of rig release of the last Option Well drilled to contract depth, to purchase that portion of the Caroline property which has been assigned proved reserves or probable additional reserves by a third-party engineer in accordance with National Policy 2B for a purchase price equal to the fair market value thereof less $1,000,000. The fair market value is deemed by the Caroline Farmout Agreement to be the present value of the estimated future net cash flows from such properties, before tax, from proven reserves and 50% of probable additional reserves, at a discount rate of 10% per annum, employing an escalating price forecast. In the event the fair market value is determined to be less than or equal to $1,000,000, PrimeWest may purchase the portion of the Caroline property with assigned proved or probable additional reserves for $1.

The Caroline Farmout Agreement also establishes an area of mutual interest around the Caroline property. Prior to the earlier of the rig release of the last Option Well drilled to contract depth and the termination of PrimeWest's right to earn any further interests in the Caroline property, PrimeWest and Grey Wolf have the right to participate in the acquisition by the other party of additional properties in the area of mutual interest on a 60% and 40% proportionate basis, respectively.

During 2004, Grey Wolf participated in the drilling and completion of one joint-interest well and participated in the tie-in of six additional wells drilled under the Caroline Farmout Agreement. In accordance with the Caroline Farmout Agreement, Grey Wolf was carried by PrimeWest for the drilling and completion costs for its proportionate working interest in eight of these wells. Grey Wolf had a success rate of 100% on the gross wells it drilled in this area in 2004. Although there can be no assurances, Grey Wolf anticipates that PrimeWest will drill and complete seven wells and recomplete two additional wells in 2005.

Peace River Arch Properties



Grey Wolf Working Interest Lands   Grey Wolf Royalty Interest Lands

Knopcik Property

The Knopcik property is located approximately 260 miles northwest of Edmonton, Alberta. The terrain consists of flat farmland, forested rolling hills and lowland muskeg. Access for activity is generally limited to the nine months of the year outside of spring break-up (April through June). The primary target zone in this area is the Triassic Charlie Lake Formation.

The Knopcik property consists of 3,680 gross (2,640 net) acres of developed land and 5,920 gross (4,147 net) acres of undeveloped land. Grey Wolf operates and has a 100% working interest in nine wells and a 25% working interest in one non-operated well in the Knopcik area. Three of these wells are producing, two are service wells and five are non-producing. One of the five non-producing wells awaits tie-in and another is shut-in.

Production from this property for the nine months ended September 30, 2004 averaged 150 Boe/d, representing an approximate production increase of 127% from the average production of 66 Boe/d for the 67 day period ending March 31, 2003. In December 2004, estimated average daily production from this property was 276 Boe/d.

Oil is trucked from a Grey Wolf owned battery to the nearby CCS Income Trust terminal and solution gas is processed at the EnCana Hythe gas plant. During the third quarter of 2004, solution gas processing at the plant was restricted, limiting total production from the area to 157 Boe/d. As a result of this restriction, Grey Wolf has completed construction of an interconnect to the ConocoPhillips Wembley gas plant and has entered into a solution gas processing agreement with ConocoPhillips.

The three producing oil wells are currently allowable restricted until a waterflood application is approved by the AEUB. Grey Wolf has obtained a water source permit from Alberta Environment and has submitted the waterflood application to the AEUB. Although there are no assurances, Grey Wolf expects to receive approval for the waterflood in the first quarter of 2005. It is anticipated that the waterflood will be commenced promptly after approval is received. Based on the assumption of an adequate waterflood response, the D&M report has forecast that incremental daily production from probable reserves will increase by 156 Boe/d when waterflood response is achieved.

During 2004, Grey Wolf drilled and completed three wells, recompleted three wells, drilled and completed one water injector, recompleted one well for water source and implemented certain facilities enhancements. Grey Wolf enjoyed a success rate of 100% on the gross wells it drilled in this area in 2004. In 2005, Grey Wolf plans to drill one well and to initiate the waterflood.

Pouce Coupe Property

The Pouce Coupe property is located approximately 280 miles northwest of Edmonton, Alberta. The terrain is comprised of some flat farmland but is predominantly forested rolling hills with lowland muskeg and some flat farmland. Access for activity is generally limited to the nine months of the year outside of spring break-up (April through June). The primary target zones in this area are the Triassic Halfway, Doig and Montney formations.

The Pouce Coupe property consists of 2,560 gross (2,060 net) acres of developed land and 12,960 gross (8,556 net) acres of undeveloped land. Grey Wolf operates and has an average 74% working interest in three producing wells and a 100% working interest in two non-producing wells in the Pouce Coupe area.

Production from this property for the nine months ended September 30, 2004 averaged 93 Boe/d. Since the date of the Acquisition, production on this property has declined from an average of 148 Boe/d in the 67 day period ending March 31, 2003 to 110 Boe/d in the third quarter of 2004. In December, 2004 estimated average daily production from this property was 127 Boe/d.

Production flows through a wholly-owned gathering system and separation facility and is transported to the PrimeWest Valhalla Progress gas plant for processing. Grey Wolf also has the ability to transport the gas to the Anadarko Progress gas plant for processing. Processing agreements are in place to permit processing at either facility.

In 2005, Grey Wolf plans to drill and complete up to two incremental wells and two exploratory drilling wells on this property.

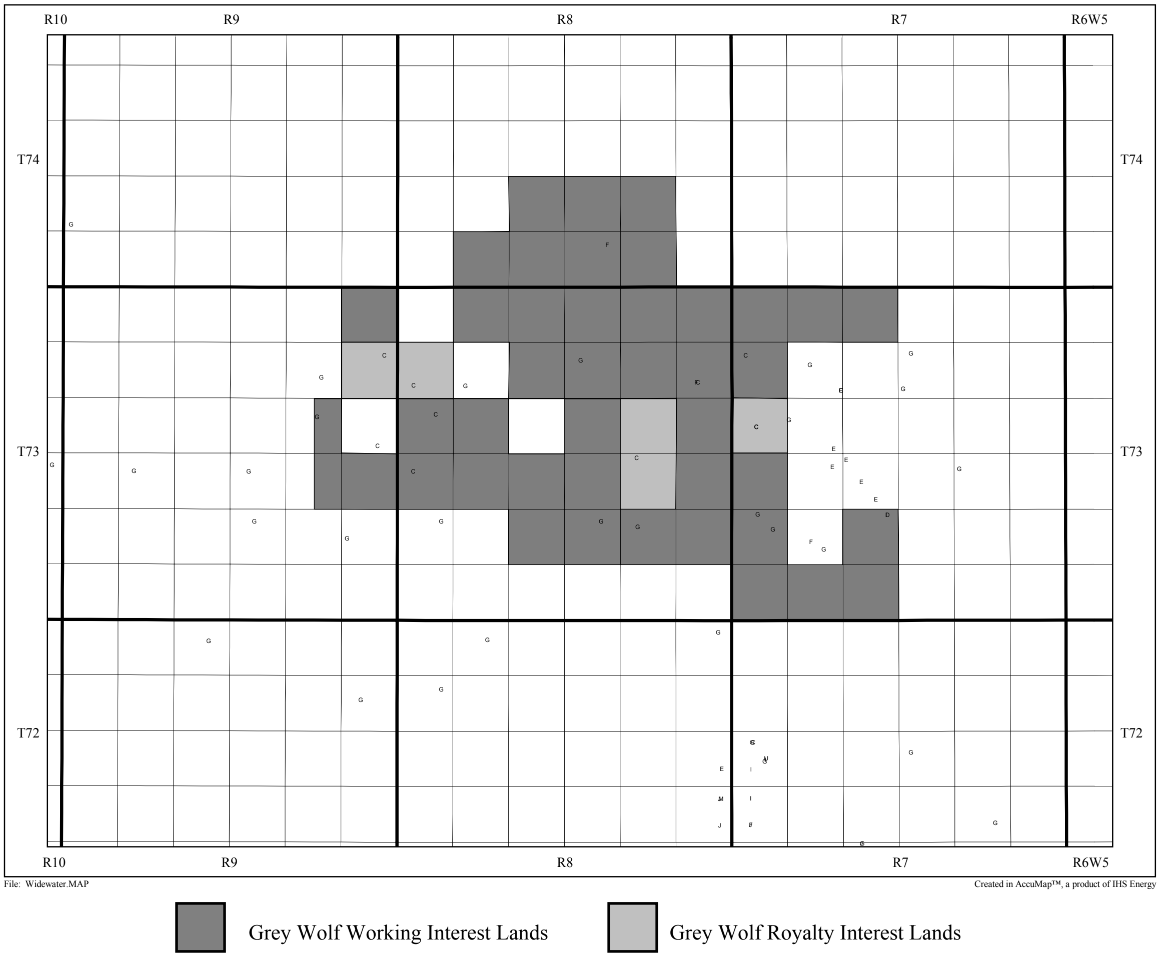
Valhalla Property

The Valhalla area is located approximately 280 miles northwest of Edmonton, Alberta, in the general vicinity of the Pouce Coupe property. The terrain is predominately forested hills with lowland muskeg and some flat farmland. Access for activity is generally limited to the nine months of the year outside of spring break-up (April through June). The primary target zones in this area are the Triassic Halfway, Doig and Montney formations and the deeper Kiskatinaw.

The Valhalla property consists of 320 gross (160 net) acres of developed land and 9,600 gross (6,080 net) acres of undeveloped land. Grey Wolf currently has no production and does not own or operate any facilities in the area. However, the Corporation’s lands are located near existing gathering and processing facilities. The Corporation has also entered into an agreement with PrimeWest which will allow it, subject to plant capacity, to process production from this property for a pre-determined fee at the PrimeWest Valhalla plant.

In 2005, Grey Wolf plans to drill and complete two exploratory wells on this property.

Widewater Property



The Widewater area is located approximately 150 miles north of Edmonton, Alberta, directly adjacent to the southeastern shores of Lesser Slave Lake. The terrain is predominantly forested rolling hills with lowland muskeg and some flat farmland. Access for activity is generally limited to the nine months of the year outside of spring break-up (April through June). The primary target zones are the Keg River, Gilwood and Gething formations.

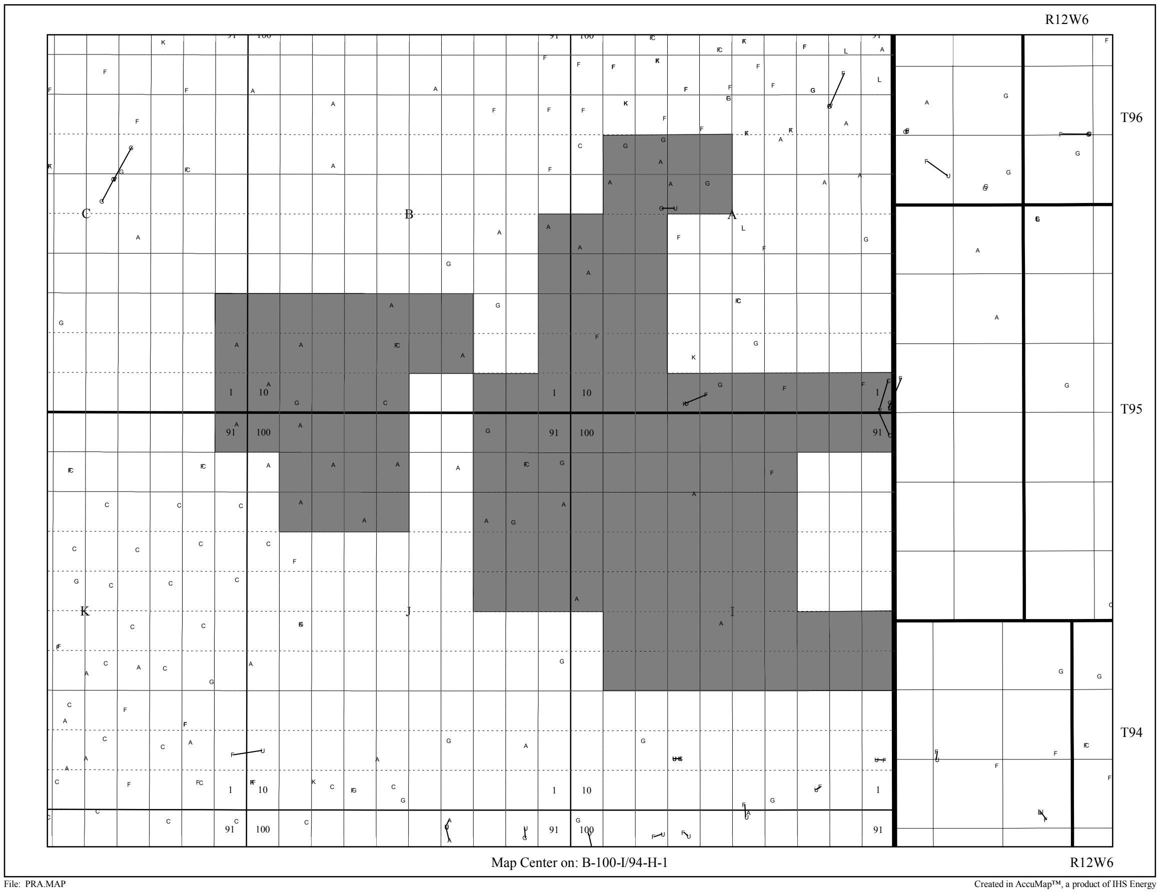
The Widewater property consists of 3,360 gross (2,688 net) acres of developed land and 23,396 gross (17,610 net) acres of undeveloped land. Grey Wolf operates and has a 100% working interest in one producing well and an average 88.5% working interest in four non-producing wells in the Widewater area.

Production from this property for the nine months ended September 30, 2004, averaged 514 Boe/d. Since the date of the Acquisition, production on this property has increased from 0 Boe/d to 364 Boe/d in the third quarter of 2004. In December 2004, estimated average daily production from this property was 327 Boe/d. The Corporation has recently installed additional compression on this property and anticipates that this will allow a second well in which Grey Wolf has a 100% working interest to be brought on production in the first quarter of 2005.

Grey Wolf's production flows through a wholly-owned and operated natural gas gathering system to the ATCO Midstream owned and operated Widewater gas plant where it is processed. Currently, Grey Wolf inlet volumes are rate restricted by plant capacity to 3.0 MMcf/d. However, as outside operated wells decline, the potential exists for Grey Wolf to be assigned additional capacity.

In 2005, Grey Wolf plans to drill one incremental offset well on this property and to complete certain facilities enhancements.

Ladyfern Property



Grey Wolf Working Interest Lands   Grey Wolf Royalty Interest Lands

The Ladyfern area is located approximately 75 miles northeast of Fort St. John, British Columbia. The terrain is predominately covered by muskeg. Access for activity is generally limited to the three winter months (January through March). The primary target zone in this area is the Devonian-aged carbonates within the Slave Point formation.

The Ladyfern property consists of 4,637 gross (801 net) acres of developed land and 23,468 gross (6,880 net) acres of undeveloped land. Grey Wolf holds a 17% working interest in six non-operated producing wells and two non-operated non-producing wells in the Ladyfern area.

Production from this property for the nine months ended September 30, 2004 averaged 205 Boe/d. Since the date of the Acquisition, production on this property has increased from 142 Boe/d in the 67 day period ending March 31, 2003 to 213 Boe/d in the third quarter of 2004, representing an increase of approximately 50%. In December 2004, estimated average daily production from this property was 199 Boe/d.

Production flows through a Devon operated gathering system and dehydration facility in which Grey Wolf owns a 17% interest and is delivered to the NOVA system via a Canadian Natural Resources Limited operated gas transmission line in which Grey Wolf owns a 2.8% working interest.

During 2004, Grey Wolf participated in the drilling, completion and tie-in of two horizontal wells and in two workovers of existing wells. Grey Wolf enjoyed a success rate of 100% on the gross wells it drilled in this area in 2004. There are currently no plans for further development of the Ladyfern property.

Other Principal Properties

Grey Wolf owns a working interest in one other producing property as well as over-riding royalty interests in approximately 140 properties that in the aggregate account for approximately 10% of Grey Wolf's production.

Disclosure of Reserves Data

Reserves

The following tables set forth certain information relating to the oil, natural gas and NGL reserves of Grey Wolf and the net present value of future net revenue associated with such reserves as at September 30, 2004. The information set forth below is derived from the D&M Report, which has been prepared by D&M in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101 and the COGE Handbook. **All evaluations of future net revenue are stated prior to provision for indirect costs and after deduction of royalties and estimated future operating costs, capital expenditures and well abandonment and lease reclamation costs. It should not be assumed that the present values of estimated future net revenue shown below is representative of the fair market value of the oil, natural gas and NGL reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of oil, natural gas and NGL reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual oil, natural gas and NGL reserves may be greater than or less than the estimates provided herein.**

The Report on Reserves Data by D&M in Form 51-101F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 are attached as Appendices D and E hereto, respectively.

