

# METALORE RESOURCES LIMITED

## Management Discussion & Analysis

Financial Condition and Results of Operations

For the First Quarter ended June 30, 2004

### **Corporate Profile:**

Metalore Resources Ltd. has been active in mining exploration for over sixty years and natural gas development for over forty years. Natural gas operations are centered in Southwestern Ontario on some 30,000 acres of leaseholdings in Charlotteville Township. Mining activity in Northwestern Ontario had been concentrated around the Beardmore area for about twenty years and more recently in the Sioux Narrows area.

### **Interpretation of Presentation:**

Management's discussion and analysis (MD&A) should be read in conjunction with the unaudited interim financial statements for the three months ended June 30, 2004. This discussion contains forward-looking statements that are not historical in nature and involve risk and uncertainties. Forward-looking statements are not guarantees as to the Company's future results since there are inherent difficulties in predicting future results. Accordingly, actual results could differ from those expressed or implied in the forward-looking statement.

### **Management's Responsibility for Accounting Practices:**

Interim Financial Statements are prepared by management under Canadian Generally Accepted Accounting Principles, and all the figures therein are in Canadian dollars.

Annual Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles and are explained in detail in the Auditor's Report for the fiscal year end.

No accounting estimates of any significance are made or included in the Financial Statements.

# Management Discussion & Analysis

## Financial Condition and Results of Operations

### Summary of Quarterly Results:

Comparative Summary & Financial Data by Quarter								
	June 30/04	Mar 31/04	Dec 31/03	Sept 30/03	June 30/03	Mar 31/03	Dec 31/02	Sept 30/02
	1st Qtr.	Y/E	3rd Qtr.	2nd Qtr.	1st Qtr.	Y/E	3rd Qtr.	2nd Qtr.
Revenue	447,479	513,704	449,251	361,588	418,296	392,824	409,079	309,794
Net Income	187,339	127,063	207,906	176,290	199,348	349,980	156,207	128,892
Earnings per share	.11	.07	.12	.10	.11	.10	.09	.10
Cash Flow per share	.17	.21	.16	.14	.16	.17	.14	.15
Dividends per share	--	.075	--	--	--	.07	--	--

Income Before Taxes in the Fourth Quarter ending 3/31/04 was actually \$342,057 or \$.19 per share; however, adjustments for recalculations to current rates for future taxes payable of \$469,120 reduced Net Income to a loss of \$127,063 in the Fourth Quarter and reduced profit to \$456,481 for the year ending 3/31/04. This is a result of changes in taxation rates by the newly elected Liberal Government of Ontario and is explained in more detail in the Annual Financial Statements for 2004, notes 1 (i) and 7.

***It is important to note that Metalore has never been required to pay income tax because of write-offs allowed for exploration and development expense in both natural gas and mining exploration. However, Natural gas development is allowed only a 30% write-off (per year) while mining exploration activities have a 100% write-off during the year of occurrence. Therefore, mining exploration expenses have a distinct tax advantage.***

Typically, the Second Quarter ending in Sept. 30 experiences the highest demand for natural gas from curing by the local tobacco industry.

Investment income increased significantly from the further acquisition of high yielding trust units, predominantly in the energy sector.

No additional wells were drilled during the quarter nor during the previous fiscal year.

# Management Discussion & Analysis

## Financial Condition and Results of Operations

### Selected Annual Information:

	March 31/04	March 31/03	March 31/02
Total Revenue	\$1,742,839	\$1,513,873	\$1,989,146
Income from operations	1,071,481	910,300	1,283,712
Per share	.61	.52	.74
Deferred Income Tax	615,000	116,000	401,000
Net income after Prov. for taxes	456,481	794,300	882,712
Per share	.26	.46	.51
Total assets	13,586,543	12,505,854	11,619,911
Total liabilities	2,999,856	2,243,528	1,895,646
(Long Term Financial Liabilities are Not Significant)			
Cash dividends per share	.075	.06	.07

Production of natural gas has remained fairly constant and price fluctuations have accounted for most of the revenue changes from year to year.

Natural gas prices are expected to stay at high levels for the foreseeable future due to growing demand and diminishing domestic supply, providing continued growth prospects for the Company.

A more detailed explanation of the Company's natural gas operation is provided with the Annual Report under 1 (f) and 1 (g) in the Notes to the Financial Statements for the year ended March 31/04.

### Liquidity:

	1st Qtr. 6/30.04	Y/E 3/31/04
Current Assets	\$817,108	\$775,249
Current Liabilities	282,281	394,856
Excess of Current Assets over Current Liabilities	<b>\$534,827</b>	<b>\$380,393</b>

The Current Asset to Current Liability ratio of 2.89:1 indicates a healthy coverage of Liabilities and that there is adequate capital for 2004 exploration of mining property in Northwestern Ontario and gas development and exploration in Southwestern Ontario.

# Management Discussion & Analysis

## Financial Condition and Results of Operations

### **Capital Resources:**

No major commitments are anticipated other than 2004 planned exploration costs in mining and gas development, which should approximate the same amount expended in the previous year.

No long-term financial commitment of any material amount other than gas pipelines and leases are carried by the Company.

### **Transactions with Related Parties:**

The Company has an on-going agreement with Southern Ontario Natural Gas Limited (SONG), a private company controlled by the President, George Chilian, to provide technical services for the gas operations. Details are included with our audited Annual Report for 2004. As of June 30, 2004, \$33,588 was owed to SONG (\$112,984 at the fiscal year ended March 31, 2004).

