

# Q3

Nine Months Ending September 30, 2004



**Centurion Energy International Inc.**  
**Interim Financial Statements**  
**Nine months ending September 30, 2004**

**REPORT TO SHAREHOLDERS**

We are pleased to present the 2004 third quarter financial report of Centurion Energy International Inc. The unaudited interim financial statements and management discussion and analysis included in this report have been prepared by management and approved by Centurion's Audit Committee on behalf of the Board of Directors.

The third quarter was highlighted by three exploration and development successes in Egypt. The Gelgel 2,3,& 4 wells tested at combined rates of 59 mmcf/day of dry gas. Gelgel-2 was tied in and started producing just before quarter end. Gelgel 3 commenced production in late October and Gelgel 4 is completed and is expected to commence production by year end when additional compression equipment is installed.

The drilling success achieved to date in Egypt has advanced Centurion closer to its target of exiting 2005 at a combined production level of 250 mmcf/day from its El Wastani and South Manzala production leases located in the Nile delta.

Centurion has had 100% drilling success on the first 4 wells in its 2004/05 Egyptian drilling program. This has given the company a high level of confidence in its interpretation of its 3D seismic data as the company embarks on the remaining 17 wells planned between now and the end of 2005.

The next well in the program, El Wastani East-2, spudded on October 29 and will be followed immediately by El Wastani 4. A second drilling rig is being mobilized to drill the Abu Monkar-2 and Zidan wells in the South Manzala area. The first of these wells is expected to spud in early December, 2004.

Production totaled 1,091,000 boe in Q3 2004 (averaged 11,858 boepd) including 932,000 boe (10,130 boepd) in Egypt and 159,000 boe (1,728 boepd) in Tunisia. Q3 2004 production figures do not include the full impact of the discoveries made in the quarter as the Gelgel-2 well was not tied in until late in the quarter. Centurion's

current net production is approximately 15,000 boepd.

Cashflow from operations for Q3 2004 was \$12,898,000 (\$0.16 per share basic and \$0.15 per share diluted) compared to \$4,437,000 (\$0.07 per share basic and diluted) for Q3 2003. Cashflow for the nine months ended September 30, 2004 was \$30,551,000 (\$0.40 per share basic and \$0.38 per share diluted) compared to \$21,201,000 (\$0.34 per share basic and \$0.33 per share diluted) for the nine months ended September 30, 2003.

Earnings for Q3 2004 were \$3,856,000 (\$0.05 per share basic and diluted) compared to \$716,000 (\$0.01 per share basic and diluted) for Q3 2003. Earnings for the nine months ended September 30, 2004 were \$9,687,000 (\$0.13 per share basic and \$0.12 per share diluted) compared to \$7,017,000 (0.11 per share basic and diluted) for the nine months ended September 30, 2003.

**OPERATING HIGHLIGHTS**

**EGYPT**

**El-Manzala Concession**

**El Wastani Development Lease**

On July 5, 2004, production commenced from the El Wastani-3 exploration well drilled in the second quarter. The stable production rate averaged approximately 10mmcf/day of natural gas and 300 bpd of condensate during the quarter.

The El Wastani field produced an average of 17.7 mmcf/day of sales gas and 893 bopd of condensate and LPG's during Q3 2004 compared to 10.4 mmcf/day, and 616 bopd of condensate and LPG's during Q3 2003.

On October 29, the El Wastani East-2 exploration well was spudded and is currently at an approximate depth of 2,000 meters. This well will be drilled to a total depth of approximately 3,000 meters targeting the same Abu Madi sands encountered in El Wastani 1 & 3 and East El Wastani 1. Drilling is expected to take 35 days with completion activities to follow.

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After El Wastani East-2 drilling is finished, the drilling rig will mobilize to the El Wastani-4 location to commence a multi-well development drilling program in the El Wastani field.

Centurion has also initiated engineering and procurement work for the construction of a company-owned gas plant in the El Wastani area. Centurion currently processes all of its gas at the nearby Abu Madi gas plant paying a third party processing fee. The new plant will be built to accommodate all of Centurion's projected production in the area and is expected to be operational by the end of 2005.