SUMMARY OF OIL AND NATURAL GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of September 30, 2004
CONSTANT PRICES AND COSTS

	RESERVES					
	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
Reserves Category	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved						
Developed Producing	336	299	8,969	8,128	215	189
Developed Non-Producing	14	13	5,639	3,999	108	67
Undeveloped	0	0	736	544	28	19
Total Proved	350	312	15,344	12,671	351	275
Probable	405	334	10,156	7,543	201	130
Total Proved Plus Probable	755	646	25,500	20,214	552	405

	NET PRESENT VALUES OF FUTURE NET REVENUE									
	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
Reserves Category	0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)	0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)
Proved										
Developed Producing	66	53	43	38	33	61	48	40	35	31
Developed Non-Producing	23	17	14	11	9	16	12	9	7	6
Undeveloped	4	3	3	2	2	3	2	2	1	1
Total Proved	93	73	60	51	44	80	62	51	43	38
Probable	55	35	25	18	14	37	24	16	12	8
Total Proved Plus Probable	148	108	85	69	58	117	86	67	55	46

TOTAL FUTURE NET REVENUE (Undiscounted)
as of September 30, 2004
CONSTANT PRICES AND COSTS

Reserves Category	Revenue (M$)	Royalties (M$)	Operating Costs (M$)	Other Income (M$)	Development Costs (M$)	Well Abandonment Costs (M$)	Future Net Revenue Before Income Taxes M$)	Income Taxes (M$)	Future Net Revenue After Income Taxes (M$)
Proved	145,475	33,358	19,776	4,049	3,455	432	92,503	12,776	79,727
Proved Plus Probable	246,011	57,397	34,765	6,500	11,760	614	147,975	30,861	117,114

FUTURE NET REVENUE
BY PRODUCTION GROUP
as of September 30, 2004
CONSTANT PRICES AND COSTS

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year) (M$)
Proved	Light and Medium Crude Oil (including solution gas and other by-products)	11,656
	Natural Gas (including by-products but excluding solution gas from oil wells)	48,256
Proved Plus Probable	Light and Medium Crude Oil (including solution gas and other by-products)	20,601
	Natural Gas (including by-products but excluding solution gas from oil wells)	64,337

SUMMARY OF OIL AND NATURAL GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of September 30, 2004
FORECAST PRICES AND COSTS

	RESERVES					
	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
Reserves Category	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved						
Developed Producing	336	300	8,902	8,066	214	189
Developed Non-Producing	14	13	5,641	3,999	108	68
Undeveloped	0	0	736	544	28	19
Total Proved	350	313	15,279	12,609	350	276
Probable	405	339	10,155	7,542	201	131
Total Proved Plus Probable	755	652	25,434	20,151	551	407

Reserves Category	Before Income Taxes Discounted at (%/year) 0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)	After Income Taxes Discounted at (%/year) 0 (MM$)	5 (MM$)	10 (MM$)	15 (MM$)	20 (MM$)
Proved										
Developed Producing	66	51	42	37	33	61	47	39	34	30
Developed Non-Producing	24	17	14	11	9	17	12	9	7	6
Undeveloped	4	3	3	2	2	3	2	2	1	1
Total Proved	94	71	59	50	44	81	61	50	42	37
Probable	58	34	22	17	12	39	23	15	11	8
Total Proved Plus Probable	152	105	81	67	56	120	84	65	53	45

NET PRESENT VALUES OF FUTURE NET REVENUE

TOTAL FUTURE NET REVENUE (Undiscounted)
as of September 30, 2004
FORECAST PRICES AND COSTS

Reserves Category	Revenue (M$)	Royalties (M$)	Operating Costs (M$)	Other Income (M$)	Development Costs (M$)	Well Abandonment COSTS (M$)	Future Net Revenue Before Income Taxes M$)	Income Taxes (M$)	Future Net Revenue After Income Taxes (M$)
Proved	150,234	33,691	22,609	3,938	3,518	560	93,794	13,166	80,628
Proved Plus Probable	258,372	58,474	41,532	6,456	12,060	850	151,912	32,169	119,743

FUTURE NET REVENUE
BY PRODUCTION GROUP
as of September 30, 2004
FORECAST PRICES AND COSTS

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year) (M$)
Proved	Light and Medium Crude Oil (including solution gas and other by-products)	9,661
	Natural Gas (including by-products but excluding solution gas from oil wells)	48,870
Proved Plus Probable	Light and Medium Crude Oil (including solution gas and other by-products)	16,766
	Natural Gas (including by-products but excluding solution gas from oil wells)	64,649

Notes:

(1) Columns may not add due to rounding.

(2) "Developed Non-Producing Reserves" are those Reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"Developed Producing Reserves" are those Reserves that are expected to be recovered from completion intervals open at the time of the estimate. These Reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"Developed Reserves" are those Reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the Reserves on production. The developed category may be subdivided into producing and non-producing.

"Gross" means Grey Wolf's total working interest share before deduction of royalties and without including any royalty interests of Grey Wolf.

"Net" means Grey Wolf's total working interest share after the deduction of royalty obligations plus Grey Wolf's royalty interests in reserves.

"Probable Reserves" are those additional Reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable Reserves. At least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable Reserves is the targeted level of certainty.

"Proved Reserves" are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves. At least a 90% probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves is the targeted level of certainty.

"Reserves" are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.

"Royalties" refers to royalties paid to others. The royalties deducted from the reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula. In the case of Crown royalties each product's royalty rate is determined by the applicable formula utilizing prevailing published government prices and deductions. For the Constant Price Case, Crown royalty volumes were estimated on the basis of formulas and published prices provided by the provincial Crown. For the Forecast Price Case, Crown published prices were adjusted by the ratio of the Constant price to the Forecast price.

"Undeveloped Reserves" are those Reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the Reserves classification (proved, probable, possible) to which they are assigned.

(3) The Forecast Cost and Price assumptions assume the continuance of current laws and regulations and increases in wellhead selling prices, and take into account inflation with respect to future operating and capital costs. In the D&M Report operating costs are assumed to escalate at 2% per annum beginning in January, 2005. Oil and natural gas Forecast Case prices as provided by D&M effective October 1, 2004 are as follows:

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
as of October 1, 2004
FORECAST PRICES AND COSTS

	Oil Price		**Natural Gas Price**	**Natural Gas Liquid Prices**				
Year	WTI Cushing $US/Bbl	Edmonton Posting D2S2 $Cdn/Bbl	Alberta Plantgate Spot $Cdn/Mcf[(a)]	Edmonton Propane $Cdn/Bbl	Edmonton Butane $Cdn/Bbl	Edmonton Pentanes+ $Cdn/Bbl	Inflation % year	Exchange Rate $US/Cdn
3 Mo. 2004	43.00	55.56	6.50	37.23	41.67	56.12	0.0	0.76
2005	40.80	53.37	7.07	35.22	38.96	53.90	2.0	0.75
2006	36.41	47.50	6.67	30.40	33.25	48.45	2.0	0.75
2007	31.84	41.38	6.36	26.48	28.96	42.20	2.0	0.75
2008	32.47	42.20	5.89	27.01	29.54	43.05	2.0	0.75
2009	33.12	43.05	5.59	27.55	30.13	43.91	2.0	0.75
2010	33.78	43.91	5.78	28.10	30.74	44.79	2.0	0.75
2011	34.46	44.79	5.76	28.66	31.35	45.68	2.0	0.75
2012	35.15	45.68	5.73	29.24	31.98	46.60	2.0	0.75
2013	35.85	46.60	6.02	29.82	32.62	47.53	2.0	0.75
2014	36.57	47.53	6.31	30.42	33.27	48.48	2.0	0.75
2015	37.30	48.48	6.59	31.03	33.94	49.45	2.0	0.75

Thereafter escalate oil, natural gas and product prices at +2.0%/year

Note:

(a) Alberta Plant Gate Spot price assumes a heating value of 1,000 Btu/Mcf and is prior to transportation deductions.

(4) The Constant Price assumptions assume the continuance of current laws, regulations and operating costs in effect on the date of the D&M Report. Product prices were not escalated beyond October 1, 2004. In addition, operating and capital costs have not been increased on an inflationary basis. The prices used for oil and natural gas contracts were as follows (adjusted for quality and transportation):

SUMMARY OF PRICING ASSUMPTIONS
as of September 30, 2004
CONSTANT PRICES AND COSTS

	Oil Price		Natural Gas Price	Natural Gas Liquid Prices			
Year	WTI Cushing $US/Bbl	Edmonton Posting D2S2 $Cdn/Bbl	AECO Spot $Cdn/MMBtu	Edmonton Propane $Cdn/Bbl	Edmonton Butane $Cdn/Bbl	Edmonton Pentanes+ $Cdn/Bbl	Exchange Rate $US/Cdn
September 30, 2004	45.94	57.62	6.09	38.71	43.15	57.88	0.7912

(5) Effective on January 1, 1995, the ARTC rate ranges from a maximum of 75% of $2,000,000 when the royalty tax credit reference is below $100/m3 to a minimum of 25% of $2,000,000 when the royalty tax credit reference is above $210/m3.

(6) The D&M Report utilizes the future capital expenditures as provided by Grey Wolf necessary to achieve the estimated present worth of future net cash flows based on escalating costs from Proved and Probable Reserves to be an aggregate of $12,060,079 of which $2,005,000 is to be expended in 2004, $5,327,460 is to be expended in 2005, $4,088,772 is to be expended in 2006, $638,847 is to be expended in 2007 and nil thereafter (or based on constant costs: an aggregate of $11,760,000, of which $2,005,000 to be expended in 2004, $5,223,000 is to be expended in 2005, $3,930,000 is to be expended in 2006, $602,000 is to be expended in 2007 and nil thereafter).

(7) The extent and character of all factual data supplied to D&M were accepted by D&M as represented. The oil and natural gas reserve calculations and any projections upon which the D&M Report is based were determined in accordance with generally accepted evaluation practices. No field inspection was conducted. Well abandonment and lease reclamation costs, net of salvage values for facilities, have been included in the D&M Report.

Reconciliation of Reserves

The Acquisition was the initial property acquisition by Grey Wolf. Prior to the Acquisition, Grey Wolf did not hold any interests in oil or natural gas properties. The D&M Report is the initial independent engineering report commissioned by Grey Wolf in respect of the Grey Wolf Property prepared in accordance with NI 51-101 or its predecessor, National Policy 2B. See "Grey Wolf Exploration Inc. - Development of the Business". Consequently, it is not possible to provide reconciliations of changes in reserves and future net revenue from estimates for the preceding financial year because no reserves were attributable to Grey Wolf during that year. Each of the proved and probable reserves classifications include an undeveloped category.

Additional Information Relating to Reserves Data

Undeveloped Reserves

Based on the Forecast Prices and Costs evaluation carried out by D&M and reflected in the D&M Report, Grey Wolf attributed 0.7 Bcf of natural gas and 28 Mbbl of NGL to working interest proved undeveloped reserves and 405 Mbbl of oil, 7.4 Bcf of natural gas and 123 Mbbl of NGL to working interest probable undeveloped reserves as of September 30, 2004. Undeveloped reserves are reserves that are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

Grey Wolf is currently in the process of finalizing its plans with regard to developing its proved undeveloped and probable undeveloped reserves. Grey Wolf currently anticipates developing these reserves by drilling approximately nine wells on the Grey Wolf Property, completing certain facilities, enhancements, and implementing a waterflood at its Knopcik property.

Significant Factors or Uncertainties

The Corporation does not anticipate that any significant economic factors or significant uncertainties will affect any particular components of the reserves data. However, the reserves can be affected significantly by fluctuations in product pricing, capital expenditures, access to facilities for processing and transportation, operating costs, royalty regimes and well performance that are beyond the Corporation's control. See "Risk Factors".

Future Development Costs

The following table describes Grey Wolf's forecast for future development costs. The costs are presented by reserve category and quoted without discount and with a discount rate of 10%.

	2004 (M$)		2005 (M$)		2006 (M$)		2007 (M$)		2008 (M$)	
Reserve Category	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**
Proved										
Constant Price and Cost Case	285	280	3,170	2,931	0	0	0	0	0	0
Forecast Price and Cost Case	285	280	3,233	2,989	0	0	0	0	0	0
Proved plus Probable										
Constant Price and Cost Case	2,005	1,972	5,223	4,829	3,930	3,289	602	456	0	0
Forecast Price and Cost Case	2,005	1,972	5,327	4,926	4,089	3,422	639	484	0	0

Future development costs will be funded by cash flow generated from production and funds anticipated to be available from bank credit lines. See "Capitalization" and "Management's Discussion and Analysis".

Other Oil and Natural Gas Information

Landholdings

Grey Wolf's developed and undeveloped landholdings as at December 31, 2004 are set forth in the following table. Approximately 28,318 gross (13,240 net) acres of undeveloped land is considered non-prospective and may be permitted to expire in 2005.

	Undeveloped		**Developed**		**Total**[2]	
	Gross[1]	Net[1]	Gross[1]	Net[1]	Gross[1]	Net[1]
Alberta	96,436	63,721	25,946	14,724	122,382	78,445
British Columbia	24,113	7,525	4,637	801	28,750	8,326
Total	120,549	71,246	30,583	15,525	151,132	86,771

Notes:
(1) "Gross" means the total number of acres in which Grey Wolf has a working interest. "Net" means the aggregate of the percentage working interests of Grey Wolf in the gross acres.
(2) As of December 31, 2004**,** approximately 12,640 gross (10,843 net) undeveloped acres were subject to the Caroline Farmout Agreement. Under this agreement, PrimeWest is entitled to earn up to a 60% interest in these lands in certain circumstances. See "Grey Wolf Exploration Inc. – Principal Properties – Caroline Property".

Landholdings Valuation

The following table summarizes as of September 1, 2004 the fair value of Grey Wolf's non-reserve oil and gas properties as assessed by the Seaton-Jordan Report.

	Hectares		
	Gross	**Net**	**Value ($)**
Alberta	60,142	27, 270	10,697,369
British Columbia	8,964	2,073	997,605
	69,106	29,343	11,694,974

Oil and Natural Gas Wells

The following table sets forth the number and status of wells in which the Corporation had a working interest as at December 31, 2004:

	Oil Wells				**Natural Gas Wells**			
	Producing		**Non-Producing**		**Producing**		**Non-Producing**	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
Alberta	7	3.0	7	4.9	131	9.1	31	12.3
B.C.	0	0.0	0	0.0	6	1.0	2	0.3
Manitoba	11	0.0	5	0.0	0.0	0.0	0.0	0.0
Total	18	3.0	12	4.9	137	10.1	33	12.6

Notes:
(1) "Gross" refers to all wells in which Grey Wolf has either a working interest or a royalty interest, including 3 oil producing wells and 111 natural gas producing wells that are subject to the Royalty.
(2) "Net" refers to the aggregate of the percentage working interests of Grey Wolf in the gross wells, before the deduction of royalties.

Drilling Activity

Grey Wolf participated in the drilling and completion of 18 wells (7.9 net) in 2003 and 10 wells (5.0 net) in the nine months ended September 30, 2004. The following table summarizes the Corporation's drilling results for the periods indicated.

	Nine Months Ended September 30, 2004		**390 Day Period Ended December 31, 2003(1)**	
	Gross	**Net**	**Gross**	**Net**
Crude oil	1	1.0	2	2.0
Natural gas	7	2.0	8	2.8
Suspended	0	0.0	4	1.2
Shut-in	2	2.0	3	1.4
Dry & Abandoned	0	0.0	1	0.5
Total	10	5.0	18	7.9

Note:
(1) Grey Wolf did not conduct operations or drill any wells in the year ended December 31, 2002.

Production History

The following tables set forth Grey Wolf's daily sales volumes, netbacks and capital expenditures for the periods indicated.

	QUARTER ENDED						
	2004			2003			
	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31
Average Daily Production[1]							
Light and Medium Crude Oil (Bbls/d)	110	129	99	226	54	57	47
Gas (Mcf/d)	7,500	8,646	7,178	3,949	2,927	2,446	1,745
NGL (Bbls/d)	151	148	150	54	41	37	22
Combined (Boe/d)	1,511	1,718	1,445	938	583	501	360
Average Price Received							
Light and Medium Crude Oil ($Bbls)	54.76	48.72	45.24	38.10	40.30	39.40	49.51
Gas ($Mcf)	6.41	6.63	6.12	5.86	6.60	7.85	8.62
NGL ($Bbl)	48.06	44.32	40.63	37.07	35.09	35.55	44.26
Combined ($/Boe)	40.68	40.82	37.75	35.99	39.40	45.38	51.00
Royalties (net of ARTC)							
Light and Medium Crude Oil ($/Bbl)	9.24	7.82	6.10	6.61	5.00	7.18	10.92
Gas ($/Mcf)	1.04	1.21	1.13	1.19	1.12	1.18	1.75
NGL ($/Bbl)	5.37	5.80	7.52	9.40	2.79	6.96	1.88
Combined ($/Boe)	6.35	7.15	6.83	7.12	6.27	7.06	10.04
Operating expenses[2]							
Combined ($/Boe)	5.04	8.59	10.83	7.47	4.87	3.19	2.91
Transportation	1.00	1.08	0.91	0.43	0.85	1.46	2.09
Netback Received[3]							
Combined ($/Boe)	28.29	24.00	19.18	20.97	27.41	33.67	35.96
Capital Expenditures ($000s)							
Land and seismic	367	770	228	169	774	1,352	256
Drilling and completion	1,952	1,045	1,657	780	3,338	1,689	3,238
Facilities and equipment	1,034	231	806	1,222	335	387	197
Property acquisitions	0	0	0	(10)	(891)	(44)	0
Corporate acquisitions	0	0	0	0	0	0	0
Other	0	0	0	(80)	8	72	0
Total	3,353	2,046	2,691	2,081	3,564	3,456	3,691

Notes:

(1) Production values for the quarter ending March 31, 2003 are diluted because Grey Wolf only recorded production for the 67 day period following the Acquisition. Actual average production for that 67 day period was 483 Boe/d.

(2) Production expenses include expenses related to well workovers, fuel and power costs related to operation of wells, operator wages and salaries and other miscellaneous production costs.

(3) The quarterly information set forth above has not been audited or reviewed by the Corporation's auditors.

The following table summarizes Grey Wolf's estimated average daily production, before deduction of royalties, during the periods indicated. Grey Wolf's estimated average daily production for the month ending December 31, 2004, was 1,658 Boe/d.

