

Sharpe Resources Corporation

(continued under the New Brunswick Business Corporation Act)

(Expressed in United States Dollars)

Consolidated Financial Statements

December 31, 2004 and 2003

March 1, 2005

Auditors' Report

To the Shareholders of
Sharpe Resources Corporation

We have audited the consolidated balance sheet of Sharpe Resources Corporation, as at December 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for each of the years then ended. 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 audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

The consolidated statements of operations and deficit and cash flows for the year ended December 31, 2002 were audited by other auditors who expressed an opinion without reservation on the financial statements in their audit report dated March 31, 2003.

"McCarney Greenwood LLP"

Toronto, Canada

McCarney Greenwood LLP
Chartered Accountants

Comments by Auditors on United States of America-Canada Reporting Difference

United States of America reporting standards require the addition of an explanatory paragraph when the financial statements are affected by conditions and events that cast doubt on the company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Although we conducted our audits in accordance with both United States of America and Canadian generally accepted auditing standards, our report to the shareholders dated March 1, 2005 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditor's report when these are adequately disclosed in the financial statements.

"McCarney Greenwood LLP"

Toronto, Canada

McCarney Greenwood LLP
Chartered Accountants

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Consolidated Balance Sheets

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	December 31	
	2004	2003
Assets		
Current assets		
Cash	\$ 34,557	\$ 62,231
Trade and sundry receivables	19,620	18,332
Notes receivable	-	89,228
Due from related parties (Note 6)	21,547	33,070
Inventory	<u>5,760</u>	<u>6,670</u>
	81,484	209,531
Option to acquire Mineral property (Note 1)	<u>78,125</u>	-
	<u>\$ 159,609</u>	<u>\$ 209,531</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 96,937	\$ 61,979
Due to related parties (Note 6)	<u>76,515</u>	<u>44,609</u>
	173,450	106,588
Long term debt (Note 3)	664,533	664,533
Future site restoration and abandonment costs	<u>13,500</u>	<u>13,500</u>
	851,483	784,621
Capital Stock and Deficit		
Share Capital (Note 4)	10,999,986	10,921,861
Contributed surplus (Note 4)	17,660	17,660
Deficit	<u>(11,709,520)</u>	<u>(11,514,611)</u>
	<u>(691,874)</u>	<u>(575,090)</u>
	<u>\$ 159,609</u>	<u>\$ 209,531</u>

Approved by the Board "Roland Larsen" Director "Kimberly L. Koerner" Director

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Consolidated Statements of Operations and Deficit

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	Years ended December 31		
	2004	2003	2002
Petroleum and natural gas revenue	\$ <u>108,998</u>	\$ <u>159,527</u>	\$ <u>55,631</u>
Operating and administrative expenses			
Operating	202,395	253,638	237,800
General and administrative	72,891	75,235	100,652
Depletion, depreciation and amortization	-	15,366	19,987
Interest on advance	2,040	2,040	(41,128)
Interest on long term debt	<u>26,581</u>	<u>26,623</u>	<u>(41,128)</u>
	<u>303,907</u>	<u>372,902</u>	<u>317,311</u>
(Loss) before the following	(194,909)	(213,375)	(261,680)
Write off of related party loans	-	-	149,681
Gain on disposal of petroleum and natural gas properties	-	189,727	-
Gain on disposal of capital asset	<u>-</u>	<u>10,000</u>	<u>-</u>
(Loss) before income taxes	(194,909)	(13,648)	(111,999)
Income taxes (Note 5)	<u>-</u>	<u>-</u>	<u>-</u>
Net (loss)	\$ <u>(194,909)</u>	\$ <u>(13,648)</u>	\$ <u>(111,999)</u>
Deficit, beginning of year	\$ (11,514,611)	\$ (11,500,963)	\$ (11,388,964)
Net (loss)	<u>(194,909)</u>	<u>(13,648)</u>	<u>(111,999)</u>
Deficit, end of year	\$ <u>(11,709,520)</u>	\$ <u>(11,514,611)</u>	\$ <u>(11,500,963)</u>
(Loss) per common share (Note 4(f))			
Basic	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>0.00</u>
Diluted	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>0.00</u>

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Consolidated Statements of Cash Flows

