MATERIAL CHANGE REPORT

Section 85(1) of the *Securities Act* (British Columbia)
Section 146(1) of the *Securities Act* (Alberta)
Section 75(2) of the *Securities Act* (Ontario)
Section 81(2) of the *Securities Act* (Nova Scotia)
And Similar Provisions of Other Provincial Securities Legislation

1. **Reporting Issuer**

The name and address of the reporting issuer is:

Rally Energy Corp.
2000, 715 - 5th Avenue S.W.
Calgary, AB T2P 2X6

2. **Date of Material Change**

The material change occurred on November 25, 2003.

3. **Press Release**

A press release reporting the material change was issued on November 25, 2003 at Calgary, Alberta.

4. **Summary of Material Change**

Rally Energy announced third quarter results.

5. **Full Description of Material Change**

Please see attached press release of Rally Energy Corp. dated November 25, 2003.

6. **Reliance on Confidential Disclosure Provisions**

None.

7. **Omitted Information**

None.

8. **Senior Officer**

For further information, please contact John G.F. McLeod, President and Chief Executive Officer of Rally Energy Corp. by phone at (403) 538-3709 or by fax at (403) 538-3705.

9. **Statement of Senior Officer**

The foregoing accurately discloses the material change referred to herein.

DATED November 26, 2003 at Calgary, Alberta.

RALLY ENERGY CORP.

By: (signed)

Douglas Urch
Vice President, Finance and
Chief Financial Officer

IT IS AN OFFENCE UNDER THE SECURITIES ACT AND THE SECURITIES REGULATIONS FOR A PERSON OR COMPANY TO MAKE A STATEMENT IN A DOCUMENT REQUIRED TO BE FILED OR FURNISHED UNDER THE ACT OR THE REGULATIONS THAT, AT THE TIME AND IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH IT IS MADE, IS A MISREPRESENTATION.

November 25, 2003

Rally Energy Announces Third Quarter Results

Contact: **John G.F. McLeod, President & CEO** **Tel: (403) 538-0000**
Ron D. Johnston, Vice President **Fax: (403) 538-3705**

"RAL"-TSX Venture Exchange **"RLE"**-Frankfurt Stock Exchange **www.rallyenergy.com**

MESSAGE TO SHAREHOLDERS

Highlights

In the third quarter of 2003, Rally Energy Corp ("Rally Energy" or the "Corporation") made significant progress in Egypt. Three new wells were drilled in the Ras Issaran oilfield. The first well, #25, encountered a thick column of Dolomite oil pay which exhibited excellent reservoir characteristics. Production from this well has now stabilized at about 1,000 bbls/day. Completion work continues on the second and third wells to achieve co-mingled Dolomite and Gharandal zone production.

In October and November, Rally Energy recompleted two shut-in wells in the Zeit sand, a previously untested formation which overlies a large portion of the Issaran oilfield. Initial oil production from the first well (#3) was over 100 bbls/d and appears to have stabilized in the 50 bbls/d range. Initial oil production from the second well (#18) has exceeded 100 bbls/d.

Average production for the nine months ended September 30, 2003 was 962 bbls/d. Production in the third quarter of 2003 averaged 865 bbls/d and increased to 1,368 bbls/d in October. Current production is in excess of 1,900 bbls/d.

Gross Revenue for the nine months ended September 30, 2003 was $7.2 million, resulting in Cash Flow from Operations of $685,000.

Egypt

In Egypt, three wells were drilled during the third quarter, well #'s 25, 27, and 33. A very substantial Dolomite oil column was encountered in well #25. This well was tested to ascertain Lower Dolomite reservoir characteristics with a three phase completion program that commenced in August. The well exhibited excellent porosity and permeability in the Lower Dolomite with good pressure. Initial production of 150 bbls/d was achieved with the first small perforation as the well was monitored for performance. By the end of September, the well was producing in the 300 bbl/d range as more of the Lower Dolomite pay was perforated. By the middle of November, the well was producing over 1,000 bbls/d from 141 feet of perforated Lower Dolomite pay. This well is significant for Rally Energy as it provides a new target for development in the Issaran oilfield. Completion work continues on well #'s 27 and 33 to achieve co-mingling Dolomite and Gharandal zone production.