	Month Ended December 31, 2004[(1)]	**Year Ended December 31, 2004[(1)]**	**390 Day Period Ended December 31, 2003[(2)(3)]**
Crude Oil (Bbls/d)	184	121	90
Natural Gas (Mcf/d)	7,712	7,664	2,595
Natural Gas Liquids (Bbls/d)	189	153	36
Oil equivalent (Boe/d)	1,658	1,551	559

Notes:
(1) Estimated production.
(2) Grey Wolf did not have any production during the year ended December 31, 2002.
(3) Production values are diluted because Grey Wolf only recorded production for the 342 day period following the Acquisition. Actual average production for that 342 day period was 637 Boe/d.

Future Commitments

Grey Wolf has entered into a floor transaction expiring on June 30, 2005 whereby Grey Wolf will sell 3,000 GJ/d of natural gas on a firm basis for a minimum price of $5.79/GJ. This amount represents approximately 30% of Grey Wolf's estimated average daily production for the month ending December 31, 2004 of 1,658 Boe/d.

Properties with No Attributed Reserves

Approximately 120,549 gross (71,246 net) acres or 80% of the Corporation's gross landholdings are considered undeveloped. Of these lands, Grey Wolf has an interest in 116,229 gross (68,040 net) acres to which no reserves have been attributed.

Abandonment & Reclamation Costs

Abandonment and reclamation costs have been included in the D&M Report. Grey Wolf carries a provision for future site restoration in its financial statements that is inclusive of the abandonment and reclamation costs utilized in the D&M Report. The D&M Report does not include certain abandonment and reclamation costs assumed in connection with the acquisition of the Grey Wolf Properties

The undiscounted abandonment liability, net of estimated salvage value, in respect of Grey Wolf's total proved reserves for 33 gross (14.6 net) wells, as included in the D&M Report, is $431,744 ($157,990 at a 10% discount rate) for the Constant Price Case. The expected undiscounted cost over the next three years is $74,994.

Costs Incurred

The following table outlines the costs incurred by Grey Wolf during the financial year ended December 31, 2003 and for the nine months ended September 30, 2004 in respect of acquisitions, dispositions and capital expenditures.

	Nine Months Ended September 30, 2004 ($000)	**390 Day Period Ended December 31, 2003 ($000)**
NATURE OF COST INCURRED		
Property Acquisition (Divestiture) Costs	-	-
Proved Properties	-	-
Unproved Properties	-	(945)
Exploration	1,627	5,670
Development	6,463	8,067
Total	8,090	12,792

Production Estimates

The following table sets out the volume of Grey Wolf's working interest production, before royalties, estimated for the year ending December 31, 2005 which is reflected in the estimate of future net revenue disclosed in the tables contained under "Grey Wolf Exploration Inc. – Disclosure of Reserves Data – Reserves".

	Light and Medium Oil (Bbls/d)	Natural Gas (Mcf/d)	Natural Gas Liquids(Bbls/d)	Barrels of Oil Equivalent (Boe/d)
2005 Proved Reserves	228	7,507	157	1,636
2005 Proved plus Probable Reserves	342	8,698	196	1,988

The following tables set out the Corporation's average estimated production for 2005 by field:

Estimated Production by Field: 2005 Proved

	Light and Medium Oil (Bbls/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Barrels of Oil Equivalent (Boe/d)
Caroline	0	3,574	137	733
Germain	0	16	0	3
Knopcik	172	357	4	236
Ladyfern	1	670	0	113
Pouce Coupe	2	474	7	88
Widewater	52	2,416	9	463
Sub-total - WI Properties(1)	227	7,507	157	1,636
ORR Properties(2)	1	404	12	81
Total Proved	228	7,911	169	1,717

Notes:
(1) Estimated production from properties in which Grey Wolf has a working interest.
(2) Estimated production from properties in which Grey Wolf has an over-riding royalty.

Estimated Production by Field: 2005 Proved Plus Probable

	Light and Medium Oil (Bbls/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Barrels of Oil Equivalent (Boe/d)
Caroline	0	4,530	174	929
Germain	0	16	0	3
Knopcik	287	592	6	392
Ladyfern	1	670	0	113
Pouce Coupe	2	474	7	88
Widewater	52	2,416	9	463
Sub-tot WI Properties(1)	342	8,698	196	1,988
ORR Properties(2)	1	404	12	81
Total Proved and Probable	343	9,102	208	2,069

Notes:
(1) Estimated production from properties in which Grey Wolf has a working interest.
(2) Estimated production from properties in which Grey Wolf has an over-riding royalty.

Tax Horizon

Using price assumptions consistent with the D&M Report, the Corporation does not expect to pay cash income taxes for either 2004 or 2005, but may be subject to capital tax for such years.

SELECTED FINANCIAL INFORMATION

The following tables summarize selected financial information of Grey Wolf as at and for the periods indicated and should be read in conjunction with the comparative audited annual financial statements of the Corporation for the year ended December 31, 2003 and the notes to such financial statements attached as Appendix A hereto.

Annual and Interim Period Financial Data	**9 Months Ended September 30, 2004 ($000)(1)**	**390 Day Period Ended December 31, 2003 ($000)(1)**
Revenue, net of royalties	14,100.00	7,343.00
Operating expenses	3,467.00	1,145.00
Cash flow from operations	8,800.00	3,498.00
Per Equity Share (basic)	1,821.95	825.97
Per Equity Share (diluted)	1,821.95	825.97
Net Earnings/(Loss)	1,610.00	(135.00)
Per Equity Share (basic)	333.33	(31.88)
Per Equity Share (diluted)	333.33	(31.88)
Total assets	53,804.00	52,287.00
Working capital (deficiency) (before inter-company debt)(2)	(269.00)	(350.00)
Inter-Company debt(2)	9,045.00	9,420.00
Working capital (deficiency) (including inter-company debt)(2)	(9,314.00)	(9,770.00)
Shareholders' equity	41,111.00	39,501.00

Notes:
(1) Except per share amounts.
(2) The inter-company debt was reduced on October 28, 2004 with a portion of the proceeds of the Term Loan. As of December 31, 2004, the balance of the inter-company debt owed by Grey Wolf was approximately US$1 million and Grey Wolf's working capital deficiency, net of such debt, was approximately $3.1 million. The Corporation intends to use a portion of the net proceeds of the Treasury Offering to repay all outstanding inter-company debt and to eliminate its working capital deficit. See "Use of Proceeds".
(3) On October 28, 2004, the Term Loan in the amount of US$35 million was provided to Grey Wolf by an arm's length third party lender. Grey Wolf intends to use a portion of the net proceeds of the Treasury Offering to repay the Term Loan in its entirety. See "Capitalization" and "Use of Proceeds".

Quarterly Financial Data		**Net Earnings (Loss)**			**Cash flow from operations**		
	Revenue (Net of Royalties) ($000)	**($000)**	**Per Share (Basic) ($)**	**Per Share (Fully Diluted) ($)**	**($000)**	**Per Share (Basic) ($)**	**Per Share (Fully Diluted) ($)**
2003							
First Quarter	1,325	799	N/A	N/A	811	N/A	N/A
Second Quarter	1,748	228	N/A	N/A	1,130	N/A	N/A
Third Quarter	1,778	(1,117)	N/A	N/A	217	N/A	N/A
Fourth Quarter	2,492	(45)	N/A	N/A	1,340	N/A	N/A
2004							
First Quarter	4,065	384	N/A	N/A	2,116	N/A	N/A
Second Quarter	5,262	11	N/A	N/A	3,071	N/A	N/A
Third Quarter	4,773	1,215	N/A	N/A	3,613	N/A	N/A

Note:
(1) The quarterly information set forth above has not been audited or reviewed by the Company's auditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Nine Months Ending September 30, 2004 and 2003

Overview

In the following discussion, Grey Wolf's management reviews Grey Wolf's operating and financial results for the nine month period ended September 30, 2004, compared to the same period in 2003, including the Corporation's financial condition, liquidity and capital resources, capital expenditure program, reserves additions and forward-looking operating and financial estimates. This discussion should be read in conjunction with Grey Wolf's audited financial statements for the 390 day period ended December 31, 2003 and unaudited interim financial statements for the nine months ended September 30, 2004 and 2003 included in this prospectus. The quarterly information disclosed herein, including information for the three months ended September 30, 2004 and 2003, has not been audited or reviewed by the Corporation's auditors.

"Cash flow from operations", "Cash flow from operations per share – basic", and "Cash flow from operations per share – diluted" are not measures that have any standardized meaning prescribed by GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations.

Management utilizes "Cash flow" as a key measure to assess the ability of the Corporation to finance operating activities and capital activities. All references to cash flow from operations are based on cash flow before changes in non-cash working capital.

Summary of Financial and Operational Results

	Three months ended September 30		Nine months ended September 30	
	2004 ($000)	2003 ($000)	2004 ($000)	2003 ($000)
Oil and natural gas revenue	5,657	2,114	17,000	5,834
Cash flow from operations	3,613	217	8,800	2,158
Per share – basic	748.03	44.93	1,821.95	532.58
Per share – diluted	748.03	44.93	1,821.95	532.58
Net earnings (loss)	1,215	(1,117)	1,610	(94)
Per share – basic	251.55	(231.26)	333.33	(23.20)
Per share – diluted	251.55	(231.26)	333.33	(23.20)
Operating netback – $/Boe	28.24	27.34	23.91	31.68
Average daily sales – Boe/d	1,511	583	1,558	527
Capital expenditures	3,353	3,564	8,090	10,712
Total assets	53,804	52,815	53,804	52,815
Net debt including working capital	9,314	8,625	9,314	8,625

Detailed Review of Financial Results

Net Earnings and Cash Flow

	Three months ended September 30		Nine months ended September 30	
	2004 ($000)	2003 ($000)	2004 ($000)	2003 ($000)
Net earnings (loss)	1,215	(1,117)	1,610	(94)
Per share	251.55	(231.26)	333.33	(23.20)
Cash flow	3,613	217	8,800	2,158
Per share	748.03	44.93	1,821.95	532.58

Net earnings and cash flow for the three and nine month periods ended September 30, 2004 increased substantially as compared to the same period in 2003 due to 168% and 191% increase in production revenues respectively.

During the third quarter of 2003, Grey Wolf incurred a one-time settlement of $900,000 with an industry partner resulting in lower net earnings and cash flow.

Revenue

	Three months ended September 30		Nine months ended September 30	
Thousands except per barrel, Mcf & Boe	**2004**	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Oil and NGL	1,225	334	3,352	953
Per Bbl	50.89	38.06	46.65	40.57
Natural Gas	4,425	1,776	13,636	4,877
Per Mcf	6.41	6.60	6.40	7.52
Other Revenue	7	4	12	4
Total gross revenue	5,657	2,114	17,000	5,834
Per Boe	40.68	39.40	39.83	44.32

Sales Volumes

	Three months ended September 30		Nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Crude oil (Bbl/d)	110	54	113	58
Natural gas (Mcf/d)	7,500	2,927	7,773	2,596
NGL (Bbl/d)	151	41	149	36
BOE (Bbl/d)	1,511	583	1,558	527

Gross revenue for the three and nine month periods ended September 30, 2004 increased by 168% and 191% respectively. These increases were primarily due to higher production levels which were partially offset by lower commodity prices. For the nine months ended September 30, 2004, a 15% increase in the commodity price for oil was offset by a 14% decrease in the price of gas. This resulted in a drop in gross revenue per Boe of 9.6%. The increase in gross revenue during the three months ended September 30, 2004 was due to increases in commodity prices and production of 3% and 196% respectively.

Royalties (Net of ARTC)

	Three months ended September 30		Nine months ended September 30	
Thousands except per Bbl, Mcf & Boe	**2004**	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Oil and NGL	168	36	496	146
Per Bbl	7.00	4.05	6.90	6.21
Percentage of revenue	13.7%	10.8%	14.8%	15.3%
Natural gas	715	301	2,404	838
Per Mcf	1.04	1.12	1.13	1.29
Percentage of revenue	16.2%	16.9%	17.6%	17.2%
Total royalties	883	337	2,900	984
Per Boe	6.35	6.27	6.79	7.47
Percentage of revenue	15.6%	15.9%	17.1%	16.9%

Royalty expenses have increased during the three and nine monthly periods ending September 30, 2004 when compared to the same periods in 2003 due to increased gross revenues. Although the royalties have increased in absolute terms, the percentage of revenue and the cost per Boe remained relatively constant during the relevant periods.

Production Expense

	Three months ended September 30		Nine months ended September 30	
Thousands except per barrel, Mcf & Boe	**2004**	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Total production expense	701	261	3,467	501
Per Boe	5.04	4.87	8.12	3.80

Increased transportation and gathering fees were incurred in the Widewater area until gathering system payout occurred in June 2004.

Netbacks (per Boe)

	Three months ended September 30		Nine months ended September 30	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Revenue	40.68	39.40	39.83	44.32
Royalty	(6.35)	(6.27)	(6.79)	(7.47)
Production expense	(5.04)	(4.87)	(8.12)	(3.80)
Transportation	(1.00)	(0.85)	(1.00)	(1.37)
Netback	28.29	27.41	23.92	31.68

General and Administrative Expense

	Three months ended September 30		Nine months ended September 30	
Thousands except per barrel, Mcf & Boe	**2004**	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
General and administrative expense	355	349	1,409	1,081
Per Boe	2.55	6.50	3.30	8.21

General and administrative expenses remained relatively constant in absolute terms during the three months ended September 30, 2004, although the cost per Boe decreased compared to the same period in 2003 due to an increase in production. For the nine months ended September 30, general and administrative expenses increased in 2004 by 30% over the same period in 2003 due to the payment of the 2003 bonus in 2004 and to an increase in overhead attributable to increased activity and production. Despite these increases, the cost per Boe for the nine months ended September 30, 2004 decreased versus the same period in 2003 due to production gains.

Depletion, Depreciation and Accretion Expense

	Three months ended September 30		Nine months ended September 30	
Thousands except per barrel, Mcf & Boe	**2004**	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Depletion depreciation and accretion expense	1,982	928	5,798	2,011
Per Boe	14.25	17.29	13.58	15.28

Depletion and depreciation expense increased in nine months ended September 30, 2004 compared to the same period in 2003 primarily due to higher production volumes. However, the depletion and depreciation rate per Boe decreased over these periods due to an increase in reserve additions.

Summary of Quarterly Results

	2003			
Thousands except per barrel & Boe	**Q1**	**Q2**	**Q3**	**Q4**
Net oil and natural gas revenue	$1,325	$1,748	$1,778	$2,492
Operating cash flow	$811	$1,130	$217	$1,340
Net earnings (loss)	$799	$228	$(1,117)	$(45)
Per share – basic, diluted	222.19	47.20	(231.26)	(9.32)
Operating netback - $/Boe	$35.96	$33.67	$27.41	$20.97
Average sales – Boe/d	483	501	583	938
Capital expenditures	$3,691	$3,456	$3,564	$2,081

	2004		
Thousands except per barrel & Boe	**Q1**	**Q2**	**Q3**
Net oil and natural gas revenue	$4,065	$5,262	$4,773
Operating cash flow	$2,116	$3,071	$3,613
Net earnings (loss)	$384	$11	$1,215
Per share – basic, diluted	79.50	2.28	251.55
Operating netback-$/Boe	$19.18	$24.00	$28.29
Average sales – Boe/d	1,445	1,718	1,511
Capital expenditures	$2,691	$2,046	$3,353

Liquidity and Capital Resources

In addition to cash flow, the Corporation funded its capital program during the first nine months of 2004 through an inter-company loan arrangement with Abraxas. Currently, Abraxas does not charge Grey Wolf any interest on this inter-company loan. The balance as at September 30, 2004 was $9,045,000 compared to September 30, 2003, when the balance was $7,610,000. After the closing of the Offering, it is anticipated that the Term Loan and the inter-company debt (which is approximately US$1,000,000 as of December 31, 2004) will be repaid in their entirety and that the balance of the net proceeds of the Treasury Offering will be used to eliminate the Corporation's working capital deficit. It is also anticipated that a credit facility in the amount of $10 million may be provided to the Corporation by a Canadian chartered bank upon the execution of a binding agreement, completion of the Offering and repayment of the Term Loan in its entirety.

As at September 30, 2004, the Corporation had $54.7 million of tax pools available to shelter future income. The Corporation does not anticipate that it will be cash taxable in either 2004 or 2005 but may be subject to capital tax in those years.

Related Party Transaction

Pursuant to a corporate services agreement, Grey Wolf paid US$75,000 in the first nine months of 2004 to Abraxas for the provision of personnel and business services.

Capital Expenditures

	Three months ended September 30		**Nine months ended September 30**	
	2004 ($000)	**2003 ($000)**	**2004 ($000)**	**2003 ($000)**
Land and seismic	367	774	1,365	2,382
Drilling and completion	1,952	3,338	4,654	8,346
Facilities and equipment	1,034	335	2,071	919
Property acquisition (divestiture)	-	(891)	-	(935)
Other	-	8	-	-
Total	3,353	3,564	8,090	10,712

Contractual Obligations and Contingencies

Grey Wolf has ongoing commitments related to an office lease and to compressor leases.

	Expected payment date				
Contractual obligations	**2005 ($000)**	**2006 ($000)**	**2007 ($000)**	**2008 ($000)**	**Total ($000)**
Office Lease[(1)]	$207	$207	$207	$207	$828
Compressor Leases	$341	$180	-	-	$521
Total	$548	$387	$207	$207	$1,349

(1) Including estimated operating costs.

Off-Balance Sheet Arrangements

As of September 30, 2004, Grey Wolf does not have any off-balance sheet arrangements.

Accounting Policies

Grey Wolf's accounting policies are stated in note 2 to the audited financial statements of Grey Wolf for 390 day period ending December 31, 2003 included in this prospectus.