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	Years ended December 31		
	2004	2003	2002
Increase (decrease) in cash			
Cash flows from operating activities			
Net (loss)	\$ (194,909)	\$ (13,648)	\$ (111,999)
Operating items not involving cash			
Depreciation, depletion and amortization	-	15,366	19,987
Common stock/Stock options awarded	-	17,660	-
Gain on disposal of petroleum and natural gas properties	-	(189,727)	-
Gain on disposal of capital asset	-	(10,000)	-
Gain on settlement of debt	-	-	(149,681)
Changes in non-cash operating working capital (Note 7)	<u>167,235</u>	<u>(30,665)</u>	<u>134,769</u>
Cash flows (used in) operating activities	<u>(27,674)</u>	<u>(211,014)</u>	<u>(106,924)</u>
Cash flows from financing activities			
Repayments on long term debt	<u>-</u>	<u>-</u>	<u>(117,654)</u>
Cash flows (used in) financing activities	<u>-</u>	<u>-</u>	<u>(117,654)</u>
Cash flows from investing activities			
Additions to petroleum and natural gas properties	-	-	(31,404)
Proceeds on disposal of petroleum and natural gas properties	-	189,727	-
Proceeds on disposal of capital assets	<u>-</u>	<u>10,000</u>	<u>-</u>
Cash flows from (used in) investing activities	<u>-</u>	<u>199,727</u>	<u>(31,404)</u>
(Decrease) in cash during the year	<u>(27,674)</u>	<u>(11,287)</u>	<u>(255,982)</u>
Cash, beginning of year	<u>62,231</u>	<u>73,518</u>	<u>329,500</u>
Cash, end of year	<u>\$ 34,557</u>	<u>\$ 62,231</u>	<u>\$ 73,518</u>

1. Nature of operations

Sharpe Resources Corporation (the "Company") is a publicly held company, engaged primarily in the exploration for production of petroleum and natural gas properties through its wholly-owned subsidiary, Sharpe Energy Company ("Sharpe Energy"), in a single cost centre being the United States. The Company is continued under the New Brunswick Business Corporation Act and its common shares are listed on the TSX Venture Exchange and traded on the OTC Bulletin Board.

In 2001, the company sold substantially all of its petroleum and natural gas properties. The Company still retains interests in two oil producing properties located in the state of Texas. The Company is continuing to evaluate opportunities within and outside of the natural resources business.

In August 1999, Sharpe Energy was forced to voluntarily seek Chapter 11 reorganization under the United States Bankruptcy Code and on March 27, 2000, Sharpe Energy's second plan of reorganization ("the Chapter 11 Plan") was confirmed under which the Company recorded a gain on settlement of debt of \$1,313,900 in 2000. At December 31, 2004 and 2003 the Company still has outstanding debt under the Chapter 11 Plan, the details of which are described in Note 3. The Company also recorded gains on settlement of \$149,681 in 2002.

As of September 15, 2004, the Corporation changed its focus away from the oil and gas business into precious metals exploration and development in the western U.S. Sharpe has purchased an option (the "Option") from Royal Standard Minerals Inc. (RSM) to acquire a 60% interest in RSM's gold project located in Lyon County, Nevada (the "Project"), in consideration for which Sharpe has issued 2,000,000 common shares to RSM at a deemed value of \$100,000 (Cdn) (\$78,125 US). To exercise the option, Sharpe must maintain the unpatented and patented mining claims on the Project, must pay all required option, annual advanced minimum royalty payments, and deliver a completed positive feasibility study in compliance with National Instrument 43-101 in respect of the Project. Upon exercise of the Option, Sharpe will hold a 60% working interest in the Project.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. Summary of significant accounting policies

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities and at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The more significant accounting policies are as follows:

A summary of the differences between accounting principles generally accepted in Canada ("Canadian GAAP") and those generally accepted in the United States ("US GAAP") which affect the Company is contained in Note 10.

(a) Consolidation

These consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary Sharpe Energy Company. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Joint operations

The Company conducts substantially all of its petroleum and natural gas exploration and production activities jointly with others. The consolidated financial statements reflect only the Company's interest in such activities.

(c) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized upon the passage of title, net of royalties and net profits interests.

(d) Inventory

Inventory is carried at the lower of average cost and net realizable value.

(e) Petroleum and natural gas properties

Capitalized costs

The Company follows the full-cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration of and development of petroleum and natural gas resources are capitalized. Costs include lease acquisitions, geological and geophysical expenses, delay rentals and costs of drilling both productive and non-productive wells. Proceeds from the disposal of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

Depletion and depreciation

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant undeveloped properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude petroleum.

