

**13 September 2005**

**Caspian Energy Inc. announces second quarter results**

Caspian Energy Inc. (the "Company" or "CEK") (TSX and AIM: CEK), an oil exploration and development corporation operating in the Republic of Kazakhstan, announced today its financial results for the three and six months ending July 31, 2005 (2Q 06).

Caspian's first exploration well, East Zhagabulak #301, spudded on July 16, 2005 and is on target to reach total depth in October 2005. This well is expected to cost in the range of US\$6.8 million to US\$9.2 million and to reach a depth of 5,000 metres.

Following setting of the intermediate casing on well 301 and during early stages of drilling the 8-1/2 inch hole section, mud logging operations at the location have reported recovery of drill cuttings with shows of oil over several intervals from formations in the section above the targeted Carboniferous KT-I and KT-II. Though this information is a positive indication of the presence of hydrocarbon-bearing formations it does not imply that oil is necessarily present in economical or producible quantities from this interval. Further testing is required to make a definitive determination and the producing potential of these intervals will be further determined from electric logging and open hole testing operations upon reaching total depth.

For the three months and six months ending July 31, 2005 (the Company's second quarter of fiscal 2006), CEK's net loss was \$5,817,271 and \$6,834,564, respectively. Large non-cash items equal to \$2,492,362 and \$2,916,440 relating to stock-based compensation charges (value assigned using the Black-Scholes valuation model) and \$2,704,843 and 3,247,194 pertaining to unrealized foreign exchange losses were major components of this figure.

CEK's operations used \$378,267 and \$395,018 for the three and six months periods respectively. The Company's working capital was \$25.1 million at the close of the quarter.

Oil and gas revenues before transportation costs for the reporting periods were \$575,965 and \$1,170,617.

For the second quarter, operating costs were \$413,731 (\$13.31/boe) and transportation expenses were \$5,331 (\$0.17/boe). Administrative expenses for the quarter were \$795,785.

Capital expenditures totalled \$2,978,545 and \$6,133,691, for the three and six months. Capital expenditures are composed of advances to Aral Petroleum Capital joint venture and the Company's share of the expenditure of funds by Aral.

The unaudited consolidated interim financial statements for the period have been filed with Canadian securities regulatory authorities and are available for viewing at [www.sedar.com](http://www.sedar.com).

A full Management's Discussion and Analysis document is available on the Company's website, [www.caspianenergyinc.com](http://www.caspianenergyinc.com), and on SEDAR, [www.sedar.com](http://www.sedar.com). The document can also be obtained on application from the Company.

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## **Review of Operations**

To date, the initial 3-D seismic program covering 400 square kilometres is complete and 140 square kilometres have been processed and interpreted indicating significant structures and several drilling locations. The full extent of the structures will be determined after the complete data set is interpreted during 3Q of calendar 2005. At least two 5,000 metre exploration wells are planned for Zhagabulak. The Company considers the East Zhagabulak area its primary target due to the coverage density of the Soviet age 2-D seismic survey, the existence of significant neighbouring oil producing fields, as well as the presence of the Company owned producing well, EZ #213, in the northern part of the East Zhagabulak field. The first exploration well, East Zhagabulak #301, was spudded on July 16, 2005 and is in the same geological trend as the Company's currently producing well, EZ #213, which it offsets by 1.1 km to the southwest. EZ #301 is drilling ahead at approximately 3,000 metres with no major problems encountered. Intermediate casing has been set and the well should reach total depth during October 2005. The wells are expected to cost in the range of US\$6.8 million to US\$9.2 million depending upon the outcome.

Digitization and calibration of existing Soviet age well log data for wells penetrating into the formations below the Permian salt complex have continued throughout the first half of the year and the job is presently, approximately 90% complete. Negotiations are ongoing for full petrophysical analyses of these wells and work is expected to begin in the second half of the year.

During 4Q calendar 2004, the Company undertook to reprocess and interpret approximately 3,000 kilometres of Soviet age 2-D seismic data in other areas of the original concession. Although the reprocessing effort continues at the end of the first half of fiscal 2006, the Company has identified the Baktygaryn Area for acquiring additional 3-D seismic.

## **Business Prospects and Outlook**

The Company has been successful in establishing itself as an operating entity in the Republic of Kazakhstan and expects to continue with future growth through continued work there.

Subsequent to completion of drilling activity at EZ #301, the drilling rig will be moved to the second drilling location in East Zhagabulak. A two week move from well to well is anticipated placing the scheduled spud date of the second well in November 2005.