Impact of New Accounting Pronouncements

In November 2002, the CICA amended its accounting guidelines on hedging relationships. The guideline specifies certain criteria that must be met for an item to be accounted for as a hedge. The criteria included ensuring the hedge meets the risk management objective and strategy. The instrument must also be designated as a hedge and the hedge must be effective. The guideline is effective for years beginning on or after July 1, 2003. There will potentially be more volatility in earnings as a result of the adoption of this guideline. Grey Wolf did not have a hedging program outstanding at September 30, 2004.

In December 2002, the CICA approved a standard on accounting for asset retirement obligations effective for fiscal years beginning on or after January 1, 2004. The standard requires the recognition of a liability for obligations associated with the retirement of property, plant and equipment when the liability is incurred. The liability would be recognized initially at fair value (the obligation is discounted using the credit-adjusted risk free interest rate) and the resulting amount would be capitalized as part of the asset. In subsequent periods, the Corporation would recognize "interest" on the liability and adjust the carrying amount of the asset and the liability for changes in estimates of the amount or timing of cash flow. Under existing standards the liability for future site restoration and abandonment costs is recognized using a cost-accumulation measurement over the estimated useful life of the assets accrued over the life of the asset and the obligation is not discounted. Grey Wolf adopted this guideline in January 2003.

In 2003, the CICA approved a standard on stock-based compensation effective for fiscal years beginning on or after January 1, 2004. The standard requires all employee stock options to be expensed at fair value. Under existing standards, companies have the option of disclosing this information in the notes to the financial statements rather than expensing employee stock options. The Corporation had no issued or outstanding options as of September 30, 2004.

In 2003, the CICA issued an amendment to its accounting guideline "Full Cost Accounting in the Oil and Gas Industry" effective for fiscal years beginning on or after January 1, 2004. Under the new guideline, the ceiling test would involve a two-step process. The first step would determine whether a write-down is required by comparing the carrying value of the properties to the undiscounted cash flow of the proved reserves (based on management's best estimate of future prices) plus the lower of cost and market value of unproved properties. If a corporation fails the first step, the carrying value of the properties will be written down to the discounted value of the proved plus probable reserves (based on management's best estimate of future prices) plus lower of cost and market of unproved properties. Under existing standards, the undiscounted cash flow amount is based on commodity prices existing at the balance sheet date. Grey Wolf has adopted this guideline as of December 31, 2003.

Business Risks and Uncertainties

Grey Wolf is exposed to numerous risks and uncertainties associated with the exploration for and development and acquisition of crude oil and natural gas. Primary risks include the uncertainty associated with exploration drilling, changes in production practices, product pricing, industry competition and government regulation.

See "Risk Factors" for additional information on the risks and uncertainties to which Grey Wolf is subject.

For the 390 Day Period Ended December 31, 2003

Overview

In the following discussion Grey Wolf's management reviews the financial year ended December 31, 2003, including its financial condition, liquidity and capital resources, capital expenditure program, reserves additions and forward-looking operating and financial estimates. This discussion should be read in conjunction with Grey Wolf's audited financial statements for the 390 day period ended December 31, 2003 included in this prospectus.

"Cash flow from operations", "Cash flow from operations per share – basic", and "Cash flow from operations per share – diluted", are not measures that have any standardized meaning prescribed by GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. Management utilizes "Cash flow" as key measures to assess the ability of the Corporation to finance operating activities and capital activities.

Business Environment

	For the 390 Day Period Ended December 31, 2003
AECO Daily Index ($/GJ)	$6.30
WTI (US$ per Bbl)	$31.04
Edmonton (CDN$ per Bbl)	$43.14
Canadian/U.S. Dollar average exchange rate	0.714

One major component affecting the results of operations is the prices received for the Corporation's sales volumes. Grey Wolf sold all its natural gas production volumes at the AECO Daily Index and all of its crude oil production volumes at the Edmonton Light Sweet reference posting adjusted for quality and transportation.

Natural gas prices increased in 2003 due to the concerns over supply within North America. Crude oil prices increased due to supply disruptions in world production, especially in Iraq.

The Canadian dollar strengthened significantly in 2003 primarily due to a large budget deficit and economic slowdown in the United States.

Summary of Financial and Operational Results

Thousands except per barrel, Mcf & Boe	**For the 390 Day Period Ended December 31, 2003**
Oil and natural gas revenue	$8,942
Cash flow from operations	$3,498
Per share – basic	825.97
Per share – diluted	825.97
Net earnings (loss)	$(135)
Per share – basic	(31.88)
Per share – diluted	(31.88)
Operating netback - $/Boe	$27.44
Average daily sales – Boe/d	559
Capital expenditures	$12,792
Total assets	$52,287
Net debt including working capital	$9,770

Detailed Review of Financial Results

Net Earnings and Cash Flow

Thousands except per barrel, Mcf & Boe	**For the 390 Day Period Ended December 31, 2003**
	$
Net earnings (loss)	(135)
Per share	(31.88)
Cash flow	3,498
Per share	(825.97)

The Corporation incurred net loss of $135,000 during the 390 day period ending December 31, 2003, with cash flow of about $3.5 million. During the third quarter of 2003, Grey Wolf incurred a one-time settlement of $900,000 with an industry partner resulting in lower net earnings and cash flow.

Revenue

Thousands except per barrel, Mcf & Boe	**For the 390 Day Period Ended December 31, 2003**
	$
Oil and NGL	1,930
Per Bbl	39.17
Natural Gas	7,006
Per Mcf	6.92
Other Revenue	6
Total gross revenue	8,942
Per Boe	41.02

Sales Volumes

	For the 390 Day Period Ended December 31, 2003
Crude oil (Bbl/d)	90
Natural gas (Mcf/d)	2,595
NGL (Bbl/d)	36
Total (Boe/d)	559

Gross revenue for the 390 day period ending December 31, 2003 was $8.9 million with an average commodity price of $41.02 per Boe. Oil and NGL contributed $1.9 million of gross revenue (21%) at an average price of

$39.17 per Boe while natural gas contributed $7.0 million (79%) of gross revenue at an average price of $6.92 per Mcf.

Royalties

Thousands except per barrel, Mcf & Boe	**For the 390 Day Period Ended December 31, 2003**
Oil and NGL	$330
Per barrel	$6.70
Percentage of revenue	17.1%
Natural gas	$1,269
Per Mcf	$1.25
Percentage of revenue	18.1%
Total royalties	$1,599
Per Boe	$7.34
Percentage of revenue	17.9%

Royalties payable net of ARTC for 2003 were $1.6 million representing a cost of $7.34 per Boe and 17.9% of gross revenue. Natural Gas royalty payments totalled $1.3 million ($1.25 per Mcf) or 18.1% of natural gas revenue and oil and NGL royalty payments totalled $0.3 million ($6.70 per Boe) or 17.1% of oil and NGL revenue. Grey Wolf's royalty rate is typically lower than its competitors because 23% of Grey Wolf's revenue is generated from overriding royalty income which is not subject to royalty charges.

Production Expense

Thousands except per barrel, Mcf & Boe	**For the 390 Day Period Ended December 31, 2003**
Total production expense	$1,145
Per Boe	$5.25

The production expense for the 390 day period ending December 31, 2003 was $1.1 million. This represented a cost of $5.25 per Boe to the Corporation.

Netbacks (per Boe)

	For the 390 Day Period Ended December 31, 2003
Revenue	$41.02
Royalty	$(7.34)
Production expense	$(5.25)
Transportation	$(0.99)
Netback	$27.44

General and administrative expense for the 390 day period ending December 31, 2003 was $1.5 million, representing a cost of $6.95 per Boe. General and administrative costs for this period reflect employment costs associated with the transfer of the former Grey Wolf management group to the Corporation.

Depletion, depreciation and accretion expense

Thousands except per barrel, Mcf & Boe	**For the 390 Day Period Ended December 31, 2003**
Depletion and depreciation	$2,765
Accretion expense	$507
Total depletion, depreciation and accretion expense	$3,272
Per Boe	$15.01

Total depletion, depreciation and accretion expense for the 390 day period ending December 31, 2003 was $3.3 million representing a cost of $15.01 per Boe. Depletion and depreciation expense made up $2.8 million of this amount and accretion expense made up the remaining $0.5 million.

Capital Expenditures

Thousands except per barrel, Mcf & Boe	**For the 390 Day Period Ended December 31, 2003**
Land and seismic	$2,551
Drilling and completion	$9,045
Facilities and equipment	$2,141
Property acquisition (divestiture)	$(945)
Total	$12,792

Capital expenditures (net) for the 390 day period ending December 31, 2003 totalled $12.8 million with the majority being spent on drilling, land and seismic data.

Liquidity and Capital Resources

In addition to cash flow, the Corporation funded its capital program during the 390 day period ended December 31, 2003 through an inter-company loan arrangement with Abraxas. The balance of this inter-company loan as at December 31, 2003 was $9,420,000. As of December 31, 2004, the outstanding balance of the inter-company loan was US$1 million. It is anticipated that the inter-company loan will be paid off with a portion of the net proceeds of the Treasury Offering. As at December 31, 2003, the Company had $55.9 million in tax pools available to shelter future income. The Company does not anticipate that it will be cash taxable in either 2004 or 2005 but may be subject to capital tax in those years.

Related Party Transaction

On January 23, 2003, the Retained Producing Properties were acquired by Grey Wolf from related parties and have been accounted for by the purchase method with a carrying value of $47.2 million.

Pursuant to a corporate services agreement, Grey Wolf paid US$100,000 to Abraxas for the provision of personnel and business services during the year ending December 31, 2003.

Accounting Policies

Grey Wolf's accounting policies are stated in note 2 to the audited financial statements of Grey Wolf for 390 day period ending December 31, 2003 included in this prospectus.

Impact of New Accounting Pronouncements

In November 2002, the CICA amended its accounting guidelines on hedging relationships. The guideline specifies certain criteria that must be met for an item to be accounted for as a hedge. The criteria included ensuring the hedge meets the risk management objective and strategy, the instrument must be designated as a hedge and the hedge must be effective. The guideline is effective for years beginning on or after July 1, 2003. There will potentially be more volatility in earnings as a result of the adoption of this guideline. Grey Wolf did not have a hedging program outstanding at December 31, 2003.

In December 2002, the CICA approved a standard on accounting for asset retirement obligations effective for fiscal years beginning on or after January 1, 2004. The standard requires the recognition of a liability for obligations associated with the retirement of property, plant and equipment when the liability is incurred. The liability would be recognized initially at fair value (the obligation is discounted using the credit-adjusted risk free interest rate) and the resulting amount would be capitalized as part of the asset. In subsequent periods, the Corporation would recognize "interest" on the liability and adjust the carrying amount of the asset and the liability for changes in estimates of the amount or timing of cash flow. Under existing standards the liability for future site restoration and abandonment costs is recognized using a cost-accumulation measurement over the estimated useful life of the assets accrued over the life of the asset and the obligation is not discounted. Grey Wolf adopted this guideline in January 2003.

In 2003, the CICA approved a standard on stock-based compensation effective for fiscal years beginning on or after January 1, 2004. The standard requires all employee stock options to be expensed at fair value. Under existing standards, companies have the option of disclosing this information in the notes to the financial statements rather than expensing employee stock options. The Corporation had no issued or outstanding options as of December 2003.

In 2003, the CICA issued an amendment to its accounting guideline "Full Cost Accounting in the Oil and Gas Industry" effective for fiscal years beginning on or after January 1, 2004. Under the new guideline, the ceiling test would involve a two-step process. The first step would determine whether a write-down is required by comparing the carrying value of the properties to the undiscounted cash flow of the proved reserves (based on management's best estimate of future prices) plus the lower of cost and market value of unproved properties. If a Corporation fails the first step, the carrying value of the properties will be written down to the discounted value of the proved plus probable reserves (based on management's best estimate of future prices) plus lower of cost and market of unproved properties. Under existing standards, the undiscounted cash flow amount is based on commodity prices existing at the balance sheet date. Grey Wolf has adopted this guideline as of December 31, 2003.

Risks and Uncertainties

The Corporation is subject to normal industry credit risk on its accounts receivable with customers and joint venture partners. The Company mitigates these risks by maintaining credit management policies.

The Corporation is exposed to fluctuations in commodity prices for natural gas, crude oil and natural gas liquids. Commodity prices are affected by many factors including supply and demand. The Company's inter company loan with Abraxas is dependant on Abraxas' ability to generate capital to forward to Grey Wolf. The Corporation monitors these risks and when appropriate, utilizes financial instruments to manage its exposure to these risks. The Corporation had no financial hedges or fixed price commodity contracts in place as at December 31, 2003.

CAPITALIZATION

The following table outlines Grey Wolf's capitalization as at the dates noted.

	Authorized	Outstanding as at September 30, 2004	Outstanding as at December 31, 2004 before giving effect to the Offering	Outstanding as at December 31, 2004 after giving effect to the Offering
Debt:				
Term Loan[(1)]	-	Nil	US$35,000,000	Nil[(2)(3)]
Credit Facility[(4)]	-	Nil	Nil	Nil
Inter-Company Debt	-	US$9,045,000	US$1,000,000	Nil
Share Capital:				
Common Shares	Unlimited	4,830	13,002,360[(5)]	●[(5)]

Notes:

(1) Interest on the Term Loan will initially accrue at the prime rate announced by the administrative agent plus 6.25% and will increase by 0.75% on April 29, 2005 and on the last day of each six month period thereafter during which the Term Loan is outstanding. Such interest will be payable quarterly in cash. If the Term Loan is still outstanding at the end of the first year, an amortization schedule will require Grey Wolf to prepay at least 5.0% of the initial principal amount of the loan at the end of each of the first three years and 10.0% of the initial principal amount of the loan at the end of the fourth year, with the balance of the loan due at maturity. Under the terms of the Loan Agreement, Grey Wolf is subject to certain financial and non-financial covenants. Subject to earlier termination rights and events of default, the Term Loan will mature on the fifth anniversary of its closing date.

(2) Grey Wolf intends to repay inter-company debt owing to Abraxas and the Term Loan in their entirety with a portion the net proceeds of the Treasury Offering. See "Grey Wolf Exploration Inc. – Development of the Business" and "Use of Proceeds".

(3) A portion of the proceeds of the Term Loan were paid to Abraxas to satisfy a return of paid up capital on October 28, 2004. As of the date hereof, the stated capital account maintained by Grey Wolf in respect of the Common Shares is approximately US$804,000.
(4) Represented by an offer by a Canadian chartered bank to make a credit facility in the amount of $10 million available to the Corporation. Availability of the credit facility is subject to the satisfaction of certain conditions, including the execution of a binding agreement, the completion of the Offering and the repayment of the Term Loan in its entirety. All obligations of Grey Wolf under this credit facility shall be secured by a first floating charge over all present and after-acquired assets of Grey Wolf and its affiliates.
(5) Reflects the split of the Common Shares on the basis of 2,692 Common Shares for each previously outstanding Common Share on January 13, 2005.

USE OF PROCEEDS

The net proceeds to the Corporation of the Treasury Offering are estimated to be $● (after deducting its proportionate share of the Underwriters' Fee and the expenses of the Offering, estimated to be $● and $●, respectively). See "Plan of Distribution". A portion of the net proceeds of the Treasury Offering will be used by the Corporation to repay inter-company debt owing to Abraxas and the Term Loan in their entirety. The balance of the net proceeds of the Treasury Offering will be used to eliminate the Corporation's working capital deficiency. However, there may be circumstances where, for sound business reasons, a reallocation of the balance of the net proceeds may be necessary.

The net proceeds of the Secondary Offering payable to Abraxas are estimated to be $● (after deducting its proportionate share of the Underwriters' fee and the expenses of the Offering estimated to be $● and $●, respectively). The Corporation will not receive any of the net proceeds relating to the Common Shares sold by Abraxas in the Secondary Offering or in the event the Over-Allotment Option is exercised.

If the Over-Allotment Option is exercised in full, the total Offering proceeds, the Underwriters' Fee, the net proceeds to the Corporation and the net proceeds to Abraxas will be $●,$●, $● and $●, respectively.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Corporation has agreed to issue and sell ● Common Shares, Abraxas has agreed to sell ● Common Shares and the Underwriters have severally agreed to purchase all such Common Shares on ●, 2005 or such other date as agreed upon by the Corporation, Abraxas and the Underwriters, provided that such date is not later than ●, 2005. Delivery of the Common Shares is conditional upon payment on Closing of $● per Common Share by the Underwriters to the Corporation and Abraxas. In consideration for their services in connection with Offering, the Underwriters will be paid the Underwriters' Fee of $● per Common Share by the Corporation and Abraxas.

Under the terms of the Underwriting Agreement, Abraxas has granted the Over-Allotment Option to the Underwriters to purchase up to an additional ● Common Shares at a price equal to the Offering price, which additional Common Shares are qualified for distribution under this prospectus. The Over-Allotment Option is exercisable on or before the date that is 30 days following the date of closing of the Offering.

The Corporation and Abraxas have agreed to indemnify the Underwriters and their respective affiliates and their respective directors, officers, employees, shareholders and agents against certain liabilities including civil liabilities under Canadian securities legislation or will contribute to payments that the Underwriters may be required to make in respect thereof.

The terms of the Offering and the grant of the Over-Allotment Option were determined by negotiation between the Corporation, Abraxas and the Underwriters.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated by the Underwriters upon the occurrence of certain stated events. If an Underwriter fails to purchase the Common Shares that it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase such Common Shares. The Underwriters are, however, obligated to take up and pay for all Common Shares if any are purchased under the Underwriting Agreement.

Abraxas has agreed that it will not directly or indirectly, without the prior consent of CIBC World Markets Inc., on behalf of the Underwriters, issue, offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of (or announce any intention to effect the foregoing) any Common Shares or any securities giving the right to acquire Common Shares after giving effect to the Secondary Offering at any time prior to 180 days after Closing. Approximately ●% of the issued and outstanding Common Shares immediately after giving effect to the Offering (●% in the event the Over-Allotment Option is exercised in full) will be subject to such contractual lock-up in favour of the Underwriters.