Ceiling Test

The Company uses the full cost method of accounting for oil and gas activities. The method requires a detailed impairment calculation when events or circumstances indicate a potential impairment of the carrying amount of oil and gas assets may have occurred, but at least annually. An impairment loss is recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying amount is assessed to be recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of the unproved interest, net of impairments, exceeds the carrying amount of the cost centre. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interest, net of impairments, of the cost centre. The cash flows are estimated using expected future product prices and cost and are discounted using a risk-free interest rate.

Future site restoration and abandonment costs

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using a unit of production method over estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

(f) Mining interest

The Company is in the exploration stage and does not derive any income from its mining operations. It is the Company's policy to defer expenditures related to the exploration and development of its mining properties (including direct administrative expenditure, if any) until such time as they are brought into commercial production. The cost of acquiring the mining property and all related deferred exploration and development expenditures will be amortized on a unit of production basis.

The recorded book value of mining properties is not intended to reflect their present or future value. Should a mining property become impaired as evidenced by unfavourable exploration results, or a decision to discontinue further work, the acquisition cost and related deferred exploration and development expenditures will be expensed.

(g) Stock-based compensation

The CICA Handbook Section 3870, Stock-based compensation and other stock-based payments requires that compensation of option awards to employees be recognized in the financial statements at fair value for options granted in fiscal years beginning on or after January 1, 2004. The Company as permitted by CICA Handbook Section 3870 has adopted this section prospectively for new options awards granted on or after January 1, 2003. The fair value compensation expense recorded for the year ended December 31, 2003 was \$17,660 (See Note 4(e)). The pro-forma expense, using the intrinsic value based method, for awards granted for the year ended December 31, 2002 was \$110,000. During the year no options were granted and none vested in the current year.

(h) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income taxes are recognized for the future income tax consequences attributed to the difference between the financial statement carrying values and their respective income tax bases. Future income tax assets and liabilities are measured using substantially enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

(i) Foreign currency translation

The Company uses the United States Dollar as its reporting currency, as the majority of its transactions are denominated in this currency and the operations of its subsidiary are considered to be of an integrated nature.

Monetary assets and liabilities of the parent Company denominated in Canadian funds are translated into United States funds at year end rates of exchange. Other assets and liabilities and capital stock of the parent Company are translated at historical rates. Revenues and expenses of the parent Company are translated at the average exchange rate for the period. Gains and losses on foreign exchange are recorded in operations.

3. Long term debt

	<u>2004</u>	<u>2003</u>
Unsecured vendor loan claims	\$ <u>664,533</u>	\$ <u>664,533</u>

Pursuant to the Chapter 11 Plan, agreed unsecured vendor loan claims were paid a 10% cash payment. The remaining 90% of the claims were settled by the issue of preferred stock certificates of Sharpe Energy, bearing a quarterly dividend of 4% per annum. The certificates are fully redeemable in 2006. At the

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discretion of the Company, the certificates can be redeemed, all or in part at a discount, based upon the time of redemption. The amount outstanding has been classified as debt and the dividend payments are reflected as interest expense to reflect this classification.

4. Share Capital

(a) Authorized

Unlimited (2003- unlimited) common shares without par value.

(b) Issued

35,184,803 Common Shares \$ 10,999,986

Common shares issued:

	<u>Shares</u>	<u>Amount</u>
	<u>#</u>	<u>\$</u>
Balance, December 31, 2003 and 2002	33,184,803	10,921,861
Shares issued for mineral property (Note 1)	<u>2,000,000</u>	<u>78,125</u>
Balance, December 31, 2004	<u>35,184,803</u>	<u>10,999,986</u>

(c) Warrants

The Company did not issue any warrants during the year. The following table sets out the warrant activity during the year.

	Number of warrants	\$
Balance, December 31, 2002 and 2003	500,000	-
Expired warrants (i)	<u>(500,000)</u>	<u>-</u>
Balance, December 31, 2004	<u>-</u>	<u>-</u>

(i) At December 31, 2002 warrants to acquire 500,000 common shares of the Company at a price of Canadian \$1.00 per share until May 12, 2004 were outstanding. These warrants expired on May 12, 2004.

There were no warrants outstanding at December 31, 2004.