Processing of the full 400 square kilometers of 3-D seismic was completed in late August and the results transferred to Landmark in Moscow, Russia, for interpretation. Scheduled completion of Landmark's interpretation is mid-October. Internal interpretation is also ongoing and expected to be completed by early October. Several new drilling locations are expected from this data set providing competitive alternatives for the location of the second well. Logging and core data from EZ #301 will be incorporated into the assessment of the targeted Carboniferous reservoirs.

Petrophysical analyses of all wells penetrating the below salt reservoirs are expected to be completed by year-end and correlation of this data with previously acquired information will aid in the identification of future prospects in the block. Identification and acquisition of well data within the extended territory will also be evaluated for inclusion into this process.

Reprocessing of the existing Soviet 2-D seismic data is anticipated to be completed by September month-end and the interpretation of that data will be added to the evaluation of the block and also aid in the identification of future seismic acquisition areas and drilling locations. Seismic data located across the new extended territory will also be evaluated for inclusion into this process.

The tender for the acquisition of 235 square kilometers of 3-D seismic was released and responses were received. In September, Azimut Energy Services will begin work in the Baktygaryn Area, located in the northwest corner of the North Block. Completion is scheduled for mid-December. The Baktygaryn Area is anticipated to contain drilling targets in both the below salt Carboniferous section and the above salt Mesozoic section and will provide a second tier of exploration to the Company's drilling portfolio. Completion of processing and interpretation of this data will take place in early calendar 2006.

Preliminary information obtained on areas within the new extended territory from data derived during early Soviet-period drilling campaigns indicates the presence of hydrocarbons. During the second half of fiscal 2006 the Company will increase its knowledge and database in this area for identification of additional exploration efforts.

Interim Consolidated Financial Statements  
(Unaudited)  
July 31, 2005

**For the three and six months ended July 31, 2005**

### **Responsibility for Financial Statements**

The accompanying unaudited interim consolidated financial statements of Caspian Energy Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these principles are set out in note 2 to the financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

The auditor of Caspian Energy Inc. has not performed a review of the unaudited interim consolidated financial statements for the three and six months ended July 31, 2005.

### **CAUTIONARY NOTE**

Some of the statements and information contained in this news release may include certain estimates, assumptions and other forward-looking information. The actual performance, developments and/or results of the Company may differ materially from any or all of the forward-looking statements, which include current expectations, estimates and projections, in all or in part attributable to general economic conditions, and other risks, uncertainties and circumstances partly or totally outside the control of the Company, including oil prices, imprecision of reserve estimates, drilling risks, future production of gas and oil, rates of inflation, changes in future costs and expenses related to the activities involving the exploration, development, production and transportation of oil, hedging, financing availability and other risks related to financial activities, and environmental and geopolitical risks. Further information which may cause results to differ materially from those projected in the forward-looking statements is contained in the Company's filings with Canadian securities regulatory authorities. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

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All amounts are expressed in Canadian dollars unless otherwise indicated.

## Interim Consolidated Balance Sheet (Unaudited)

	July 31, 2005 \$	January 31, 2005 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	31,926,206	43,066,470
Accounts receivable	434,512	181,387
Prepays and other deposits	1,805,301	486,992
Other assets	<u>11,731</u>	<u>11,731</u>
	<u>34,177,750</u>	<u>43,746,580</u>
<b>Property, plant and equipment</b> (note 3)	46,545,498	40,419,409
Less: Accumulated depletion and depreciation	<u>(142,430)</u>	<u>(76,139)</u>
	<u>46,403,068</u>	<u>40,343,270</u>
	<u>80,580,818</u>	<u>84,089,850</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,802,169	1,366,096
Loan payable (note 7)	<u>7,262,127</u>	<u>7,336,841</u>
	9,064,296	8,702,937
<b>Asset retirement obligation</b> (note 4)	71,769	70,540
<b>Future income taxes</b>	<u>846,396</u>	<u>644,376</u>
	<u>9,982,461</u>	<u>9,417,853</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 5)	75,220,762	75,376,278
<b>Warrants to purchase common shares</b> (note 6)	667,738	667,738
<b>Contributed surplus</b> (note 6)	6,545,876	3,629,436
<b>Deficit</b>	<u>(11,836,019)</u>	<u>(5,001,455)</u>
	<u>70,598,357</u>	<u>74,671,997</u>
	<u>80,580,818</u>	<u>84,089,850</u>

See accompanying notes to consolidated financial statements.