As a result of inconsistencies between drilling results from recent wells and 3-D seismic mapping, a decision was made during the third quarter to have the 3-D seismic reprocessed. It is anticipated that this will be completed in its entirety by early December and we are optimistic that we will have a number of new locations available for drilling.

In October, Rally Energy re-entered an abandoned well bore (#3) and tested the Zeit sand formation. This sand formation has a large areal extent at shallow depths. The initial production rate for this well, from eight feet of net pay, was over 100 bbls/d with production settling in the 50-65 bbls/d range by the end of October. In early November, well #18, a shut-in well, was similarly re-completed and perforated in the Zeit sand. Initial production has exceeded 100 bbls/d. Additional re-completion work and mapping for Zeit drilling locations is now underway. It is expected that new Zeit wells may be drilled prior to year end, with an extensive program possible in 2004.

Prince Edward Island

On PEI, our second exploration well, Seaview #1, spudded on June 29 and was cased as a potential gas well. Completion work commenced on August 22, however, this well did not test commercial gas and has been suspended pending further analysis and study.

During the third quarter, three lines of seismic were shot covering 21 kilometres and an airborne Gravity/Magnetic survey covering all of Rally Energy's PEI acreage commenced. The data has now been processed and interpretation is ongoing. No further PEI activities are planned for the remainder of 2003.

Rally Energy is the operator of eight PEI permit areas. The Corporation currently holds a 100% working interest in 65,917 acres, an 80% working interest in 525,857 acres and a 55% working interest in 116,279 acres.

Western Canada

In November, Rally Energy participated in the drilling of two non-operated wells. The first well, a Saskatchewan oil prospect, was cased and is awaiting completion. The second well, a Viking gas prospect in Alberta, was drilled and abandoned. Under a separate farm-in arrangement, Rally Energy, as operator, has drilled a prospective oil well at Provost, Alberta. All these farm-ins have potential for follow-up development locations based on the performance of the initial wells. It is anticipated that the Corporation will participate in other low-risk exploration or development projects in Alberta and British Columbia prior to year end.

Pakistan

January 18, 2004 will mark the second anniversary of the Concession Agreement covering the Safed Koh Block in Pakistan. Prior to that date, the Corporation must commit to a program for either drilling an exploration well or deepening an existing well, otherwise the Corporation must relinquish the Concession Area. The Corporation is pursuing financing alternatives, including joint ventures, in order to fund this capital program.

Overview

Rally Energy is poised to continue development of the Issaran oilfield. The immediate goal of the Corporation is to methodically build production in Egypt. We are confident that we can achieve cost-effective drilling for production and additional reserves. With the emergence of the Lower Dolomite success in well #25, Rally Energy will focus on that zone as well as on the Nukhul and Gharandal zones as primary development targets. The Zeit sand potential is expected to be exploited through an extensive low cost development program to run concurrently with the deeper exploration program.

On PEI, we intend to continue in 2004 with our efforts to identify commercial accumulations of natural gas at shallow depths. The information received from testing of the Seaview #1 well, along with the new seismic and magnetic/gravity data will provide considerable insight towards the achievement of that goal.

In Western Canada, Rally will participate in a number of exploration and development wells, with a total of approximately $1.0 million to be spent on the Western Canada programs prior to year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis covers the operations of Rally Energy Corp. ("Rally Energy" or the "Corporation") and its subsidiaries, including Scimitar Hydrocarbons Corporation ("Scimitar"), which was acquired on July 10, 2002. The mid-2002 timing of this acquisition materially impacts on the comparability of results between the 2003 and 2002 periods ending September 30.