(d) Stock options

The Company grants stock options for the purchase of common shares to its directors and officers. These options are valid for a maximum of 5 years from the date of issue. Vesting terms and conditions are determined by the Board of Directors at the time of the grant. The exercise price of each option equals the market price prevailing at the date of the grant. The changes in stock options for each of the years ended December 31, 2004, 2003 and 2002 are as follows:

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	Weighted amount exercise price per share		Weighted amount exercise price per share		Weighted amount exercise price per share	
	<u>Number</u>	<u>(Cdn \$)</u>	<u>Number</u>	<u>(Cdn \$)</u>	<u>Number</u>	<u>(Cdn \$)</u>
Balance, outstanding, beginning of year	3,250,000	\$0.10	2,039,000	\$0.11	1,690,000	\$0.15
Activity in the year						
Granted	-	\$ -	1,431,000	\$0.10	1,715,000	\$0.15
Expired or cancelled during the year	-	\$ -	(220,000)	\$0.12	(1,366,000)	\$0.15
Balance, outstanding, end of year	<u>3,250,000</u>	\$0.10	<u>3,250,000</u>	\$0.10	<u>2,039,000</u>	\$0.11

A summary of stock options outstanding is as follows:

Exercise price per share		Number of shares remaining subject, to options at December 31	
<u>(Cdn \$)</u>	<u>Expiry date</u>	<u>2004</u>	<u>2003</u>
\$0.10	May 8, 2008	1,431,000	1,431,000
\$0.10	May 13, 2007	1,000,000	1,000,000
\$0.10	May 8, 2007	600,000	600,000
\$0.15	May 4, 2005	219,000	219,000
		<u>3,250,000</u>	<u>3,250,000</u>

(e) Contributed surplus adjustment and stock option compensation

At December 31, 2003 all options had vested and were fully expensed. The value for the stock options granted were estimated using the Black-Scholes pricing model based on the following assumptions: dividend yield 0%, volatility 93%, risk-free interest rate of 4.5% and an expected life of 5 years. As a result, the fair value was determined to be \$17,660. There was no change in contributed surplus in 2004.

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(f) Basic and diluted loss per share

The following table sets forth the computation of basic and diluted (loss) per share:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Numerator:			
(Loss) for the year	\$ <u>(194,909)</u>	\$ <u>(13,648)</u>	\$ <u>(111,999)</u>
Numerator for basic and diluted earnings	\$ <u>(194,909)</u>	\$ <u>(13,648)</u>	\$ <u>(111,999)</u>
Denominator:			
Weighted average number of common shares	<u>33,782,063</u>	<u>33,184,803</u>	<u>33,184,803</u>
Denominator for basic and diluted (loss) per share	<u>33,782,063</u>	<u>33,184,803</u>	<u>33,184,803</u>
Effect of dilutive securities:			
Stock Options (i)	-	-	-
Warrants (ii)	-	-	-
Denominator for diluted (loss) per share	<u>33,782,063</u>	<u>33,184,803</u>	<u>33,184,803</u>
Basic (loss) per share	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>0.00</u>
Diluted (loss) per share	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>0.00</u>

- (i) Due to the loss in 2004, 2003 and 2002, no diluted loss per share is provided as the inclusion of outstanding share purchase options and warrants would be anti-dilutive.
- (ii) The Company's preferred stock (Note 3), bearing quarterly dividend of 4% per annum has been excluded from the numerator, since the amount has been classified as debt and the dividend payments are reflected as interest. The dividends on the preferred shares are not presented as equity instruments.

5. Income taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. There are no future tax liabilities.

The following table reflects future income tax assets at December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Unclaimed non-capital losses	\$ 947,572	\$ 1,034,486
Income tax value of capital assets over carrying value	54,321	51,000
Future site restoration costs not yet deductible	-	5,000
Unclaimed share issue costs	29,000	29,000
Excess petroleum tax basis over accounting value	<u>68,725</u>	<u>65,523</u>
	1,099,618	1,185,009
Valuation allowance	<u>(1,099,618)</u>	<u>(1,185,009)</u>
Future income tax assets recognized	\$ <u>-</u>	\$ <u>-</u>

The Company provided a valuation allowance equal to the future tax assets as it is not presently more likely than not that they will be realized. The Company's income tax expense for each of the years ended is as follows:

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current income tax expense	\$ -	\$ -	\$ -
Future income tax expense (recovery)	-	-	-
Total income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Company's actual income tax expense for each of the years ended is made up as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
(Loss) before income taxes reflected in consolidated statements of operations	<u>\$ (194,909)</u>	<u>\$ (13,648)</u>	<u>\$ (111,999)</u>
Expected income tax expense (recovery)	(70,401)	(4,998)	(41,000)
Deductible share issue costs	(10,000)	(10,000)	(10,000)
Loss reduction relating to gain on settlement of debt	-	-	(55,000)
Statutory rate difference - Canada/U.S.(i)	(2,304)	(171)	(4,000)
Valuation allowance	<u>82,705</u>	<u>15,169</u>	<u>110,000</u>
Income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(i) The statutory rate difference between Canada and U.S. is 1.12%. This was computed using the combined tax rate of 36.12% (Federal tax rate of 22.12% and Ontario tax rate of 14%). The U.S. combined tax rate is 35% (U.S. top Federal tax rate of 35% and Texas State tax rate of 0%).

Non capital losses and resource pools

The Company has resource pools of \$272,000 (Canadian Exploration Expenditures of \$209,744 and Canadian Development Expenditures of \$62,543). It also has unclaimed share issue costs of \$10,000. The Company has non-capital loss carryforwards of approximately \$2,623,400 which can be used to reduce taxable income of future years. No benefit from these amounts has been recorded in these financial statements. The non-capital losses will expire as follows;

2005	\$ 477,400
2006	322,600
2007	623,900
2008	849,100
2009	170,700
2010	143,300
2011	<u>36,400</u>
	<u>\$ 2,623,400</u>

6. Related party transactions not disclosed elsewhere

Transactions with related parties not disclosed elsewhere in these financial statements comprise:

	<u>2004</u>	<u>2003</u>
Due from related party (a)	\$ 21,547	\$ 33,070
Due to related party (a)	\$ 76,515	\$ 44,609

(a) These amounts were both advanced to and are advanced from Royal Standard Minerals Inc. Also included is a payment of \$25,500 made from a director to the company.

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Royal Standard Minerals Inc. and the company are related by virtue of a common officer and director. The above transactions are measured at the exchange amount.

7. Supplemental cash flow information

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Changes in non-cash working capital			
Trade and sundry receivables	(1,288)	(16,664)	\$ 227,889
Notes receivable	89,228	(69,528)	(19,700)
Inventory	910	11,867	(11,566)
Accounts payable and accrued liabilities	34,958	504	2,281
Advances to/from related parties	<u>43,427</u>	<u>43,156</u>	<u>(64,135)</u>
	<u>\$ 167,235</u>	<u>\$ (30,665)</u>	<u>\$ 134,769</u>
Operating activities	\$ 167,235	\$ (30,665)	\$ 134,769
Financing activities	-	-	-
Investing activities	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 167,235</u>	<u>\$ (30,665)</u>	<u>\$ 134,769</u>
Interest paid	<u>\$ 24,474</u>	<u>\$ 28,663</u>	<u>\$ 25,989</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

8. Financial instruments

Fair Value

At December 31, 2004 the Company's financial instruments consisted of cash and cash equivalents, trade and sundry receivables, notes receivables, due from related parties, accounts payable and accrued liabilities, and due to related parties. The Company estimates that these short term financial instruments approximates their carrying values due to their short term maturity. The characteristics of long term financial instruments are detailed in Note 3.

Credit risk management

Receivables include accounts receivable for petroleum and natural gas sales, which were made to a large credit worthy customer in the United States. The Company has a long history with this customer and has had no problems in the past. Accordingly, the Company views credit risk on these amounts as low.

The Company is exposed to losses, in the event of non-performance by counter-parties to these financial instruments. The Company deals with major institutions and believes these risks are minimal.

9. Segment information

The Company has one reportable business segment. Substantially all of the Company's assets are located in the United States except for small balances held in Canadian banks. The Company's operations in Canada consist of general and administrative expenses necessary to maintain the Company's public company status.