The Corporation has agreed that, subject to certain exceptions, it will not offer or issue, or enter into an agreement to offer or issue Common Shares or any securities convertible or exchangeable into Common Shares for a period of 180 days subsequent to the closing date of the Offering without the consent of CIBC World Markets Inc., on behalf of the Underwriters, which consent may not be unreasonably withheld.

The Offering is being made in each of the provinces and territories of Canada. However, the Common Shares offered hereby have not been and will not be registered under the *United States Securities Act of 1933*, as amended, (the "1933 Act") or any state securities laws, and accordingly may not be offered or sold within the United States or to U.S. Persons (as such term is defined in Regulation S under the 1933 Act) except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. The Underwriting Agreement permits the Underwriters to offer and resell the Common Shares that they have acquired pursuant to the Underwriting Agreement to certain qualified institutional buyers and accredited investors in the United States, provided such offers and sales are made in accordance with Rule 144A under the 1933 Act or another exemption from the registration requirements of the 1933 Act. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Common Shares outside the United States only in accordance with Regulation S under the 1933 Act.

SHARE CAPITAL

Grey Wolf is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to one vote per share at meetings of shareholders of Grey Wolf and are entitled to dividends if, as and when declared by the Board. Upon liquidation, dissolution or winding-up of the Corporation, holders of Common Shares shall be entitled to receive the remaining property of Grey Wolf.

As at the date hereof, there are 13,002,360 issued and outstanding Common Shares.

DIVIDEND RECORD AND POLICY

Grey Wolf has not declared or paid any dividends on the Common Shares since incorporation. Any decision to pay dividends on the Common Shares will be made by the Board on the basis of Grey Wolf's earnings, financial requirements and such other conditions existing at such future time as the Board considers appropriate.

PRIOR SALES

On December 6, 2002, the Corporation issued 100 Common Shares to Former Grey Wolf in connection with the organization of the Corporation.

On January 23, 2003, Grey Wolf issued 2,180 Common Shares to Former Grey Wolf and 2,550 Common Shares to Canaxas in connection with the Acquisition. At that time, all 2,280 Common Shares held by Former Grey Wolf were transferred to Canaxas and Canaxas subsequently transferred all 4,830 Common Shares then outstanding to Abraxas.

On January 13, 2005, the Common Shares of Grey Wolf were split on the basis of 2,692 Common Shares for each previously outstanding Common Share.

See "Grey Wolf Exploration Inc. – Incorporation" and "Grey Wolf Exploration Inc. – Development of the Business".

PRINCIPAL SHAREHOLDER AND SELLING SHAREHOLDER

Abraxas is the sole registered and beneficial owner of all 13,002,360 issued and outstanding Common Shares. Abraxas acquired the Common Shares from Canaxas on January 23, 2003 from Canaxas.

Abraxas is selling ● Common Shares in the Secondary Offering (● Common Shares in the event the Over-Allotment Option is exercised in full). Upon completion of the Offering, Abraxas will own ● Common Shares, representing ●% of the outstanding Common Shares. In the event the Over-Allotment Option is exercised in full, Abraxas will not own any Common Shares. All Common Shares owned by Abraxas upon completion of the Offering shall be subject to a six month contractual lock-up in favour of the Underwriters.

Abraxas' head office is located in San Antonio, Texas.

DIRECTORS AND OFFICERS

The following table sets forth the municipality of residence and principal occupation of each of the directors and senior officers of Grey Wolf.

Name and Municipality of Residence	**Positions with Grey Wolf**	**Principal Occupation**
Robert L.G. Watson(1) (2) San Antonio, Texas	Chairman, Chief Executive Officer and Director	Chairman, and Chief Executive Officer of Grey Wolf and Chairman, President and Chief Executive Officer of Abraxas
Vincent J. Tkachyk(3)(4) Calgary, Alberta	President, Chief Operating Officer and Director	President and Chief Operating Officer of Grey Wolf
Robert A. Johnson Calgary, Alberta	Executive Vice-President, Exploration	Executive Vice-President, Exploration of Grey Wolf
J. Michael Fabi Calgary, Alberta	Vice-President, Engineering	Vice-President, Engineering of Grey Wolf
Francis T.W. Cheung(5) Calgary, Alberta	Controller	Controller of Grey Wolf
John B. Maher(1)(3) Calgary, Alberta	Director	President and Chief Executive Officer of Polaris Resources Ltd.
Mark R. Smith Calgary, Alberta	Director	Partner of Osler, Hoskin & Harcourt LLP
Murray B. Todd(1)(3) Calgary, Alberta	Director	President and Chief Executive Officer of Canada Hibernia Holding Co.

Notes:
(1) Member of the Audit and Governance Committee.
(2) Chair of the Audit and Governance Committee. Mr. Watson may be replaced as a member of the Audit and Governance Committee with an independent director at a later date.
(3) Member of the Reserves Committee.
(4) Chair of the Reserves Committee.
(5) Mr. Cheung has been appointed Chief Financial Officer of the Corporation for the purpose of executing the certificate page of this Preliminary Prospectus.

All of the directors of Grey Wolf have been appointed to hold office until the next annual general meeting of shareholders or until their successors are duly elected or appointed, unless their office is earlier vacated. Messrs. Watson and Tkachyk have been directors of Grey Wolf since December 6, 2002 when the Corporation was incorporated. Messrs. Maher, Smith and Todd have been directors since January 14, 2005.

The sale by Abraxas of all of its Common Shares in the event that the Over-Allotment Option is exercised in full is not expected to impact the Corporate Services Agreement entered into between Grey Wolf and Abraxas, pursuant to which Mr. Watson provides services to Grey Wolf in the capacity of Chief Executive Officer. See "Arrangements Between Grey Wolf and Abraxas". A founder of Grey Wolf, Mr. Watson currently intends to continue to serve as a director of Grey Wolf at the pleasure of the shareholders even if Abraxas no longer remains a shareholder of Grey Wolf.

The directors and officers of Grey Wolf do not own directly or indirectly, or exercise control or direction over, any Common Shares except for Robert L.G. Watson who is the Chairman, President and Chief Executive Officer of Abraxas Petroleum Corporation, the sole shareholder of Grey Wolf.

Profiles of the Corporation's directors and officers and other members of management and the particulars of their respective principal occupations during the last five years are set forth below.

Robert L.G. Watson, Chairman, Chief Executive Officer and Director

Mr. Watson has served as Chairman, Chief Executive Officer and Director of Grey Wolf since its incorporation and was President of Grey Wolf until January 10, 2005. Mr. Watson is the founder of Abraxas and has served as President and a director of Abraxas since 1979. Mr. Watson also served as Chairman, President and Chief Executive Officer of the Canadian Subsidiaries from 1995 to 2003. Prior to forming Abraxas, Mr. Watson was employed in various petroleum engineering positions with Tesoro Petroleum Corporation and D&M. Mr. Watson holds a Bachelor of Science degree in Mechanical Engineering from Southern Methodist University and a Master of Business Administration degree from the University of Texas at San Antonio.

Vincent J. Tkachyk, President, Chief Operating Officer and Director

Mr. Tkachyk joined Former Grey Wolf in 1997 as Vice President Operations and was promoted to Executive Vice President and Chief Operating Officer of Former Grey Wolf in September 2001. Mr. Tkachyk has served as the Executive Vice-President and Chief Operating Officer of Grey Wolf since the date of the Acquisition and as a director of Grey Wolf since December 2002. On January 10, 2005, Mr. Tkachyk was appointed President of Grey Wolf. Mr. Tkachyk has more than 30 years of oil and natural gas experience in both the United States and Canada and has previously been employed by Amoco Canada Petroleum Company Ltd., Union Oil Company of Canada, DeKalb Energy Company and Pennant Petroleum Ltd. Mr. Tkachyk holds a Bachelor of Science degree in Mechanical Engineering from the University of Alberta and a Professional Engineer designation.

Robert A. Johnson, Executive Vice-President, Exploration

Mr. Johnson began his association with the Canadian Subsidiaries in January 1999, following the acquisition by Abraxas of New Cache Petroleums Ltd. and was named Vice-President, Exploration of Former Grey Wolf in September 2001. Mr. Johnson has served as the Vice President, Exploration of the Corporation since the date of the Acquisition. Mr. Johnson is a professional geologist with 40 years of experience in all sectors of the Western Canadian Sedimentary Basin and has previously held positions with Mobil Oil, Dekalb Energy Company, Atcor Resources and New Cache Petroleums Ltd. Mr. Johnson holds a Bachelor of Science degree in Geology from University of Hull (U.K.).

J. Michael Fabi, Vice-President, Engineering

Mr. Fabi joined Former Grey Wolf in February 2000 in the position of Senior Exploration Engineer and joined Grey Wolf on the date of the Acquisition. Mr. Fabi held progressive positions with Former Grey Wolf and the Corporation before advancing to the office of Vice-President, Engineering of Grey Wolf in November 2003. Mr. Fabi has 22 years of experience in the oil and natural gas industry and has been previously been employed by Andex Oil and Gas Ltd., Enron Oil and Gas Ltd., DeKalb Energy Company and Apache Canada Ltd. Mr. Fabi holds a Bachelor of Science degree in Chemical Engineering from the University of Alberta and a Professional Engineer designation.

Francis T.W. Cheung, Controller

Mr. Cheung joined Former Grey Wolf as Controller in 1998 and has served as Controller of the Corporation since the date of the Acquisition. Prior to joining Former Grey Wolf, Mr. Cheung held the position of Controller with various oil and natural gas companies including Atlantis Resources Ltd., Riata Resources Ltd. and Maxx Petroleum. Mr. Cheung has more than 25 years of industry experience in accounting systems, operations, treasury and financial reporting. Mr. Cheung is a Certified Management Accountant and holds a Bachelor of Commerce degree from the University of Calgary.

John B. Maher, Director

Mr. Maher has been President and Chief Executive Officer of Polaris Resources Ltd., a company actively engaged in oil and natural gas exploration in northeastern British Columbia since 1977. From 1992 to 1995 Mr. Maher was industrial advisor to the Federal Ministers of Energy and Mines of Canada where he was the Alberta representative reporting on the activity of the Geological Survey of Canada. Prior thereto, Mr. Maher was a founder and President of Polaris Petroleum Ltd. and Polaris Offshore Ltd. During his tenure, these companies discovered a number of hydrocarbon pools in Western Canada and participated in a discovery offshore in eastern Canada. From 1976-1979, Mr. Maher served as Chief Geologist of Sceptre Oils Ltd., a private oil and gas company that conducted exploration activities in various locations around the world. Mr. Maher also held various exploration positions with Amoco Petroleum from 1971 to 1976, where his work led directly to several large natural gas discoveries. Mr. Maher holds an Honours Bachelor's degree in Geology and Mathematics and a Masters degree in Geology from Memorial University. Mr. Maher is a member of the Canadian Well Logging Society, the American Association of Petroleum Geologists, and the Association of Professional Engineers, Geologists and Geophysicists of Alberta. Mr. Maher was president of the Canadian Society of Petroleum Geologists in 1984.

Mark R. Smith, Director

Mr. Smith has been a partner at the law firm of Osler, Hoskin & Harcourt LLP since 1997. Mr. Smith commenced his practice at the law firm of Burnet, Duckworth & Palmer LLP and was an associate and a partner at that firm during the years 1986 to 1997. His practice has been focused in the energy sector since articling in 1986. Mr. Smith has served as a director of a number of private energy industry companies and currently serves as a director and chairman of Infiniti Resources International Ltd., a TSX Venture Exchange listed oil and gas company. Mr. Smith also served as a director of Destiny Resource Services Corp. during 2001 to 2003. During the period between 1996 and 1998, Mr. Smith was a director and became the Managing Director and Chief Executive Officer of Scimitar Hydrocarbons Corp., an international oil and gas company. Mr. Smith was employed by Amoco Canada Petroleum Company Ltd. between 1982 and 1983. Mr. Smith holds a Bachelor of Commerce degree and a Bachelor of Laws degree from the University of Alberta.

Murray B. Todd, Director

Mr. Todd is the President & Chief Executive Officer of Canada Hibernia Holding Co., an oil and natural gas company formed by the Government of Canada to manage its working interest in the Hibernia offshore project. Mr. Todd has many years of experience in the oil and natural gas industry and has held increasingly senior management positions with Marathon Oil Co., CANMAR, Dome Petroleum and Amoco Canada. Mr. Todd also served as President & Chief Operating Officer of Crestar Energy. Mr. Todd holds a Bachelor of Science degree earned with distinction from the University of Saskatchewan. His career is marked by extensive participation at a senior management and director level with a broad range of organizations including The Nature Conservation Society of Canada, Petroleum Industry Training Service, and the Arctic Institute of North America. Mr. Todd is currently a director of The Alberta Energy Research Institute.

In addition to the above described directors and officers, Grey Wolf, as of September 30, 2004, employed two petroleum engineers, two geologists, one geophysicist and four technical and clerical personnel.

EXECUTIVE COMPENSATION

Compensation of Named Executive Officers

Grey Wolf currently has five executive officers (the "Named Executive Officers").

The following table sets forth compensation in respect of the Chief Executive Officer and the other Named Executive Officers for the financial year ended December 31, 2004.

		Annual Compensation			Long-Term Compensation			
Name and Principal Position	Year	Salary	Bonus	Other Annual Compen-sation (1)	Common Shares under Options Granted(2)	Common Shares Subject to Resale Restrictions	Long Term Incentive Plan Payout	All Other Compen-sation
		($)	($)	($)	(#)	(#)	(#)	(#)
Robert L.G. Watson Chairman and Chief Executive Officer	2004(3) 2003(3)	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Vincent J. Tkachyk President and Chief Operating Officer	2004 2003(4)	258,250 254,885	__(5) 81,288	20,401 18,284	Nil Nil	Nil Nil	Nil Nil	Nil 47,102(6)
Robert A. Johnson Executive Vice-President Exploration	2004 2003(4)	183,025 185,625	__(5) 60,965	14,384 14,200	Nil Nil	Nil Nil	Nil Nil	Nil 35,326(6)
J. Michael Fabi Vice-President Engineering	2004 2003(4)	144,000 124,250	__(5) 45,847	13,584 11,726	Nil Nil	Nil Nil	Nil Nil	Nil 24,336(6)
Francis T.W. Cheung Controller	2004 2003(4)	144,812 139,918	__(5) 31,760	13,769 12,174	Nil Nil	Nil Nil	Nil Nil	Nil 25,759(6)

Notes:
(1) Includes registered retirement savings plan contributions made by Grey Wolf and Former Grey Wolf on behalf of the Named Executive Officers and certain benefits, including parking Alberta Health Care premiums and life insurance.
(2) The Named Executive Officers did not receive options convertible into securities in 2004 and 2003.
(3) Mr. Watson did not receive any compensation from Grey Wolf for his services in 2004 or 2003. However, Grey Wolf paid to Abraxas US$100,000 in each of 2003 and 2004 in consideration for the provision of certain services, including those of Mr. Watson.
(4) Includes certain payments made by Former Grey Wolf during the 23 day period ending January 23, 2003.
(5) Bonuses payable to the Named Executive Officers for the year ending December 31, 2004 have not yet been determined.
(6) Represents retention bonuses paid by Abraxas in 2003.

Grants of Stock Options During the Financial Year Ended December 31, 2004

No options to acquire securities were granted to officers or directors of Grey Wolf for services rendered to Grey Wolf during the financial year ended December 31, 2004. However, the Named Executive Officers from time-to-time received options convertible into Abraxas common shares in prior financial years. It is anticipated that these options will be retained by the Named Executive Officers upon completion of the Offering.

Aggregated Option Exercises During the Financial Year Ended December 31, 2004

The Named Executive Officers exercised 213,366 options to acquire Abraxas common shares during the most recently completed financial year. The following table contains information relating to such exercises and to the number of such options held by the Named Executive Officers and outstanding as at December 31, 2004.

Name and Principal Position	Abraxas Common Shares Acquired on Exercise	Aggregate Value Realized	Number of Unexercised Options at Year End		Value of Unexercised in-the-Money Options at Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
	(#)	(US$)	(#)	(#)	(US$)	(US$)
Robert L.G. Watson Chairman and Chief Executive Officer	1,406	2,334	660,285	63,428	699,999	90,633
Vincent J. Tkachyk President and Chief Operating Officer	106,222	177,889	13,750	46,246	22,963	77,043
Robert A. Johnson Executive Vice-President Exploration	67,750	112,553	22,375	29,375	37,230	48,938
J. Michael Fabi Vice-President Engineering	25,188	41,847	3,500	10,313	5,844	17,189
Francis T.W. Cheung Controller	12,800	21,278	6,764	7,255	11,257	12,102

Employment Contracts and Termination Arrangements

Grey Wolf has entered into employment agreements (the "Employment Agreements") with each Named Executive Officer except Robert L.G. Watson.

The Employment Agreements specify that each of Messrs. Tkachyk, Johnson, Fabi and Cheung are entitled to a lump sum payment ranging from six to 24 months base salary plus an amount that reflects the value of lost benefits for the same period (the "Separation Package") together with a pro rata amount of any bonus earned to the date of termination in the event they are terminated without cause.

The Employment Agreements also provide that each of Messrs. Tkachyk, Johnson, Fabi and Cheung are entitled to a lump sum payment ranging from 12 to 36 months of base salary plus an amount which reflects the value of lost benefits for the same period (the "Change in Control Package") together with a pro rata amount of any bonus earned to the date of termination in the event a change of control of Grey Wolf occurs (as defined in the Employment Agreements) and within six months thereafter he is terminated without cause or is constructively dismissed.