Production and Revenues

Average oil production for the nine months ended September 30, 2003 was 962 bbls/d. Gross revenue from oil sales was $7.2 million, before royalties and related credits, representing an average realized oil price of $27.27 per barrel. Third quarter production averaged 865 bbls/d, slightly less than the 896 bbls/d reported in the second quarter of 2003. New drilling in the Issaran field in late July resulted in increased production for August and September of 859 and 949 bbls/d, respectively, compared to 789 bbls/d in July. Higher oil prices in the third quarter 2003 resulted in higher gross revenue of $2.1 million ($26.22/bbl) for the period, as compared to $1.8 million ($22.53/bbl) in the second quarter 2003. For the comparative nine month period ended September 30, 2002, Rally Energy reported gross revenue of $1.7 million, primarily reflecting results from operations subsequent to the acquisition of Scimitar on July 10, 2002.

Production Fees

Under the terms of the Issaran oilfield Petroleum Service Agreement, as amended, 15% of new oil well production and 45% of production from old oil wells is credited to the account of The General Petroleum Co., S.A.E. ("GPC"). This payment satisfies the Corporation's entire tax liability for Issaran oil production in Egypt. For the nine months ended September 30, 2003, GPC payments totaled $1.5 million ($5.57/bbl), representing 20% of gross revenue. For the third and second quarters of 2003, the amounts paid to the GPC were $445,000 and $380,000, respectively. Pursuant to the terms of a marketing agreement, a marketing fee, linked to realized oil prices, of $89,000 ($0.34/bbl) was paid during the nine month period ended September 30, 2003.

Operating Expenses

Operating expenses for the nine months ended September 30, 2003 were $2.7 million ($10.10/bbl). For both the second and third 2003 quarters, operating expenses remained relatively consistent at $702,000 ($8.61/bbl) and $697,000 ($8.76/bbl), respectively. Higher oil production during the fourth quarter 2003 is expected to result in lower per unit costs since approximately 48% of the operating expenses are fixed.

As a percentage of gross revenue, operating expenses represent 37% of gross revenues for the nine months ended September 30, 2003 and 33% for the third quarter.

General and Administrative Expenses

On a quarterly basis, consolidated general and administrative expenses decreased to $693,000 for the third quarter 2003 from $734,000 for the second quarter 2003. For the nine months ended September 30, 2003, consolidated general and administrative expenses were $2.3 million as compared to $1.3 million for the comparable 2002 period, primarily as a result of increased corporate activity and additions to the technical staff of the Corporation. Rally Energy capitalizes the portions of general and administrative expenses that relate to exploration projects in PEI and Pakistan. Currently, all general and administrative costs related to Egypt are associated with development activities and, accordingly, none have been capitalized. During the first nine months of 2003, approximately 21% ($603,000) of general and administrative costs were capitalized. For the comparative 2002 period, the Corporation capitalized $343,000 (22%) of general and administrative costs.

Depletion and Depreciation

Total depletion and depreciation charges for the nine months ended September 30, 2003 were $3.9 million, of which the depletion charge pertaining to producing properties in Egypt represented $3.7 million. The remainder represents fixed asset depreciation. No depletion has been calculated on either the PEI or Pakistan projects as they are still in the pre-production stage. Depletion and depreciation charges for the comparable 2002 nine month period were $575,000.

Drilling activity in Egypt during the third quarter of 2003 has achieved higher oil production levels subsequent to the end of the third quarter. Any increase in our proved reserve base as a result of drilling will lower depletion rates for future reporting periods. During 2003, the depletion expense has been determined using the unit-of-production method based on 1.11 million barrels of proved reserves at December 31, 2002, as evaluated by Outtrim Szabo Associates Ltd., an independent reservoir evaluation firm.

Cash Flow from Operations and Net Loss

For the nine months ended September 30, 2003, Rally Energy's cash flow from operations increased to $685,000 ($0.01/share) from a deficiency of $491,000 ($0.02/share) for the comparable 2002 period. On a quarterly basis, cash flow from operations was $55,000 ($nil/share) and $94,000 ($nil/share) for the third and second quarters, respectively, as compared to deficiencies of $67,000 ($nil/share) and $278,000 ($0.01/share) for the respective 2002 quarters.