Interim Consolidated Statement of Loss and Deficit (Unaudited)

	Three month July 31, 2 \$	Three month July 31, 2 \$	Six months end July 31, 2005 \$	Period from July 31, 2 \$
<b>Revenue</b>				
Oil and gas revenue, net	575,965	250,740	1,170,617	250,740
Interest	260,615	1,120	704,386	1,120
	<u>836,580</u>	<u>251,860</u>	<u>1,875,003</u>	<u>251,860</u>
<b>Expenses</b>				
General and administrative	795,785	446,193	1,505,223	836,240
Operating	413,731	72,334	755,549	72,334
Transportation	5,331	333	9,249	333
Stock-based compensation (note 6)	2,492,362	-	2,916,440	-
Unrealized foreign exchange loss	2,704,843	-	3,247,194	-
Depletion, depreciation and accretion	38,067	8,626	73,893	8,626
	<u>6,450,119</u>	<u>527,486</u>	<u>8,507,548</u>	<u>917,533</u>
<b>Loss before income taxes</b>	(5,613,539)	(275,626)	(6,632,545)	(665,673)
<b>Future income taxes</b>	203,732	-	202,019	-
<b>Net loss for the period</b>	(5,817,271)	(275,626)	(6,834,564)	(665,673)
<b>Deficit – Beginning of period</b>	(6,018,748)	(390,047)	(5,001,455)	-
<b>Deficit – End of period</b>	<u>(11,836,019)</u>	<u>(665,673)</u>	<u>(11,836,019)</u>	<u>(665,673)</u>
<b>Basic and diluted loss per share (note 5)</b>	<u>(0.07)</u>	<u>(0.01)</u>	<u>(0.08)</u>	<u>(0.01)</u>

See accompanying notes to consolidated financial statements.

## Interim Consolidated Statement of Cash Flows (Unaudited)

	Three month July 31, 2 \$	Three month July 31, 2 \$	Six months end July 31, 2005 \$	Period from July 31, 2 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	(5,817,271)	(275,626)	(6,834,564)	(665,673)
Items not affecting cash				
Stock-based compensation	2,492,362	-	2,916,440	-
Unrealized foreign exchange loss	2,704,843	-	3,247,194	-
Depletion, depreciation and accretion	38,067	8,626	73,893	8,626
Future income taxes	203,732	-	202,019	-
	(378,267)	(267,000)	(395,018)	(657,047)
Changes in non-cash working capital balances	(298,708)	-	(253,122)	-
	(676,975)	(267,000)	(648,140)	(657,047)
<b>Financing activities</b>				
Loan payable	(133,797)	-	(74,714)	-
Foreign exchange	(2,704,843)	-	(3,247,194)	-
Issuance of common shares	-	67,570	135,301	13,068,978
Share issue expenses	(287,032)	-	(290,817)	(11,174)
	(3,125,672)	67,570	(3,477,424)	13,057,804
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(2,978,545)	92,318	(6,133,691)	(12,785,745)
Asset retirement	1,417	-	1,229	-
Changes in non-cash working capital balances	666,122	174,399	(882,238)	576,595
	(2,311,006)	266,717	(7,014,700)	(12,209,150)
<b>(Decrease) increase in cash and cash     equivalents</b>	(6,113,653)	67,287	(11,140,264)	191,607
<b>Cash and cash equivalents – Beginning of     period</b>	38,039,859	124,320	43,066,470	-
<b>Cash and cash equivalents – End of period</b>	31,926,206	191,607	31,926,206	191,607
<b>Interest paid and received</b>				
Interest paid	-	-	-	-
Interest received	169,368	1,120	613,139	1,120

See accompanying notes to consolidated financial statements.

**Notes to Interim Consolidated Financial Statements  
(Unaudited)  
July 31, 2005**

**1 Nature of operations**

The Company is engaged in the exploration and development of oil and gas properties in Kazakhstan.

Under the terms of an exploration program entered into between the government of Kazakhstan and Aral Petroleum Capital LLP ("Aral") (the "Exploration Contract"), Aral has agreed to spend a minimum of US\$20.8 million during the initial three year term of the program. As of July 31, 2005, US\$19.8 million had been incurred with the remaining US\$1.0 million required to be spent by December 29, 2005. The expenditures include processing and reinterpretation of geological and geophysical data of prior years, two dimensional and three dimensional seismic shoots and surveys, drilling exploration wells, well reactivations and well surveys and testing. Under terms of a shareholders' agreement dated June 25, 2004, between Caspian, Azden Management Limited ("Azden") and Aral, Caspian committed to fund the US\$20.8 million for this initial work program.