10. Differences between Canadian GAAP and U.S. GAAP

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP. These principles, as they pertain to the Company's consolidated financial statements differ from US GAAP as follows:

Under US GAAP, for purposes of the ceiling test, future net cash flows from proved reserves, discounted at 10 percent over the remaining productive life, plus the lower of cost or estimated fair market value of unproven properties, net of future taxes, must exceed the net book value of such properties, net of future taxes and estimated site restoration, or a write down which is considered to be additional depletion, is required. Under Canadian GAAP, the ceiling test calculation is computed on an undiscounted basis and certain other future costs which are not considered under US GAAP, must be taken into consideration. The application of the US GAAP ceiling test in lieu of the Canadian GAAP ceiling test would not have changed the depletion recorded by the company in 2004, 2003 or 2002.

Under Canadian GAAP, the Company accounted for its stock-based compensation plan as described in Note 2 under which CICA Handbook Section 3870 was adopted for new awards effective January 1, 2003. The effect of this accounting change was that \$17,660 was recorded as additional compensation expense for 2003. Prior to this change, no compensation expense was required to be recorded for stock option grants under Canadian GAAP for 2002 or 2001. For US GAAP purposes, the Company has adopted the provisions of Financial Accounting Standard Board (FASB) Statement 148 (see below) effective January 1, 2003, which allows the Company to record compensation expense for stock options granted in 2003 based on the estimated fair value of such options, using the prospective method. As of January 1, 2003, the Company's accounting for stock option grants under US GAAP is substantially equivalent to the accounting under Canadian GAAP. As such, the expense recorded for US GAAP purposes in 2003 would not be different than the expense recorded for Canadian GAAP purposes in 2003.

Prior to January 1, 2003, the Company accounted for its stock-based compensation plan for US GAAP purposes under APB Opinion Number 25 and related interpretations, under which no compensation expense was required to be recognized in 2002 or 2001. For US GAAP purposes, pro forma net loss relating to stock option grants would have been increased by approximately \$110,000 in 2002.

Under US GAAP the income tax calculation would be at enacted and not substantially enacted rates. There is no reportable difference from Canadian GAAP as no future income tax assets have been recognized.

Recent accounting pronouncements --

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (FASB 148), which provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, the Statement amends the previous disclosure requirements of FASB 123 to require prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported financial results. The Company has adopted this statement in 2003.

Sharpe Resources Corporation
(Expressed in United States Dollars)

Notes to Consolidated Financial Statements
Years ended December 31, 2004, 2003 and 2002

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FASB 148 requires the following disclosures for US GAAP purposes:

	Years ended December 31		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
AS REPORTED			
Net (loss)	\$ <u>(194,909)</u>	\$ <u>(13,649)</u>	\$ <u>(111,999)</u>
(Loss) per common share, as reported			
Basic	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>0.00</u>
Diluted	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>0.00</u>
Stock option compensation cost included in net (loss)	\$ <u>-</u>	\$ <u>17,660</u>	\$ <u>-</u>
PRO FORMA (as if the fair value method of accounting for stock option grants had been applied for all periods):			
Net (loss)	\$ <u>(194,909)</u>	\$ <u>(13,648)</u>	\$ <u>(221,999)</u>
(Loss) per common share, as reported			
Basic	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>(0.01)</u>
Diluted	\$ <u>(0.01)</u>	\$ <u>0.00</u>	\$ <u>(0.01)</u>
Additional stock option compensation included in net (loss) on a pro forma basis	\$ <u>-</u>	\$ <u>-</u>	\$ <u>110,000</u>

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which provides guidance on the identification of variable interest entities, entities for which control is achieved through means other than through voting rights, and how to determine whether a variable interest holder should consolidate its variable interest entities. In December 2003, the FASB issued modifications to FIN 46, resulting in multiple effective dates based on the nature and creation date of the VIE. The Company has determined that it does not have any VIE's which will require consolidation for US GAAP purposes.

On December 15, 2004, the FASB issued Statement No. 123 (Revised 2004), "Share-Based Payment" (FASB 123R). FASB 123R requires companies to calculate and record in the income statement the cost of equity instruments, such as stock options, awarded to employees for services rendered; pro-forma disclosure is no longer permitted. FASB 123R is required to be adopted in the first quarter of 2006. The Company's accounting for its stock option awards is already in substantial compliance with the provision of FASB 123R; the adoption of this standard is not expected to have a significant impact on the Company's financial statements.

In December 2004, the FASB issued Statement NO. 153, "Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" (FASB 153). FASB 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. FASB 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FASB 153 is effective for fiscal periods beginning after June 15, 2005. The adoption of this standard is not expected to have a material impact on the Company's financial statements.