The Corporation acknowledges that cash flow from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital items. Accordingly, this performance indicator may not be comparable to similar measures used by other companies.

The net loss for the nine months ended September 30, 2003, was $3.4 million ($0.06/share) compared to a net loss of $1.1 million ($0.04/share) for the corresponding 2002 period. On a quarterly basis, net losses were $1.3 million ($0.02/share) and $1.2 million ($0.02/share) for the third and second quarters, respectively, as compared to losses of $657,000 ($0.02/share) and $279,000 ($0.01/share) for the respective 2002 quarters.

Capital Expenditures

During the nine months ended September 30, 2003, the Corporation's capital expenditure program totaled $8.0 million, allocated as follows: Egypt ($5.2 million); Canada ($2.4 million); and Pakistan ($432,000). Rally Energy was very active during the third quarter and invested $4.5 million in capital expenditures as compared to $1.1 million in the second quarter 2003 and $975,000 for the third quarter 2002. The third quarter 2003 expenditures of $4.5 million relate to: $2.9 million for activities in Egypt (primarily drilling and workovers), $1.4 million for activities in Canada (drilling $770,000; seismic $600,000) and the remaining $139,000 in Pakistan (primarily capitalized overhead).

In Egypt, three wells were drilled and workover operations were conducted. These activities have resulted in increased production and the discovery of new producing horizons. On PEI, Rally Energy drilled, completed and tested its second exploration well (Seaview #1), however, the results did not yield commercial indications of natural gas and the well was suspended. In relation to Seaview #1, we are currently investigating potential stimulations to counter near wellbore or reservoir damage which may have affected the ability to properly test target formations. During the third quarter, additional seismic was shot in PEI, including a high resolution airborne gravity and magnetic survey over Rally Energy's permits. In Pakistan, work continued with respect to a program for re-entry into two existing gas wells. The Pakistan work commitments for 2003 were completed during the first quarter of 2003 and resulted in the release of US$553,000 in restricted cash deposits.

In preparation for further drilling in Egypt, Rally Energy has already purchased casing and tubing. These purchases are reflected in the higher than normal casing, tubing and consumable material inventory level of $1.4 million at September 30, 2003, which is apportioned between current assets ($865,000) and property, plant and equipment ($585,000).

Liquidity and Capitalization

At September 30, 2003, Rally Energy had a cash position of $3.4 million, as compared to $1.8 million at December 31, 2002. Working capital at September 30, 2003 increased to $439,000, a slight increase from working capital of $208,000 at December 31, 2002. In addition, Rally Energy has $585,000 of capital inventory (casing/tubing) purchased for use in future drilling operations. The significant increase in capital expenditures during the third quarter resulted in a high level of accounts payable.

At September 30, 2003, Rally Energy has accrued $250,000 on account of interest expenses, primarily related to the $6.0 million 12% convertible debentures that were issued on June 13, 2003 and require semi-annual interest payments (January and July). In addition to the $2.5 million equity unit offering completed during the second quarter 2003, during the first nine months of 2003, equity proceeds of $266,000 resulted from exercise of an aggregate of 600,000 common share options at an average price of $0.44 per share.

During 2002, Rally Energy issued $450,000 of 12% convertible subordinated debentures to replace convertible debentures that had been issued by Scimitar. These debentures were all converted into 584,415 common shares on January 22, 2003 at a conversion price of $0.77 per share.