In addition, each of Messrs. Tkachyk, Johnson, Fabi and Cheung are entitled to be paid an amount equal to the difference in value between his respective Change of Control Package and Separation Package in the event he is terminated without cause in the six month period prior to any change of control of Grey Wolf (as such term is defined in the Employment Agreements). Messrs. Johnson and Tkachyk are also entitled to be paid an amount equal to their respective Change of Control Packages in the event that either resigns within 60 days of the occurrence of a change of control or if Mr. Watson ceases to hold the position of Chief Executive Officer of Grey Wolf for any reason. See "Risk Factors – Reliance on Key Personnel".

Grey Wolf has also entered into an executive termination agreement with Mr. Watson. In the event Mr. Watson is terminated as Chief Executive Officer without just cause or Grey Wolf undergoes a change of control (as defined in such agreement), Grey Wolf is obligated to pay Mr. Watson a lump sum payment that is equal to 36 months of the salary of the President of Grey Wolf plus an amount equal to the cost of benefits provided by the Corporation to Mr. Watson for the same period.

Compensation of Directors

All directors except Messrs. Watson and Tkachyk shall be paid a fee of up to $1,000 for attendance at a board meeting, and up to $500 for attendance at a committee meeting. Committee chairpersons are also to be paid an annual retainer of $1,000. As of the date hereof, it is not contemplated that Messrs. Watson and Tkachyk will be compensated for their services as a director in addition to the remuneration they will receive as officers of Grey Wolf. Notwithstanding the foregoing, all directors are entitled to be reimbursed for all reasonable expenses incurred in order to attend Board and committee meetings.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

As of December 31, 2004, none of the directors or officers of Grey Wolf were indebted to Grey Wolf.

OPTION PLAN

Pursuant to the Option Plan, the Board may grant Options to directors, officers, employees and consultants of Grey Wolf. All Options granted will be in compliance with the requirements of the TSX. Options granted under the Option Plan will have an exercise price that is not less than the price allowed by regulatory authorities, will be non-transferable and, unless the Board otherwise determines, will be exercisable for a period not to exceed five years. The aggregate number of Common Shares subject to Options granted under the Plan, together with any Common Shares issuable to insiders of the Corporation pursuant to any other share compensation arrangements, must not exceed 10% of the Common Shares then outstanding and no one optionee is permitted to hold Options entitling such optionee to purchase more than 5% of the issued and outstanding Common Shares.

Options granted under the Plan and exercisable by the optionee at the time that the optionee ceased to be an employee, director or officer of the Corporation will terminate no later than the date that is three months from the termination of the optionee's employment or from the date the optionee ceased to be a director of Grey Wolf, unless the Board otherwise determines. Options exercisable by an optionee who dies or becomes disabled while an employee, director or officer of the Corporation, or who retires, shall terminate 180 days after the date of such event.

The board of directors of the Corporation, in its sole discretion, may make adjustments to the exercise price of an Option and/or to the number of Common Shares to be issued upon exercise of an Option, in certain circumstances as more particularly described in the Option Plan.

As of the date hereof, no Options have been issued under the Option Plan. Following the completion of the Offering, it is anticipated that Options equivalent to ●% of the number of Common Shares then outstanding will be granted to directors, officers and employees of Grey Wolf at an exercise price of $● per Common Share. The Options so granted will vest as to one third on each of the first, second and third anniversaries of the date of grant.

RISK FACTORS

An investment in the Common Shares is speculative due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves. An investor should consider carefully the risk factors set out below. In addition, investors should carefully review and consider all other information contained in this prospectus before making an investment decision. There can be no assurance that Grey Wolf's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Exploration, Development and Production Risk*s*

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Grey Wolf depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Grey Wolf may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Grey Wolf's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Grey Wolf will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Grey Wolf may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Grey Wolf.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Grey Wolf is not fully insured against all of these risks, nor are all such risks insurable. Although Grey Wolf maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Grey Wolf could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Competition

Oil and natural gas exploration is intensely competitive in all its phases and involves a high degree of risk. Grey Wolf competes with numerous other participants in the search for, and the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. Grey Wolf's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Grey Wolf. Grey Wolf's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Competition may also be presented by alternate fuel sources.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. See "Industry Conditions". Grey Wolf's operations may require licences from various governmental authorities. There can be no assurance that Grey Wolf will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects and the obtaining of such licenses and permits may delay operations of the Corporation.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Grey Wolf's exploration and production facilities and other operations and activities emit a small amount of greenhouse gases which may subject Grey Wolf to legislation regulating emissions of greenhouse gases. The Government of Canada has put forward a Climate Change Plan for Canada, which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and natural gas exploration and production. Future federal legislation, together with provincial emission reduction requirements that may be imposed under the *Climate Change and Emissions Management Act* (Alberta), may require the reduction of emissions or emissions intensity produced by the Corporation's operations and facilities. The direct or indirect costs of these regulations may adversely affect the business of the Corporation.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Grey Wolf to incur costs to remedy such discharge. Charges in wildlife protection areas may limit access to the Corporation's lands, increase capital expenditure requirements and delay capital programs. Although Grey Wolf believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Grey Wolf's financial condition, results of operations or prospects. See "Industry Conditions – Environmental Regulation".

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by Grey Wolf will be affected by numerous factors beyond its control. Grey Wolf's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Grey Wolf may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Grey Wolf's revenues, profitability and future growth and the carrying value of its oil and natural gas properties are substantially dependent on prevailing prices of oil and natural gas. Grey Wolf's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and natural gas prices. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of Grey Wolf. These factors include economic conditions, in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on Grey Wolf's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

The exchange rate between the Canadian and U.S. dollar also affects the profitability of the Corporation and the Canadian dollar has strengthened against the U.S. dollar recently.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to Grey Wolf are in part determined by Grey Wolf's borrowing base. A sustained material decline in prices from historical average prices could reduce Grey Wolf's borrowing base, therefore reducing the bank credit available to Grey Wolf, which could require that a portion, or all, of Grey Wolf's bank debt be repaid.

Substantial Capital Requirements

Grey Wolf anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Grey Wolf's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Grey Wolf. The inability of Grey Wolf to access sufficient capital for its operations could have a material adverse effect on Grey Wolf's financial condition, results of operations or prospects.

Additional Funding Requirements

Grey Wolf's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Grey Wolf may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Grey Wolf to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Grey Wolf's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Grey Wolf's ability to expend the necessary capital to replace its reserves or to maintain its production. If Grey Wolf's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Grey Wolf.

Issuance of Debt

From time to time Grey Wolf may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase Grey Wolf's debt levels above industry standards. Depending on future exploration and development plans, Grey Wolf may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither Grey Wolf's articles nor its by-laws limit the amount of indebtedness that Grey Wolf may incur. The level of Grey Wolf's indebtedness from time to time, could impair Grey Wolf's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time Grey Wolf may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Grey Wolf will not benefit from such increases and the Corporation may nevertheless be obligated to pay royalties or such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time Grey Wolf may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, Grey Wolf will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Grey Wolf and may delay exploration and development activities. To the extent Grey Wolf is not the operator of its oil and natural gas properties, Grey Wolf will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Title to Assets

Title to oil and natural gas is often not capable of conclusive determination without incurring substantial expense. It is the practice of Grey Wolf in acquiring significant oil and natural gas leases or interest in oil and natural gas leases to retain lawyers to fully examine the title to the interest under the lease. In the case of minor acquisitions, the Corporation relies upon the judgment of oil and natural gas lease brokers or landmen who actually do the field work in examining records in the appropriate governmental office before attempting to place under lease a specific interest. Grey Wolf believes that this practice is widely followed in the oil and natural gas industry. Nevertheless, there may be title defects that affect lands comprising a portion of Grey Wolf's properties which may adversely affect the Corporation. To the extent title defects do exist, it is possible that the Corporation may lose all or a portion of its right, title, interest and estate in and to the properties to which the title relates.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and cash flows to be derived therefrom, including many factors beyond Grey Wolf's control. The reserve and associated cash flow information set forth in this prospectus represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. Grey Wolf's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. Further, the evaluation are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluation.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material. Many of the Corporation's producing wells have a limited production history and thus there is less historical production on which to base the reserve estimates. In addition, a significant portion of Grey Wolf's reserves may be attributable to a limited number of wells and therefore a variation in production results or reservoir characteristics of respect of such wells may significantly impact upon Grey Wolf's reserves.

In accordance with applicable securities laws, D&M has used both constant and forecast price and cost estimates in calculating reserve quantities included in this prospectus. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and revenues derived therefrom will vary from the estimates contained in the D&M Report, and such variations could be material. The D&M Report is based in part on the assumed success of activities Grey Wolf intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the D&M Report will be reduced to the extent that such activities do not achieve the level of success assumed in the D&M Report. The D&M Report is effective as of a specific effective date and has not been updated and thus does not reflect charges in the Corporation's resources since that date.

Insurance

Grey Wolf's involvement in the exploration for and development of oil and natural gas properties may result in Grey Wolf becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling Grey Wolf will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, Grey Wolf may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Grey Wolf. The occurrence of a significant event that Grey Wolf is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Grey Wolf's financial position, results of operations or prospects.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Grey Wolf to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of Grey Wolf to deal with this growth could have a material adverse impact on its business, operations and prospects.

Expiration of Licences and Leases

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Corporation's results of operations and business.

Reliance on Key Personnel

Grey Wolf's success depends in large measure on certain key personnel including Robert L.G. Watson, Vincent J. Tkachyk and Robert A. Johnson. The employment agreements between each of Messrs. Tkachyk and Johnson provide that they may terminate their employment with Grey Wolf in the event Mr. Watson ceases to hold the position of Chief Executive Officer of Grey Wolf for any reason.

The loss of the services of such key personnel could have a material adverse affect on Grey Wolf. Grey Wolf does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of Grey Wolf are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Grey Wolf will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Grey Wolf.

Absence of Prior Public Market

There is currently no public market for the Common Shares. The Offering price has been determined by negotiation between the Corporation and the Underwriters and may bear no relationship to the price at which the Common Shares will trade in the public market subsequent to the Offering.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its property and assets. However, if a claim arose and was successful this could have an adverse effect on the Corporation and its operations.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

Third Party Credit Risk

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Conflicts of Interest

The directors or officers of the Corporation may also be directors or officers of other oil and natural gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Corporation. Conflicts of interest, if any, that arise will be subject to and governed by procedures prescribed by the ABCA, which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Future Sales by Abraxas

Abraxas will be entitled to sell any Common Shares it may continue to own subsequent to the completion of the Offering upon the expiration of the contractual lock-up period provided a trading market has developed for the Common Shares. See ‘‘Principal Shareholder and Selling Shareholder” and ‘‘Plan of Distribution’’. If following the Offering a significant number of Common Shares are sold or are expected to be sold by Abraxas in the public market, the market price of the Common Shares could be depressed and the Corporation's ability to raise capital by issuing additional equity securities could be hampered.

Enforcement of Judgments Against Abraxas

Abraxas is incorporated under the laws of the State of Nevada and resides outside of Canada. Although Abraxas has appointed Osler, Hoskin & Harcourt LLP as its agent for service of process, it may not be possible for investors to collect from Abraxas judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation.

PrimeWest Purchase Option

PrimeWest has been granted the option under the Caroline Farmout Agreement to purchase that portion of the Caroline property which has been assigned proved or probable additional reserves for a price determined by a third party engineer in accordance with a pre-determined formula.

The Caroline property currently represents a significant portion of Grey Wolf's production and the exercise of the option in accordance with the Caroline Farmout Agreement could have a material adverse effect on Grey Wolf's continued operations and financial condition. Grey Wolf may experience difficulties reinvesting any proceeds realized from the sale of such property or locating alternative sources of production.

No Market

There is currently no market for the Common Shares and there is no assurance that a market will develop or that the Corporation will obtain a listing of its Common Shares on a stock exchange or other recognized trading market.

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, British Columbia and Saskatchewan, all of which should be carefully considered by investors in the oil and natural gas industry. It is not expected that any of these controls or regulations will affect Grey Wolf's operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and Grey Wolf is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and natural gas industry.

Pricing and Marketing – Oil and Natural Gas

The price of oil is determined by negotiation between buyers and sellers. Such price depends in part on oil quality, prices of competing oils, distance to market, the value of refined products and the supply/demand balance. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

The price of natural gas is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two years or for a term of two to

20 years (in quantities of not more than 30,000 m3/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export license from the NEB and the issuance of such license requires the approval of the Governor in Council.

The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere based on such factors as reserve ability, transportation arrangements and market considerations.

The North American Free Trade Agreement

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, United States of America and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada - United States Free Trade Agreement. Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price; or (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations that govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry.

Regulations made pursuant to the *Mines and Minerals Act* (Alberta) provide various incentives for exploring and developing oil reserves in Alberta. Oil produced from horizontal extensions commenced at least five years after the well was originally spudded may also qualify for a royalty reduction. A 24 month, 8,000 m3 exemption is available to production from a well that has not produced for a 12 month period, if resuming production after February 1, 1993. As well, oil production from eligible new field and new pool wildcat wells and deeper pool test wells spudded or deepened after September 30, 1992 is entitled to a 12 month royalty exemption (to a maximum of $1 million). Oil produced from low productivity wells, enhanced recovery schemes (such as injection wells) and experimental projects is also subject to royalty reductions.

The Alberta government has also introduced a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 30, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

In Alberta, the royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new gas, and between 15% and 35%, in the case of old gas, depending upon a prescribed reference or corporate average price. Natural gas produced from qualifying exploratory gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 is eligible for a royalty exemption for a period of 12 months, up to a prescribed maximum amount. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 meters is also subject to a royalty exemption, the amount of which depends on the depth of the well.

In Alberta, a producer of oil or natural gas is entitled to a credit against the royalties payable to the Crown by virtue of the ARTC program. The ARTC rate is based on a price sensitive formula and the ARTC rate varies between 75% at prices at and below $100 per m3 and 25% at prices at and above $210 per m3. The ARTC rate is applied to a maximum of $2,000,000 of Alberta Crown royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from a corporation claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate will be established quarterly based on the average "par price", as determined by the Alberta Department of Energy for the previous quarterly period.

In November 2003, the Tax Act was amended to provide the following initiatives applicable to the oil and natural gas industry to be phased in over a five year period commencing in 2003 and ending in 2007: (i) a reduction of the federal statutory corporate income tax rate on income earned from resource activities from 28 to 21%, beginning with a one percentage point reduction effective January 1, 2003, and (ii) a deduction for federal income tax purposes of actual provincial and other Crown royalties and mining taxes paid and the elimination of the 25% resource allowance. In addition, the percentage of ARTC that Grey Wolf will be required to include in federal taxable income will be 5% in 2003; 12.5% in 2004; 17.5% in 2005; 32.5% in 2006; 50% in 2007; 60% in 2008; 70% in 2009; 80% in 2010; 90% in 2011, and 100% in 2012 and beyond.

Producers of oil and natural gas in the Province of British Columbia are also required to pay annual rental payments in respect of Crown leases and royalties and freehold production taxes in respect of oil and natural gas produced from Crown and freehold lands, respectively. The amount payable as a royalty in respect of oil depends on the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), the quantity of oil produced in a month and the value of the oil. Oil produced from newly discovered pools may be exempt from the payment of a royalty for the first 36 months of production. The royalty payable on natural gas is determined by a sliding scale based on a reference price which is greater of the amount obtained by the producer and a prescribed minimum price. Gas produced in association with oil has a minimum royalty of 8% while the royalty in respect of other gas may not be less than 15%.

On May 30, 2003, the Ministry of Energy and Mines for British Columbia announced an Oil and Gas Development Strategy for the Heartlands (the "Strategy"). The Strategy is a comprehensive program to address road infrastructure, targeted royalties, and regulatory reduction and British Columbia service-sector opportunities.

Some of the financial incentives in the Strategy include:

- Royalty credits of up to $10 million annually towards the construction, upgrading and maintenance of road infrastructure in support of resource exploration and development. Funding will be contingent upon an equal contribution from industry.
- Changes to provincial royalties: new royalty rates for low-productivity natural gas to enhance marginally economic resources plays, royalty credits for deep gas exploration to locate new sources of natural gas, and royalty creditors for summer drilling to expand the drilling season.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and natural gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties.

Environmental legislation in Alberta has been consolidated into the *Alberta Environmental Protection and Enhancement Act* (the "APEA"), which came into force on September 1, 1993. The APEA imposes stricter environmental standards, requires more stringent compliance, reporting and monitoring obligations and significantly increases penalties. Grey Wolf anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment and will be taking such steps as required to ensure compliance with the APEA and similar legislation in other jurisdictions in which it operates. Grey Wolf believes that it is in material compliance with applicable environmental laws and regulations. Grey Wolf also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

CONFLICTS OF INTEREST

Certain directors and officers of Grey Wolf are associated with other companies or entities, including Abraxas, which may give rise to conflicts of interest. In accordance with the ABCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with Grey Wolf are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Grey Wolf.

ARRANGEMENTS BETWEEN GREY WOLF AND ABRAXAS

In connection with the Offering, Grey Wolf and Abraxas have entered into several agreements in order to complete the separation of their respective businesses. These agreements are summarized below. In addition to the agreements described below, Grey Wolf and Abraxas may enter into additional agreements prior to or concurrently with the Offering. Following the Offering, Grey Wolf and Abraxas may enter into other commercial agreements from time to time, the terms of which will be determined at the relevant times.