### **Outstanding Share Data:**

The Corporation has 1,755,035 common shares outstanding, and granted 20,000 options to directors in 2002 with each option convertible to one common share of the Corporation.

Authorized shares of common stock	4,000,000
Issued at March 31 and June 30, 2004	1,755,035
Book Value	\$2,332,982

If more detailed information is required, the Company files Financial Statement data on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**The attached Financial Statements have been prepared by Metalore Resources Limited and have not been reviewed by an Auditor.**

*Dated August 3/04*

# METALORE RESOURCES LIMITED

## FIRST QUARTER BALANCE SHEET

At June 30, 2004 (unaudited)

with comparative figures at March 31, 2004 (audited)

### ASSETS

	June	March
	2004	2004
	\$	\$
<b>Current Assets</b>		
Cash & cash equivalents	113,617	9,529
Marketable securities	471,530	438,690
Accounts receivable	151,331	246,400
Inventory of:		
Gas in storage, pipe & supplies	80,630	80,630
	<u>817,108</u>	<u>775,249</u>
<b>Long Term Investment (at cost)</b>	1,440,000	1,440,000
<b>Natural gas properties</b>	11,094,301	11,039,156
<b>Mining properties</b>	2,366,687	2,279,767
<b>Renewable fuel (Ethanol) costs</b>	927,811	927,811
<b>Accumulated amortization</b>	(2,900,440)	(2,875,440)
	<u>13,745,467</u>	<u>13,586,543</u>

### LIABILITIES & SHAREHOLDERS' EQUITY

#### Current liabilities

Accounts payable & accrued liabilities	222,673	268,562
Due to shareholders	59,608	126,294
	<u>282,281</u>	<u>394,856</u>
<b>Future income taxes</b>	2,689,160	2,605,000
	<u>2,971,441</u>	<u>2,999,856</u>
<b>Shareholders' equity</b>		
Share capital	2,332,982	2,332,982
Contributed surplus	16,000	16,000
Retained earnings	8,425,044	8,237,705
	<u>10,774,026</u>	<u>10,586,687</u>
	<u>13,745,467</u>	<u>13,586,543</u>
<b>Current Ratio (assets / liabilities)</b>	2.9 to 1	2.0 to 1

# METALORE RESOURCES LIMITED

## FIRST QUARTER FINANCIALS

For the three months ended June 30, 2004 with comparative  
figures for the three months ended June 30, 2003  
(unaudited)

### STATEMENT OF INCOME AND RETAINED EARNINGS

	<u>2004</u>	<u>2003</u>
<b>Revenue</b>	\$	\$
Natural Gas Production	443,167	416,874
Royalties	869	1,048
Investment & Interest Income	3,443	374
	<u>447,479</u>	<u>418,296</u>
<b>Expenses</b>		
Production expenses	75,774	75,551
Administrative expenses	33,306	29,717
Royalties	41,900	38,840
Amortization, depletion	25,000	25,000
	<u>175,980</u>	<u>169,108</u>
<b>Income before taxes</b>	271,499	249,188
<b>Future income taxes</b>	<u>84,160</u>	<u>49,840</u>
<b>Net income</b>	187,339	199,348
Retained Earnings, beginning of period	<u>8,237,705</u>	<u>7,913,344</u>
<b>Retained earnings end of period</b>	<u><u>8,425,044</u></u>	<u><u>8,112,692</u></u>
<b>Earnings per share</b>	0.11	0.11

# METALORE RESOURCES LIMITED

## FIRST QUARTER FINANCIALS

For the three months ended June 30, 2004 with comparative  
figures for the three months ended June 30, 2003  
(unaudited)

### STATEMENT OF CASH FLOWS

	<u>2004</u>	<u>2003</u>
	\$	\$
<b>CASH PROVIDED BY (EXPENDED)</b>		
<b>Operations</b>		
Net Income	187,339	199,348
Amortization, depletion	25,000	25,000
Future income taxes	84,160	49,840
Cash flow from operations before change in non-cash working capital	296,499	274,188
Change in non-cash working capital	<u>(17,506)</u>	<u>44,157</u>
Cash provided by operating activities	<u>278,993</u>	<u>318,345</u>
<b>Investing Activities</b>		
Natural gas development	(55,145)	(55,872)
Mining exploration	(86,920)	(38,026)
Marketable Securities - acquisitions	(32,840)	0
	<u>(174,905)</u>	<u>(93,898)</u>
<b>Increase (decrease) in cash</b>	104,088	224,447
Cash beginning of period	9,529	153,942
Cash end of period	<u>113,617</u>	<u>378,389</u>
<b>Cash flow per share</b>	0.17	0.16

# METALORE RESOURCES LIMITED

## NOTES TO INTERIM FINANCIAL STATEMENTS

For the First Quarter ended June 30, 2004

1. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada for interim financial statements. The financial statements have, in management's opinion, been properly prepared using judgement within reasonable limits of materiality. These interim financial statements do not include all the note disclosures required for annual financial statements and therefore, should be read in conjunction with the Company's audited annual financial statements for the year ended March 31, 2004. The significant accounting policies follow that of the most recently reported annual financial statements.

2. Accounting Estimates

The preparation of interim 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. Actual results could differ from those estimates.

3. Future Income Taxes

As noted in the Company's audited annual financial statements for the year ended March 31, 2004, no tax on income is presently payable by the Company. Also in line with the above referred to annual financial statements the rate of future income tax would be higher in 2004 than in 2003.