Rally Energy Corp.
Consolidated Interim Balance Sheet
(Prepared by Management)

	September 30 2003 (unaudited)	December 31 2002 (audited)
Assets		
Current		
Cash	**$ 3,420,800**	$ 1,811,851
Restricted cash (Note 1)	**-**	872,413
Accounts receivable	**1,595,257**	1,692,666
Cash calls	**72,921**	936,015
Inventory (Note 2)	**865,219**	431,966
Prepaid expenses and deposits	**155,237**	314,717
Marketable securities	**1,871**	1,871
	6,111,305	6,061,499
Property, plant and equipment (Note 2)	**28,075,574**	23,359,852
Deferred charges (Note 3)	**383,922**	-
	$ 34,570,801	$ 29,421,351
Liabilities and Shareholders' Equity		
Current		
Accounts payable – trade	**$ 2,098,646**	$ 3,036,598
Accounts payable – capital	**3,545,718**	1,880,850
Cash call obligations	**27,842**	936,015
	5,672,206	5,853,463
Convertible debentures (Note 3)	**5,604,891**	450,000
Shareholder's equity		
Equity instruments (Note 4)	**33,303,521**	29,770,201
Shareholder advances	**(120,000)**	(144,000)
Deficit	**(9,889,817)**	(6,508,313)
	23,293,704	23,117,888
	$ 34,570,801	$ 29,421,351

On behalf of the Board: *"signed" John G.F. McLeod* Director

"signed" Blair Coady Director

Rally Energy Corp.
Consolidated Interim Statement of Operations and Deficit
(Prepared by Management)

	For the three months ended September 30		For the nine months ended September 30	
	2003	2002	**2003**	2002
	(unaudited)		(unaudited)	
Oil and gas revenue	**$ 2,086,136**	$ 1,666,102	**$ 7,162,051**	$ 1,673,409
Less: Royalties & related credits	**(469,364)**	(439,743)	**(1,551,245)**	(439,743)
	1,616,772	1,226,359	**5,610,806**	1,233,666
Operating expenses	**696,847**	473,183	**2,652,254**	473,183
Netback from operations	**919,925**	753,176	**2,958,552**	760,483
Expenses				
Administration expenses:				
Legal, professional and audit	**60,160**	67,461	**276,868**	103,198
Shareholder reporting and communication	**104,690**	59,965	**269,710**	126,439
Administration	**528,376**	717,446	**1,751,832**	1,037,243
	693,226	844,872	**2,298,410**	1,266,880
Depletion and depreciation	**1,280,771**	570,708	**3,945,495**	574,926
	1,973,997	1,415,580	**6,243,905**	1,841,806
Loss before under noted items	**(1,054,072)**	(662,404)	**(3,285,353)**	(1,081,323)
Other items				
Interest income (expense)	**(257,952)**	(20,193)	**(326,348)**	(29,252)
Foreign exchange translation	**52,780**	25,822	**230,197**	25,822
Loss for the period	**(1,259,244)**	(656,775)	**(3,381,504)**	(1,084,753)
Deficit, beginning of period	**(8,630,573)**	(4,551,191)	**(6,508,313)**	(4,123,213)
Deficit, end of period	**$ (9,889,817)**	$ (5,207,966)	**$ (9,889,817)**	$ (5,207,966)
Loss per share	**$ (0.02)**	$ (0.02)	**$ (0.06)**	$ (0.04)

Rally Energy Corp.
Consolidated Interim Statement of Cash Flows
(Prepared by Management)