Caspian's assets include a 50% indirect interest in Aral, and a temporary 100% beneficial interest in the currently producing well of Aral. Through Aral it will have the right to explore and develop certain oil and gas properties known as the North Block, a 3,458 square kilometre area, located in the vicinity of the Kazakh pre-Caspian basin. Caspian is actively engaged in the exploration, production and development of oil and gas in Kazakhstan. The Company also has minor resource interests in Canada.

Caspian was incorporated on April 13, 2004. The comparative figures presented in these financial statements reflect the period from incorporation to July 31, 2004.

**2 Significant accounting policies**

The consolidated financial statements of Caspian are stated in Canadian dollars and have been prepared 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 reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and short-term investments with an initial maturity date of three months or less.

## **Joint ventures**

The Company's oil and gas exploration and development activities are mainly conducted in Kazakhstan through Aral and accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

## **Property, plant and equipment**

### **a) Capitalized costs**

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges directly related to exploration and development activities. Proceeds from the sale of oil and gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would change the rate of depletion and depreciation by 20% or more, in which case, a gain or loss would be recorded.

### **b) Depletion, depreciation and amortization**

The capitalized costs are depleted and depreciated using the unit-of-production method based on proven petroleum and natural gas reserves, as determined by independent consulting engineers. Oil and natural gas liquids reserves and production are converted into equivalent units of natural gas based on relative energy content.

### **c) Ceiling test**

The Company follows the Canadian accounting guideline on full cost accounting. In applying this full cost guideline, Caspian calculates its ceiling test for each cost centre by comparing the carrying value of oil and natural gas properties and production equipment to the sum of undiscounted cash flows expected to result from Caspian's proved reserves. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying value of oil and gas properties and production and equipment to the estimated net present value of future cash flows from proved plus probable reserves using a risk-free interest rate and expected future prices. Any excess carrying value above the net present value of the future cash flows is recorded as a permanent impairment.

Costs of acquiring and evaluating unproven properties in Canada and costs of exploration and land in international cost centres are excluded initially from costs subject to depletion, until it is determined whether or not proved reserves are attributable to the properties or, in the case of major development projects, commercial production has commenced, or impairment has occurred. Impairment occurs whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When proven reserves are determined or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion for the country's cost centre. Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

#### **d) Unproved property**

Costs of acquiring and evaluating unproven properties in Canada and costs of exploration and land in Kazakhstan are excluded initially from costs subject to depletion, until it is determined whether or not proved reserves are attributable to the properties or, in the case of major development projects, commercial production has commenced, or impairment has occurred. Impairment occurs whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When proven reserves are determined or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion for that country's cost centre.

#### **e) Asset retirement obligation**

The Company has adopted the Canadian accounting standard for asset retirement obligations. In accordance with the new standard, Caspian records the fair value of an asset retirement obligation ("ARO") as a liability in the period in which it incurs a legal obligation to restore an oil and gas property, typically when a well is drilled or other equipment is put in place. The associated asset retirement costs are capitalized as part of the carrying amount of the related asset and depleted using a unit-of-production method over the life of the proved reserves. Subsequent to initial measurement of the obligations, the obligations are adjusted at the end of each reporting period to reflect the passage of time and changes in estimated future cash flows underlying the obligation. Actual costs incurred on settlement of the ARO are charged against the ARO.

#### **Stock-based compensation**

The Company grants options to purchase common shares to employees and directors under its stock option plan. The Company has adopted the new Canadian accounting standard relating to stock-based compensation and other stock-based payments as it applies to stock-based compensation granted to employees, officers and directors. Under this standard, future awards are accounted for using the fair value of accounting for stock-based compensation. Under the fair value method, an estimate of the value of the option is determined at the time of grant using a Black-Scholes option-pricing model. The fair value of the option is recognized as an expense and contributed surplus over the vesting period of the option. Proceeds received on exercise of stock options, along with amounts previously included in contributed surplus, are credited to share capital.

#### **Measurement uncertainty**

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for asset retirement obligations and the amounts used for ceiling test calculations are based on estimates of reserves and/or future costs. The Company's reserve estimates are reviewed annually by an independent engineering firm. The amounts disclosed relating to fair values of stock options issued are based on estimates of future volatility of the Company's share price, expected lives of options, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty.

### 3 Property, plant and equipment

All of the Company's property, plant and equipment at July 31, 2005, relates to petroleum and natural gas properties, the majority of which relates to a contract for exploration work in the North Block located in the Aktyubinsk area of Kazakhstan.