Corporate Services Agreement

The Corporate Services Agreement obligates Abraxas to provide the services of Robert L.G. Watson, who shall act as Chief Executive Officer and/or President of Grey Wolf, provided that Mr. Watson shall only be required to devote one third of his time to this position. In consideration for such services, Grey Wolf is obligated to pay a pre-determined sum to Abraxas together with out-of-pocket third party expenses reasonably incurred by Abraxas in providing such services. This agreement may be terminated by either party upon giving 60 days prior written notice.

Indemnity Agreement

Pursuant to the Indemnity Agreement, Abraxas has agreed to indemnify Grey Wolf for any losses relating to an indemnity provided by Grey Wolf to PrimeWest whereby Grey Wolf guaranteed the prompt payment and performance by Abraxas of all obligations Abraxas incurred in connection with the sale of the Canadian Subsidiaries to PrimeWest on January 23, 2003.

Non-Competition Agreement

Under the Non-Competition Agreement, subject to certain exceptions, Grey Wolf has agreed not to own or operate any petroleum or natural gas rights located anywhere in the United States of America and Abraxas has agreed not to own or operate any petroleum or natural gas rights outside the United States of America. The Non-Competition Agreement shall terminate 180 days after Robert L.G. Watson ceases to be an insider of either Grey Wolf or Abraxas.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts entered into by Grey Wolf since its incorporation which can reasonably be regarded as presently material are the following:

1. Canaxas Petroleum and Natural Gas Rights Conveyance Agreement;
2. Former Grey Wolf Petroleum and Natural Gas Rights Conveyance Agreement;
3. Royalty Assignment Agreement;
4. Caroline Farmout Agreement;
5. Loan Agreement;
6. Underwriting Agreement;
7. Corporate Services Agreement;
8. Indemnity Agreement; and
9. Non-Competition Agreement.

Copies of these agreements will be made available at the head office of the Corporation during normal business hours.

LEGAL PROCEEDINGS

To the knowledge of management, Grey Wolf is not a party to, nor are any of Grey Wolf's properties subject to, any material legal proceedings.

INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS

No director or executive officer of Grey Wolf or any associate or affiliate of the foregoing has, or has had, any material interest in any transaction prior to the date hereof or any proposed transaction that has materially affected or will materially affect Grey Wolf or any of its affiliates, except as disclosed elsewhere in this prospectus and the following: Mark R. Smith, a director of Grey Wolf, is a partner of Osler, Hoskin & Harcourt LLP, which firm receives fees for legal services provided to Grey Wolf.

PROMOTERS

As Abraxas took the initiative in forming Grey Wolf and implementing the Offering, Abraxas is a promoter within the meaning of the securities laws of certain provinces and territories of Canada. See "Principal Shareholder and Selling Shareholder".

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Grey Wolf are BDO Dunwoody LLP, Chartered Accountants, Calgary.

The transfer agent and registrar for the Common Shares is ●, at its principal offices in Calgary, Alberta.

INTEREST OF EXPERTS

Certain legal matters relating to the Offering and the issuance of Common Shares upon exercise of the Over-Allotment Option will be passed upon by Osler, Hoskin & Harcourt LLP on behalf of the Corporation, and by Macleod Dixon LLP on behalf of the Underwriters. As at the date hereof, the partners and associates of Osler, Hoskin & Harcourt LLP, as a group, do not own any Common Shares and the partners and associates of Macleod

Dixon LLP, as a group, do not own, directly or indirectly, any of the Common Shares. Further, as of the date hereof, none of the partners of BDO Dunwoody LLP or shareholders of D&M or Seaton-Jordan own, directly or indirectly, any of the Common Shares. Mr. Mark R. Smith, a director of Grey Wolf, is a partner of Osler, Hoskin & Harcourt LLP.

ELIGIBILITY FOR INVESTMENT

In the opinion of Counsel, and subject to the provisions of any particular plan, provided the Common Shares are listed on a prescribed stock exchange at the relevant time, the Common Shares when issued will be qualified investments, within the meaning of the Tax Act, for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans and would not, if issued on the date hereof, constitute "foreign property" under the Tax Act and the regulations thereunder for persons subject to tax under Part XI of the Tax Act.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province of residence. The purchaser should refer to any applicable provisions of the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the prospectus of Grey Wolf Exploration Inc. ("Grey Wolf") dated January ●, 2005 relating to the issue and sale of common shares of Grey Wolf. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of the following:

- Our report to the Board of Directors of Grey Wolf on the balance sheet of Grey Wolf as at December 31, 2003 and the statements of operations and deficit and cash flows for the initial 390 day period ended December 31, 2003. Our report is dated ●.
- Our report to the Board of Directors of Grey Wolf on the statements of operations for the Retained Producing Properties for the nine month period ended December 31, 2002. Our report is dated ●.
- Our report to the Board of Directors of Grey Wolf on the unaudited pro forma statement of operations of Grey Wolf for the year ended December 31, 2003. Our report is dated ●.

Calgary, Alberta
●, 2005

(signed) ●
Chartered Accountants

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF GREY WOLF

Auditors' Report

To the Directors of
Grey Wolf Exploration Inc.

We have audited the balance sheet of Grey Wolf Exploration Inc. as at December 31, 2003 and the statements of operations and deficit and cash flows for the initial 390 day period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the initial 390 day period ended December 31, 2003, in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Calgary, Alberta
December 20, 2004
(except for Note 12 which is dated < >, 2005)

Grey Wolf Exploration Inc.
Balance Sheet

As at	September 30, 2004 (unaudited)	December 31, 2003
	($ 000)	($ 000)
Assets		
Current		
Cash	**$ 893**	$ 637
Accounts receivable	**1,351**	1,563
	2,244	2,200
Future income tax asset (Note 8)	**2,684**	4,076
Property and equipment (Note 4)	**48,876**	46,011
	$ 53,804	$ 52,287
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 2,513**	$ 2,550
Due to parent company (Note 5)	**9,045**	9,420
	11,558	11,970
Asset retirement obligation (Note 6)	**1,135**	816
	12,693	12,786
Share capital (Note 7)	**47,188**	47,188
Deficit	**(6,077)**	(7,687)
	41,111	39,501
	$ 53,804	$ 52,287

Approved on behalf of the Board:

"Robert L.G. Watson"
Robert L.G. Watson

"Vincent J. Tkachyk"
Vincent J. Tkachyk

The accompanying notes are an integral part of these financial statements.

Grey Wolf Exploration Inc.
Statements of Operations and Deficit

$ 000 except per share amounts		**For the nine month period ended September 30, 2004 (unaudited)**		For the 298 day period ended September 30, 2003 (unaudited)		For the initial 390 day period ended December 31, 2003
Revenue						
Petroleum and natural gas sales	**$**	**17,000**	$	5,834	$	8,942
Royalties, net of royalty tax credits		**(2,900)**		(983)		(1,599)
		14,100		4,851		7,343
Expenses						
Depletion and amortization		**5,426**		1,811		2,765
Accretion of asset retirement obligation		**372**		200		507
General and administrative		**1,409**		1,081		1,515
Production		**3,467**		501		1,145
Transportation		**427**		180		217
Settlement of legal dispute		**-**		900		900
		11,101		4,673		7,049
Income before other income (loss) and income taxes		**2,999**		178		294
Other income (loss)						
Foreign exchange		**(2)**		1		(6)
Interest		**7**		6		13
		5		7		7
Income before income taxes		**3,004**		185		301
Income taxes						
Large corporation tax		**2**		38		75
Future		**1,392**		241		361
		1,394		279		436
Net income (loss) for the period		**1,610**		(94)		(135)
Deficit, beginning of period		**(7,687)**		-		-
Excess of purchase price paid over carrying value for purchase of the Grey Wolf Properties (Note 3)		**-**		(7,552)		(7,552)
Deficit, end of period	**$**	**(6,077)**	$	(7,646)	$	(7,687)
Pre-stock split						
Basic and diluted earnings (loss) per share	**$**	**333.33**	$	(23.20)	$	(31.88)
Basic and diluted weighted average number of shares outstanding		**4,830**		4,052		4,235
Post-stock split						
Basic and diluted earnings (loss) per share	**$**	**0.124**	$	(0.009)	$	(0.012)
Basic and diluted weighted average number of shares outstanding		**13,002,360**		10,907,984		11,400,620

The accompanying notes are an integral part of these financial statements.

Grey Wolf Exploration Inc.
Statement of Cash Flows

	For the nine month period ended September 30, 2004 (unaudited)	For the 298 day period ended September 30, 2003 (unaudited)	For the initial 390 day period ended December 31, 2003
	($ 000)	($000)	($000)
Cash flows from operations			
Net income (loss) for the period	**$ 1,610**	$ (94)	$ (135)
Adjustments for:			
Depletion and amortization	**5,426**	1,811	2,765
Future income taxes	**1,392**	241	361
Accretion of asset retirement obligation	**372**	200	507
	8,800	2,158	3,498
Changes in non-cash working capital related to operating items	**730**	947	1,287
	9,530	3,105	4,785
Cash flows from financing activity			
Advances from (to) parent company	**(340)**	6,268	7,949
Cash flows from investing activities			
Purchases of property and equipment, net	**(8,090)**	(10,712)	(12,792)
Changes in non-cash working capital related to capital items	**(589)**	3,137	1,170
Site restoration incurred	**(255)**	(170)	(475)
	(8,934)	(7,745)	(12,097)
Increase in cash	**256**	1,628	637
Cash, beginning of period	**637**	-	-
Cash, end of period	**$ 893**	$ 1,628	$ 637

The accompanying notes are an integral part of these financial statements.

1. Nature of Operations

Grey Wolf Exploration Inc. ("the Company") is engaged primarily in the exploration for and production of petroleum and natural gas reserves in Western Canada. The Company was incorporated on December 6, 2002 and acquired certain properties called the Grey Wolf Properties on January 23, 2003 and commenced operations. The Grey Wolf Properties were recorded at their carrying values as they were purchased from two sister companies (Note 3).

2. Summary of Significant Accounting Policies

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

(a) Property and Equipment

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using 6 MCF of natural gas to 1 barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from a sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion by more than 20%. Alberta Royalty Tax Credits are netted against royalties paid.

The Company applies an impairment test ("ceiling test") to determine if capitalized costs are not recoverable and exceed their fair value. Capitalized costs are not recoverable if they are greater than estimated undiscounted cash flows from future production of proven reserves plus the cost (net of impairment) of unproved properties. Commodity prices used in calculating estimated cash inflows are based on quoted benchmark prices in the futures market. Costs used in estimating cash outflows are based on expected future production and other costs and include abandonment and site restoration costs. An impairment loss is recognized if capitalized costs are greater than their recoverable amount. The impairment loss is measured as the amount by which capitalized costs exceed the fair value of proved and probable reserves plus the cost (net of impairment) of unproved properties. Fair value is determined based on the present value of future cash flows, after deducting abandonment and site restoration costs, discounted at a risk-free interest rate. Any impairment loss is charged to earnings.

Office equipment is recorded at cost. Amortization is provided on a declining balance basis at 20%.

2. Summary of Significant Accounting Policies - continued

(b) Joint Venture Operations
All of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Future Income Taxes
The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets are recognized when it is more likely than not that these assets will be realized.

(d) Financial Instruments
The Company holds various forms of financial instruments. The nature of these instruments and the Company’s operations expose the Company to commodity price and credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(e) Measurement Uncertainty
The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for accretion of asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the Company’s interpretation of the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company’s joint venture partners. The effect on the financial statements resulting from such adjustments, if any will be reflected prospectively.

(f) Per Share Amounts
Basic earnings per common share are computed by dividing earnings from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(g) Revenue Recognition
Revenue is recognized on the sale of production when title passes from the Company to its customer.

(h) Foreign Currency
Foreign currency transactions are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

2. Summary of Significant Accounting Policies - continued

(i) Full Cost Accounting Guideline
In September 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 16 "Oil and Gas Accounting – Full Cost" to replace CICA Accounting Guideline 5. The new guideline revised the calculations for the ceiling test calculations. The new guideline is required to be adopted for fiscal years beginning on or after January 1, 2004. These statements reflect the implementation of this new guideline for 2003 in accordance with the transitional provisions that encouraged early adoption.

(j) Stock Based Compensation and Other Stock Based Payments
In September 2003, the CICA issued an amendment to section 3870 "Stock based compensation and other stock based payments". The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. The Company implemented this standard on commencement of operations.

(k) Asset Retirement Obligations
The new CICA standard dealing with accounting for asset retirement obligations changes the method of accruing for certain site-restoration costs. Under the new standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically when the related assets are acquired/installed. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. There are no asset retirement liabilities set up for those assets, which have an indeterminate useful life.

3. Business Acquisition

The Grey Wolf Properties were acquired from related parties (Note 1) and have been accounted for by the purchase method effective January 23, 3004, based on the carrying values of the assets as follows:

	($ 000)
Property and equipment	$ 35,983
Future tax asset	4,437
Asset retirement obligation	(784)
Agreed to exchange amount settled via issuance of shares	(47,188)
Excess of purchase price paid over carrying value	$ (7,552)

4. Property and Equipment

	Cost	Accumulated Depletion and Amortization	Net Book Value
	($ 000)	($ 000)	($ 000)
September 30, 2004 (unaudited)			
Petroleum and natural gas properties	**$ 57,067**	**$ 8,191**	**$ 48,876**
December 31, 2003			
Petroleum and natural gas properties	$ 48,776	$ 2,765	$ 46,011

As at September 30, 2004, the unproved property costs excluded from the depletion base was $3,436 (2003 - $5,518). The Company has also capitalized $668 (2003 - $652) in general and administrative costs.

An impairment calculation was performed on the Company's property, plant and equipment at December 31, 2003 in which the estimated undiscounted future net cash flows associated with the proved and probable reserves exceeded the carrying amount of the Company's property, plant and equipment.

The following table outlines benchmark prices used in the impairment test:

Year	Oil Cdn$/bbl	Gas Cdn$/Mcf
2003	40.09	6.09
2004	54.87	6.42
2005	52.86	6.95
2006	46.85	6.72
2007	40.48	6.56
2008	41.15	6.17
Thereafter	41.91 - 49.08	5.90 - 8.17

5. Due to Parent Company

The Company is a wholly owned subsidiary of Abraxas Petroleum Corporation (the "Parent Company"). The Parent Company funds the Company's activity through an inter-company loan arrangement. Currently the Parent Company does not charge the Company any interest on this inter-company loan. The loan is unsecured and has no terms of repayment. The fair value of the loan is not readily determinable. Subsequent to the period end, the intercompany loan has been repaid with proceeds from the term loan (Note 12(a)).

	September 30, 2004 (unaudited)	December 31, 2003
	($ 000)	($ 000)
Due to parent company	**$ 9,045**	$ 9,420
Corporate service charge in the period (Note 10)	**$ 95**	$ 129

6. Asset Retirement Obligation

The schedule below is a reconciliation of the Corporation's liability:

	September 30, 2004 (unaudited) ($ 000)	December 31, 2003 ($ 000)
Beginning balance	**$ 816**	$ -
Acquisitions	**-**	784
Liabilities incurred	**202**	-
Liabilities settled	**(255)**	(475)
Accretion	**372**	507
	$ 1,135	$ 816

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated to be $1,493,708 as at September 30, 2004 (December 31, 2003 - $1,183,708). The liability for the expected cash flows, as reflected in the consolidated financial statements, has been discounted at 11%.

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Corporation's cash provided by operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year.

7. Share Capital

(a) Authorized

Unlimited number of common shares with participating rights upon liquidation or distribution of the assets of the Company.

7. Share Capital - continued

(b) Issued

	September 30, 2004 (unaudited)		December 31, 2003	
	Number of shares	**Amount**	Number of shares	Amount
		($ 000)		($ 000)
Common shares				
Balance, beginning of period	**4,830**	**$ 47,188**	-	$ -
Issued for cash	**-**	**-**	100	-
Issued for Grey Wolf Properties (Note 3)	**-**	**-**	4,730	47,188
Balance, end of period	**4,830**	**$ 47,188**	4,830	$ 47,188

(c) Options & Warrants

The Company has no issued or outstanding options or warrants as of September 30, 2004 and December 31, 2003.

Subsequent to the period end, the Company has in place a stock option plan to grant options to directors, officers, employees and consultants of the Company. Options granted under the option plan will have an exercise price that is not less than the price allowed by regulatory authorities and will be exercisable for a period not to exceed 5 years. The aggregate number of common shares subject to the options under the plan will not exceed 10% of the common shares then outstanding.

8. Income Taxes

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

	September 30, 2004 (unaudited)	December 31, 2003
	($ 000)	($ 000)
Combined tax rates	**39%**	40.12%
Expected income tax provision at statutory rate	**$ 1,171**	$ 121
Federal resource allowance	**(535)**	(249)
Crown charges	**917**	634
Alberta Royalty Tax Credits	**(94)**	-
Other differences, including change in future tax rate	**(67)**	(145)
Actual income tax provision	**$ 1,392**	$ 361

The accompanying notes are an integral part of these financial statements.

8. Income Taxes - continued

At the end of the period, subject to confirmation by income tax authorities, the Company has approximately the following undeducted tax pools:

	September 30, 2004 (unaudited)	December 31, 2003
	($ 000)	($ 000)
Cumulative Canadian development expenses	**$ 6,740**	$ 4,298
Cumulative Canadian exploration expenses	**2,520**	3,783
Cumulative Canadian oil and gas property expenses	**33,235**	35,428
Undepreciated capital cost	**10,922**	11,122
Unutilized loss carryforwards	**1,248**	1,248
	$ 54,665	$ 55,879

These pools are deductible from future income at rates prescribed by the Income Tax Act (Canada).