	For the three months ended September 30		For the nine months Ended September 30	
	2003	2002	**2003**	2002
	(unaudited)		(unaudited)	
Operating activities				
Loss for the period	**$ (1,259,244)**	$ (656,775)	**$ (3,381,504)**	$ (1,084,753)
Non-cash items:				
Stock compensation expense	**33,821**	19,226	**120,509**	19,226
Depletion and depreciation	**1,209,950**	570,708	**3,862,867**	574,926
Amortization of deferred charges	**70,821**	-	**82,628**	-
Cash flow from operations	**55,348**	(66,841)	**684,500**	(490,601)
Changes in non-cash working capital balances:				
Accounts receivable	**(106,789)**	63,575	**1,832,916**	(40,301)
Prepaid expenses and deposits	**56,249**	(54,521)	**159,480**	(54,521)
Inventory	**(184,891)**	(33,182)	**(82,575)**	(33,182)
Accounts payable	**(843,068)**	(864,118)	**(1,846,125)**	(757,477)
	(1,023,151)	(955,087)	**748,196**	(1,376,082)
Capital expenditures	**(4,451,679)**	(975,097)	**(8,044,173)**	(3,444,203)
Inventory – capital program	**(24,002)**	-	**(935,094)**	-
Corporate acquisition	**-**	(531,335)	**-**	(1,605,151)
Proceeds from sale of oil and gas interests	**-**	-	**50,000**	-
Changes in non-cash working capital	**2,341,785**	-	**1,664,868**	-
	(2,133,896)	(1,506,432)	**(7,264,399)**	(5,049,354)
Financing activities				
Convertible debentures issued, net	**-**	-	**5,575,341**	-
Issuance of equity instruments, net	**(1,618)**	672,544	**2,549,811**	6,693,705
Notes payable reduction	**-**	-	**-**	(475,523)
	(1,618)	672,544	**8,125,152**	6,218,182
Increase (decrease) in cash	**(3,158,665)**	(1,788,975)	**1,608,949**	(207,254)
Cash, beginning of period	**6,579,465**	2,201,067	**1,811,851**	619,346
Cash, end of period	**$ 3,420,800**	$ 412,092	**$ 3,420,800**	$ 412,092
Cash flow per share	**$ nil**	$ nil	**$ 0.01**	$ (0.02)

The interim consolidated financial statements of Rally Energy Corp. (the "Corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2002. The disclosure which follows is incremental to the disclosure included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual report for the year ended December 31, 2002.

1. Restricted Cash

As at September 30, 2003, the restricted cash balance was nil. At December 31, 2002, US$553,000 ($872,413 at December 31, 2002 exchange rates) was on deposit with the Royal Bank of Canada as security for a US$553,000 bank guarantee issued to the Government of Pakistan. The bank guarantee was in respect of Pakistan work commitment capital expenditures of US$100,000 and US$453,000 required in 2002 and 2003, pursuant to the January 18, 2002 Concession Agreement. All expenditure obligations for 2002 and 2003 have been completed, the guarantee was released on March 27, 2003 and US$553,000 cash was released to the Corporation.

2. Inventory

At September 30, 2003, the Corporation held $1,450,000 of inventory available for use in the Issaran oilfield in Egypt. Of this amount, (i) $1,286,000 relates to capital equipment (of which $585,000 is included in Property, Plant and Equipment), and (ii) $164,000 represents consumable supplies to be used in oilfield operations.

3. Convertible Debentures

On June 13, 2003, the Corporation issued $6.0 million, 12% unsecured convertible subordinated debentures which are entitled to semi-annual interest payments and mature on July 1, 2006. The debentures are convertible, at the option of the holder, at any time prior to July 1, 2005, into common shares at a conversion price of $1.00 per common share. After July 1, 2005, the conversion price increases to $1.10 per common share. The debentures are not redeemable by the Corporation prior to January 1, 2005. Thereafter, the debentures are redeemable at par, in whole or in part, if the closing price of Rally's common shares is at or above $2.00 for 30 consecutive trading days. An agent's commission of $420,000 was paid in relation to debenture subscriptions. The legal fees and cash commissions incurred to secure the debenture financing are recorded as deferred charges and the related amortization charges have been included in interest and related charges.

The equity portion of the convertible note represents $437,000 as determined using a Black-Scholes model for an equivalent non-convertible instrument. Amortization of the debt discount is recognized in the income statement over the duration of the debt instrument as interest and related charges. The liability element is subsequently reported at amortized cost and the value of the equity conversion option is not changed in future periods.

As part of the 2002 Scimitar acquisition, certain directors of the Corporation, or companies related to them, subscribed for an aggregate $450,000 principal amount of convertible subordinated debentures. The debentures bore interest at 12%, payable monthly, with maturity on July 10, 2004. During the first quarter of 2003, the debentures were fully converted into 584,415 common shares of the Corporation at a conversion price of $0.77 per share.