The majority of the Company's property, plant and equipment is under development, with \$775,914 of costs being subject to depletion and depreciation for 2006.

During the first six months of fiscal 2006, the Company capitalized \$280,630 general and administrative expenses related directly to exploration and development activities.

### 4 Asset retirement obligation

The Company records the fair value of asset retirement obligations as a liability in the period in which it incurs the legal obligation.

The asset retirement obligation results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at July 31, 2005 is approximately US\$100,000, which will be incurred between 2014 and 2019. A credit-adjusted risk-free rate was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligation is provided below:

	\$
Balance – January 31, 2005	70,540
Expenditures	<u>(188)</u>
Balance – April 30, 2005	70,352
Accretion	<u>1,417</u>
Balance – July 31, 2005	<u>71,769</u>

Under the terms of the Exploration Contract (note 1), the Company is required to create a fund to finance actual future restoration costs, equal to 1% of the capital costs of exploration. At July 31, 2005, \$94,008 has been placed in a restricted bank account related to the funding requirement.

### 5 Share capital

#### Authorized

Unlimited number of voting common shares, without stated par value

### Issued

	Number of shares	Amount \$
Issued and outstanding as at January 31, 2005	84,122,163	75,376,278
Exercise of warrants (i)	205,000	135,300
Share issue costs (ii)	-	(3,784)
	<hr/>	<hr/>
Issued and outstanding as at April 30, 2005	84,327,163	75,507,794
Share issue costs (ii)	-	(287,032)
	<hr/>	<hr/>
Issued and outstanding as at July 31, 2005	<u>84,327,163</u>	<u>75,220,762</u>

- i) During the six months period, 205,000 warrants were exercised. The warrants had an exercise price of \$0.66 per common share.
- ii) Share issue costs have not been tax-effected.

### Stock options

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Changes to the Company's stock options are summarized as follows:

	Number of options	Weighted average option price \$
Balance – January 31, 2005	7,173,228	1.76
Granted	1,993,271	1.69
Exercised	-	-
Expired	-	-
	<hr/>	<hr/>
Balance – July 31, 2005	<u>9,166,499</u>	<u>1.75</u>
Exercisable – July 31, 2005	<u>6,504,590</u>	<u>1.78</u>

The following is a summary of stock options outstanding and exercisable as at July 31, 2005:

Range of exercise price	<u>Options outstanding</u>		<u>Options exercisable</u>	
	Options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Options exercisable
\$0.75	2,079,090	4.5	\$0.75	1,287,272
\$1.61	843,271	5.0	\$1.61	843,271
\$1.75	1,150,000	5.0	\$1.75	916,667
\$2.00	1,050,000	4.7	\$2.00	262,500
\$2.15	<u>4,044,138</u>	<u>4.5</u>	<u>\$2.15</u>	<u>3,194,880</u>

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9,166,499

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\$1.78

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6,504,590

**Per share amounts**

The weighted average number of common shares outstanding during the period ended July 31, 2005 of 84,327,163 was used to calculate earnings per share amounts.

**Warrants**

205,000 share purchase warrants entitling the holder to purchase one common share at a price of \$0.66 were exercised during the first quarter. No value was ascribed to the warrants at the date of grant. 1,368,000 broker warrants are outstanding at July 31, 2005. Each warrant entitles the holder to purchase one common share at a price of \$2.00 until September 20, 2006. The fair value of the warrants using the Black-Scholes method was \$667,738.

## 6 Stock-based compensation

Options granted to both employees and non-employees are accounted for using the fair value method. The fair value of common share options amortized in the quarter ended July 31, 2005 was estimated to be \$2,492,362 as at the grant date using a Black-Scholes option-pricing model and the following assumptions:

Risk free interest rate	3%
Expected life	5 year average
Expected volatility	72%
Expected dividend yield	0%

The estimated fair value of the options is amortized to expense and credited to contributed surplus over the option vesting period on a straight-line basis.

## 7 Loan payable

Aral is indebted to Azden, the other 50% partner in Aral, in the amount of \$7,262,127. The amount is non-interest bearing and is to be repaid prior to January 1, 2006. Caspian is obligated to fund Aral's operations, consequently \$7,262,127 has been added to property, plant and equipment of Caspian and shown as a current liability.

## 8 Reconciliation of International Financial Reporting Standards

The Company has evaluated and determined there are no significant differences between Canadian generally accepted accounting principles and International Financial Reporting Standards. Accordingly, no differences in the Company's reported financial position at July 31, 2005 or results of operations or cash flows for the period ended July 31, 2005 have been presented.