The components of the Company's future income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

Nature of temporary differences	**September 30, 2004 (unaudited)**	December 31, 2003
	($ 000)	($ 000)
Property, plant and equipment	**$ 2,100**	$ 3,492
Non-capital loss carryforwards	**462**	462
Other	**122**	122
Future income tax asset	**$ 2,684**	$ 4,076

9. Financial Instruments

As disclosed in Note 2(d), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price and credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk

The Company will be subject to commodity price risk for the delivery of natural gas and crude oil under the contract detailed as per Note 12(b). The Corporation enters into these contracts for the purpose of protecting its future earnings and cash flow from operations from the volatility of crude oil and natural gas commodity prices. The swap contracts reduce the fluctuations in petroleum and natural gas revenues by locking in fixed forward prices on a portion of the Corporation's crude oil and natural gas production.

9. Financial Instruments - continued

(b) Credit risk
The Company is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying planned programs and related results.

10. Related Party Transaction

Except as disclosed elsewhere in these financial statements, the Company had the following related party transaction:

Pursuant to the Corporate Service Agreement, Grey Wolf reimbursed US$75,000 (2003 – US$100,000) to its parent company for its personnel to conduct the business affairs in Canada (Note 5). The agreement is renewed on a yearly basis.

Transactions with related parties are in the normal course of operations and have been recorded at the exchange amounts, which is the amount of consideration established and agreed by the related parties and which are similar to those negotiable with third parties.

11. Commitments

(a) As of January 1, 2004, the Company was committed to a 5-year lease for the rental of its office space. The lease expires on December 31, 2008. The lease calls for base monthly payments of $8,575, plus a proportional share of operating costs.

(b) The Company has entered into a farmout agreement with PrimeWest Energy Trust ("PrimeWest") for their Caroline property. Under the terms of the farmout agreement, PrimeWest is also granted an option, exercisable within 180 days of rig release of the last option well drilled to contract depth, to purchase that portion of the Caroline property which has been assigned proved reserves or probable additional reserves by a third-party engineer in accordance with National Policy 2B for a purchase price equal to the fair market value thereof less $1,000,000. The fair market value is deemed by the Caroline Farmout Agreement to be the present value of the estimated future net cash flows from such properties, before tax, from proven reserves and 50% of probable additional reserves, at a discount rate of 10% per annum, employing an escalating price forecast. In the event the fair market value is determined to be less than or equal to $1,000,000, PrimeWest may purchase the portion of the Caroline Property with assigned proved or probable additional reserves for $1.

11. Commitments - continued

(c) Employment contracts

Subsequent to the period ended September 30, 2004, the Company has entered into employment agreements with certain officers ("officers") of the Company.

The Employment Agreements specify that officers are entitled to a lump sum payment ranging from six to 24 months base salary plus an amount that reflects the value of lost benefits for the same period together with a pro rata amount of any bonus earned to the date of termination in the event they are terminated without cause.

The Employment Agreements also provide that each officer is entitled to a lump sum payment ranging from 12 to 36 months of base salary plus an amount which reflects the value of lost benefits for the same period together with a pro rata amount of any bonus earned to the date of termination in the event a change of control of Grey Wolf occurs and within six months thereafter he is terminated without cause or is constructively dismissed.

The Company has also entered into an executive termination agreement with an officer of the Company. In the event that this individual is terminated without just cause or the Company undergoes a change of control, the Company is obligated to pay this individual a lump sum payment that is equal to 24 months of the salary of the President of Grey Wolf plus an amount equal to the cost of benefits provided by the Corporation to the individual for the same period.

12. Subsequent Events

(a) On October 28, 2004, the Company entered into a Term Loan Agreement in the amount of US $35,000,000. This amount will bear interest at a base rate plus spread, collateralized as detailed below and due 5 years from the date of closing. The base rate is defined as the prime rate of interest specified under the Bloomberg reference identified as "PRIMBB Index", however, if such rate is not available, "shall mean such rate of interest as is publicly announced by Citibank, N.A. in New York, New York. The spread is 6.25% and will increase by 0.75% on April 29, 2005 and every six months thereafter. Principal payments are due as follows:

(i) on the first anniversary, US$1,750,000;
(ii) on the second anniversary, US$1,750,000;
(iii) on the third anniversary, US$1,750,000;
(iv) on the fourth anniversary, US$3,500,000; and
(v) on the fifth anniversary (maturity date), the remaining principal and any other amounts.

The proceeds of the Term Loan were paid to the Parent Company to settle outstanding inter-corporate debt, on account of a return of paid up capital, and in consideration for the release of the Company from all obligations relating to or arising under the loan obligations of the Parent Company.

The Company's obligations under the Term Loan will be collateralized by the Company and by each of the Company's future subsidiaries by a first priority perfected security interest, subject to certain permitted encumbrances, in all of the Company's and each of its subsidiaries' material property and assets, including substantially all of their natural gas and crude oil properties and all of the shares in the capital stock of any entity owned by the Company and its subsidiaries.

12. Subsequent Events - continued

The balance sheet, had the transaction (loan and subsequent transfer of fund) been completed on September 30, 2004, on a pro forma basis would be as follows (assuming an exchange rate of US 1.0 for CDN 1.4):

As at	September 30, 2004 (unaudited)	Effect of term loan	Pro forma September 30, 2004 (unaudited)
	($ 000)	($ 000)	($ 000)
Current assets	$ 2,244		$ 2,244
Future income tax asset	2,684		2,684
Property and equipment	48,876		48,876
	$ 53,804		$ 53,804
Current liabilities	$ 11,558	(9,045)	$ 2,513
Current portion of term loan	-	49,000	49,000
Total current liabilities			51,513
Asset retirement obligation (Note 6)	1,135		1,135
Shareholders' equity	41,111	(39,955)	1,156
	$ 53,804		$ 53,804

The entire amount of the term loan has been reflected as a current liability as the Company intends to repay it in the next 12 months.

(b) The Company has incurred a firm obligation to deliver 3,000 GJ/d for a period of six months commencing on January 1, 2005. This amount represents approximately 30% of the Company's current daily production of 1,658Boe/d. The price received for such production shall fluctuate at a slight discount to the market price but in no event shall be less than $5.79 per GJ.

(c) On January ●, 2005, the Company filed a preliminary prospectus pursuant to an initial public offering by the Company of ● common shares and a secondary offering of ● common shares which are being offered by the Parent Company, at a price in each case of $● per common share. The Company and the Parent Company have agreed to proportionately pay a commission to the Underwriters equal to 6% of the gross amount raised from the offering. Estimated expenses of the offering are ●, which will also be shared proportionately by the Company and the Parent Company.

(d) Subsequent to the period ended September 30, 2004, the Company has received a commitment letter from a Canadian chartered bank to provide a credit facility in the amount of $10,000,000 subject to the satisfaction of certain conditions, including the completion of the offering (Note 12(c)). The terms of the credit facility are under negations.

(e) Subsequent to the period ended September 30, 2004, the Company filed Articles of Amendment to remove private company and share transfer restrictions and to split its common shares on the basis of 2,692 common shares for each previously outstanding common share.

12. Subsequent Events - continued

(f) Subsequent to the period ended September 30, 2004, the Company has entered into two compressor leases. One calls for monthly payments of $12 per month for one year and the other lease calls for monthly payments of $16 for two years.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF OPERATIONS FOR THE RETAINED PRODUCING PROPERTIES

Grey Wolf Exploration Inc.
Schedule of Selected Financial Information

For the nine month period ended December 31, 2002

Contents

Auditors' Report

To the Directors of
Grey Wolf Exploration Inc.

We have audited the schedule of selected financial information for certain oil and gas properties acquired by Grey Wolf Exploration Inc. ("the Company") on January 23, 2003 as detailed in Note 1, for the nine month period ended December 31, 2002. This financial information is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial information 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 information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of such financial information.

In our opinion, this financial information presents fairly, in all material respects, the net production of certain properties as detailed in Note 1 for the nine month period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Calgary, Alberta
December 20, 2004

Grey Wolf Exploration Inc.
Schedule of Selected Financial Information

	For the nine months ended December 31, 2002
Revenue	
Petroleum and natural gas sales	$ 1,760,524
Less: royalties	(499,870)
	1,260,654
Expenses	
Production	179,233
Net production for the period	$ 1,081,421

The accompanying notes are an integral part of this financial schedule.

For the nine month period ended December 31, 2002

1. Basis of Presentation

On January 23, 2003, the Company completed the acquisition of certain oil and gas properties. These properties are located in the Knopcik, Manola, Pouce Coupe, and Ladyfern areas. This schedule of selected financial information ("the Schedule") represents the revenues, net of related royalties, and direct production costs for the referenced properties for the nine month period ended December 31, 2002. The properties began production on April 1, 2002.

No general and administrative expenses, interest, depletion or income taxes have been presented in this schedule of selected financial information.

2. Summary of Significant Accounting Policies

a) Joint venture operations
When the Company's petroleum and natural gas exploration activities are conducted jointly with others, this Schedule reflects only the Company's proportionate interest in such activities.

b) Measurement uncertainty
The Schedule includes accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the schedule resulting from such adjustments, if any will be reflected prospectively.

3. Revenue Recognition

Revenue is recognized on the sale of production and is net of transportation costs when title passes to the customer.

4. Notice to Reader

This schedule of selected financial information has been prepared to provide specific information on the revenues, net of related royalties, and direct production costs for certain producing properties acquired by Grey Wolf Exploration Inc. in the Knopcik, Manola, Pouce Coupe, and Ladyfern areas. Readers are cautioned that this information is of limited use and should not be used for general purposes.

APPENDIX C

UNAUDITED PRO FORMA STATEMENTS OF EARNINGS

COMPILATION REPORT

To the Directors of:
Grey Wolf Exploration Inc. ("Grey Wolf")

We have read the accompanying unaudited pro-forma statement of operations for the year ended December 31, 2003 for Grey Wolf and have performed the following procedures.

1. Compared the figures in the column captioned "Grey Wolf" to the audited statement of operations of Grey Wolf for the initial 390 day period ended December 31, 2003, and found them to be in agreement.

2. Made enquiries of certain officials of Grey Wolf who have responsibility for financial and accounting matters about:

   (a) or determination of the pro forma adjustments; and
   (b) whether the pro-forma financial statements comply as to form in all material respects with the requirements of securities regulators.

   The officials:

   (a) described to us the basis for determination of the pro forma adjustments, and
   (b) stated that the pro forma statements comply as to form in all material respects with the requirements of securities regulators.

3. Read the notes to the pro-forma statement, and found them to be consistent with the basis described to us for determination of the pro-forma adjustments.

4. Recalculated the application of the pro-forma adjustments to the aggregate of the amounts in the columns captioned "Grey Wolf", and "Grey Wolf Properties" (as applicable) for the year ended December 31, 2003, and found the amounts in the column captioned "Pro-forma Grey Wolf" to be arithmetically correct.

A pro-forma financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro forma adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the pro forma financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

Chartered Accountants

Calgary, Alberta
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Grey Wolf Exploration Inc.
Pro-Forma Statement of Operations
(unaudited)

($ 000 except for per share amounts)

For the year ended December 31, 2003	Grey Wolf (Note 1)	Grey wolf Properties (1)	Pro-Forma Adjustments	Notes	Pro-Forma Grey Wolf
Revenues					
Petroleum and natural gas sales	$ 8,942	$ 412			$ 9,354
Royalties, net of royalty tax credits	(1,599)	(92)			(1,691)
	7,343	320			7,663
Expenses					
Depletion, amortization and accretion	3,272	-	111	3	3,383
General and administrative	1,515	-			1,515
Production	1,145	49			1,194
Transportation	217	-			217
Settlement of legal dispute	900	-			900
	7,049	49			7,209
Income before other income (loss) and income taxes	294	271			454
Other income (loss)					
Foreign exchange	(6)				(6)
Interest	13	-			13
	7				7
Income before income taxes	301	271			461
Income taxes					
Large corporation	75	-			75
Future	361	-	(36)	3	325
	436				400
Net income (loss) for the period	$ (135)	$ 271			$ 61
Pro forma income per share					
- basic & diluted (pre stock split)					$ 12.63
- basic & diluted (post stock split)					$ 0.005
Pro forma weighted average number of shares outstanding					
- basic & diluted (pre stock split)					4,830
- basic & diluted (post stock split)					13,002,360

(1) Reflects the operations of the Properties for the 23 day period ended January 23, 2003.

1. Basis of Presentation

The unaudited pro-forma statement of operations for the year ended December 31, 2003 has been prepared from the audited financial statements for the initial 390 day period ending December 31, 2003 for Grey Wolf Exploration Inc. ("Grey Wolf"). This pro-forma statement should be read in conjunction with the financial statements of Grey Wolf including the notes thereto.

The accompanying unaudited pro-forma statement of operations has been prepared by management in accordance with Canadian generally accepted accounting principles.

The pro-forma statement of operations for the year ended December 31, 2003 gives effect to the significant acquisition of properties on January 23, 2003, as if they had been acquired on January 1, 2003. The 25 day period from December 6, 2002 to December 31, 2002 have been excluded from initial 390 day period ending December 31, 2003 results, resulting in an effect of $nil on the statement of operations.

This pro-forma statement is not necessarily indicative of the results of operations that would have occurred in the year ended December 31, 2003 had the significant acquisition of properties on January 23, 2003 been effected on January 1, 2003. In preparing this pro forma statement, no adjustment has been made to reflect the operating synergies and general and administrative costs savings.

2. Pro-Forma Transaction

The pro-forma statement of operations give effect to the following transaction:

The significant acquisition of the Grey Wolf Properties on January 23, 2003 from the Parent Company of Grey Wolf, as if they had been acquired on January 1, 2003.

3. Pro-Forma Adjustment

The pro-forma statement of operations gives effect to the following transactions up to December 31, 2003:

(a) Depletion and accretion of asset retirement obligation for the year would both increase as a result of owning these properties for an additional 23 days. There is no adjustment for any transportation, general and administrative or interest costs provided in this pro forma statement if the properties had been acquired 23 days earlier. Depletion would have increased by $111,000 with related future tax effect of approximately $36,000. The increase in accretion of asset retirement obligation would be immaterial.

(b) To reflect net effect on the earnings per share for a 1 to 2,692 stock split effected January 13, 2005.

APPENDIX D

REPORT ON RESERVES DATA BY D&M IN FORM 51-101F2

FORM 51-101F2

REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR

To the board of directors of Grey Wolf Exploration Inc. (the "Company"):

1. Pursuant to the request of the Company, we have evaluated the Company's reserves data as of September 30, 2004. The reserves data consist of the following:

   (a) (i) proved and proved-plus-probable oil and gas reserves estimated as of September 30, 2004 using forecast (as defined in our report) prices and costs; and

   (ii) the related estimated future net revenue; and

   (b) (i) proved and proved-plus-probable oil and gas reserves estimated as of September 30, 2004 using constant (as defined in our report) prices and costs; and

   (ii) the related estimated future net revenue.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to assure reserves data are free of material misstatement and are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of Canadian income taxes) in thousands of Canadian dollars (M$) for proved plus probable reserves evaluated by us, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, evaluated as of September 30, 2004, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of [Audit/ Evaluation/ Review] Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before Canadian Income Taxes discounted at 10 percent)			
			Audited (M$)	Evaluated (M$)	Reviewed (M$)	Total (M$)
DeGolyer and MacNaughton	Appraisal Report as of September 30, 2004 on Certain Properties owned by Grey Wolf Exploration Inc. in Canada	Western Canada	Not Applicable	81,415	Not Applicable	81,415

5. In our opinion, the reserves and revenue evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

DeGolyer and MacNaughton
Dallas, TX, USA
dated January 14, 2005

DeGolyer and MacNaughton

(signed) "*Paul J. Szatkowski, P.E.*"

Paul J. Szatkowski, P.E.
Senior Vice President

DeGolyer and MacNaughton

APPENDIX E

REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE IN FORM 51-101F3

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Grey Wolf Exploration Inc. (the "Company") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

(a) (i) proved and proved plus probable oil and gas reserves estimated as of September 30, 2004 using forecast prices and costs; and

(ii) the related estimated future net revenue; and

(b) (i) proved oil and gas reserves estimated as of September 30, 2004 using constant prices and costs; and

(ii) the related estimated future net revenue.

An independent qualified reserves evaluator has audited the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The board of directors of the Company has

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affecting the ability of the independent qualified reserves evaluator to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved

(a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;

(b) the filing of the report of the independent qualified reserves evaluator on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Dated January 14, 2005

(signed) *"Robert L.G. Watson"*	(signed) "*Vincent J. Tkachyk*"
Robert L.G. Watson	Vincent J. Tkachyk
Chief Executive Officer and Director	President and Director

CERTIFICATE OF GREY WOLF EXPLORATION INC.

January 14, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, *1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador), by the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut), and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations under that act, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) *"Robert L.G. Watson"*
Chairman & Chief Executive Officer

(signed) *"Francis T.W. Cheung*"
Chief Financial Officer

On behalf of the Board of Directors

(Signed) "*Vincent J. Tkachyk*"
Director

(signed) *"Mark R. Smith"*
Director

CERTIFICATE OF THE PROMOTER

January 14, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, *1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador), by the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut), and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations under that act, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) *"Robert L.G. Watson"*
President and Chief Executive Officer

(signed) *"Chris E. Williford"*
Executive Vice President and Chief Financial Officer

CERTIFICATE OF THE UNDERWRITERS

January 14, 2005

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, *1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador), by the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut), and the respective regulations thereunder. To our knowledge, this prospectus, as required by the *Securities Act* (Quebec) and the regulations under that act, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

CIBC WORLD MARKETS INC.

(Signed) *"Arthur N. Korpach"*

BMO NESBITT BURNS INC.	GMP SECURITIES LTD.
(Signed) *"Shane C. Fildes"*	(Signed) *"Matt Sobolewski*"

CANACCORD CAPITAL CORPORATION

(Signed) *"Richard A. Grafton*"