4. Equity Instruments

(a) Issued and outstanding

	Number of Shares	Amounts
Common Shares		
Balance, December 31, 2002	**49,961,273**	**$23,363,050**
Private placement – unit subscription	**2,941,177**	**2,435,100**
Special warrants exercised – common shares (2)	**13,450,000**	**6,725,000**
Stock options exercised	**600,000**	**266,000**
Conversion of debentures	**584,415**	**450,000**
Private placement – fee for services	**20,000**	**16,200**
Tax effect on flow-through shares (1)	**-**	**-**
Balance, September 30, 2003	**67,556,865**	**33,255,350**
Purchase warrants – common shares		
Balance, December 31, 2002	-	-
Issued in conjunction with unit subscription	**1,676,470**	**64,900**
Balance September 30, 2003	**1,676,470**	**64,900**
Special warrants		
Balance, December 31, 2002	**13,450,000**	**6,725,000**
Exercised during the period (2)	**(13,450,000)**	**(6,725,000)**
Balance, September 30, 2003	**-**	**-**
Equity portion of convertible debentures	**-**	**437,000**
Add: Consultant stock option compensation		**157,739**
Less: Share issue costs		**(611,468)**
Balance, September 30, 2003		**$ 33,303,521**
Common stock equivalents (3)	**69,233,335**	
Weighted average number of shares	**56,744,577**	

(1) The tax effect of the qualifying expenditures of $2,110,000 has been offset by recognition of certain future tax assets available to the Corporation. As at September 30, 2003 the Corporation is required to expend additional qualifying expenditures of $1,157,000 prior to December 31, 2003 to meet its commitments under the 2002 flow-through agreements.

(2) In accordance with the special warrant terms, all 13,450,000 special warrants were converted into common shares, on a one-for-one basis, on June 28, 2003 at no additional cost.

(3) Common stock equivalents include common shares issued and outstanding and purchase warrants issued that are exercisable into common shares upon payment of additional proceeds.

(b) Options

At the annual general meeting held on June 26, 2003, shareholders approved a formal stock option plan. Stock option agreements have vesting periods varying from immediate to 3 years and expiration terms vary from 1 to 5 years. Stock options, with exercise prices between $0.40 and $1.22, have been granted to directors, officers, employees and consultants as follows:

	Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	**5,903,500**	**$0.56**
Granted	**690,000**	**$1.00**
Exercised	**(600,000)**	**$0.44**
Cancelled	**(146,970)**	**$0.66**
Outstanding, end of period	**5,846,530**	**$0.62**

Using the fair value method for stock options issued on or after January 1, 2002, the fair value of each option is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 4.0%, expected life of 4.5 years and expected volatility of 20%. Had the Corporation determined compensation cost based on the fair value at the date of grant for its stock options, net earnings would have decreased by $75,540 (earnings per share: basic and diluted – nil), for the nine month period ending September 30, 2003.

(c) Private placement – common shares and purchase warrants

On June 13, 2003, the Corporation issued 2,941,117 units priced at $0.85 per unit for gross proceeds of $2,500,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each full warrant is exercisable for $1.00 per common share on or before December 31, 2004. An agent's commission of $174,000 was paid in relation to unit subscriptions. In addition, 205,882 warrants were issued to the agent. Agent's warrants are exercisable for $1.00 per common share on or before December 31, 2004.

5. Related Party Transactions

For the nine months ended September 30, 2003, the Corporation paid $184,500 of consulting fees to companies, whose principals are directors and officers of the Corporation.

Two officers of the Corporation purchased $42,000 of the June 2003 unit offering described in Note 3(c).

During 2002, the Corporation advanced funds totaling $120,000 to certain directors and officers to purchase shares in the Corporation at $0.50 per share. The balance bears interest at prime plus one percent and is due on December 31, 2003. The amount is represented by unsecured promissory notes.

6. Subsequent Events

Subsequent to September 30, 2003 the following changes occurred with respect to the Corporation's stock options:

	Number of Options	Exercise Price
Granted	**786,000**	**$0.61**
Cancelled	**(170,000)**	**$0.60**
Net Change	**616,000**	