**South Manzala Development Lease**

Production from the South Manzala field average 34.7 mmcf/day during Q3 2004. There was minimal production associated with the Gelgel-2 discovery in Q3, 2004 as the well was tied-in just before quarter end. Gelgel 3 is completed and has now commenced production and it is expected that production from Gelgel 4 will commence in late December when additional compression equipment is installed.

**West Gharib Concession  
Hana Field**

Production from the Hana field averaged 507 bopd during Q3 2004 compared to 431 bopd during Q3 2003. A three well drilling program has been approved by the partners for the West Gharib concession, including one development well in the Hana field and two exploration wells located in unexplored areas of the concession.

**West Manzala and West Qantara  
Exploration Blocks in Egypt**

As previously reported, Centurion has been awarded two exploration blocks in the Nile delta; West Manzala and West Qantara which cover 800,000 acres on trend with and surrounding the Company's existing El Wastani and South Manzala development leases. Centurion's working interest in the two awarded blocks is 75%.

Preliminary exploration work has commenced on these blocks and a 3D seismic program is being

scheduled. Centurion has already targeted 38 exploration prospects based on 2D seismic data interpretation of the area. Centurion and its partner will be drilling a minimum of 5 wells in these new concessions in the upcoming 2 years.

**Kom Ombo Concession**

The Egyptian parliament ratified the Southern Egypt Block 2 during Q1 2004. The block covers approximately 5.6 million acres in the Kom Ombo rift Basin. The geology in this basin is analogous to the prolific Muglad Basin in southern Sudan. Centurion has committed to spend US \$2.0 million in the first phase of exploration. Plans are to reprocess 2D seismic, conduct additional geological and geochemical studies and drill one exploration well. Seismic reprocessing and geological field work are anticipated to commence in Q4, 2004.

**TUNISIA**

**Ezzaouia Drilling Program**

The Ezzaouia three well exploration program was concluded in early October with the rig release from Ezzaouia-16. The Ezzaouia-15 well encountered hydrocarbons over a 21 meter interval and is currently tied-in and producing. Both Ezzaouia-14 and 16 encountered non commercial water saturated hydrocarbons in the targeted formations and have been suspended pending re-evaluation of the 3D seismic.

**Al Manzah Field**

Production resumed on June 10, 2004 from the Al Manzah water injection project. Centurion's net production from Al Manzah was 332 bopd during Q3 2004. The well has recently stabilized at a rate of 300 bopd and Centurion currently estimates that an additional 50,000 barrels may be recovered from this well.

**SEEB Power Plant**

Modifications and repairs to the SEEB plant were finalized in August 2004 and the plant resumed full operations in September. Centurion supplied a total of 259 mmcf of gas from El Bibane and 10 mmcf from Ezzaouia to SEEB during the third quarter.

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**Other Fields**

The Ezzaouia and Robbana fields produced on average 365 and 45 bopd respectively during the third quarter 2004. Production from the El Biban field averaged 502 bopd plus the gas sold to SEEB above.

**Mellita Permit**

Petro-Canada, as operator of the Mellita Permit, have selected the drilling prospects to satisfy the 2 well farmout agreement. One onshore prospect and one offshore prospect have been selected and letters of intent have been sent to the drilling contractors. The first well (the onshore prospect) is anticipated to spud in early 2005.

**Performance Highlights**

(For Periods ending September 30)  
(Canadian Dollars)

	3 months ending 2004	3 months ending 2003	9 months ending 2004	9 months ending 2003
Sales - net of royalties (\$mm)	21.9	7.8	52.2	34.1
Cash flow (\$mm)	12.9	4.4	30.6	21.2
Per share basic (\$)	0.16	0.07	0.40	0.34
Per share diluted (\$)	0.15	0.07	0.38	0.33
Earnings (\$mm)	3.9	0.7	9.7	7.0
Per share basic (\$)	0.05	0.01	0.13	0.11
Per share diluted (\$)	0.05	0.01	0.12	0.11
Shares outstanding (mm)	83.2	63.0	83.2	63.0
Production (average boepd)	11,858	4,970	10,525	5,485
Total production (boe)	1,091,000	457,000	2,884,000	1,493,000

**Forward Looking Statements**

This report contains certain forward looking statements that are subject to risks and uncertainties, and actual performance or results may vary from potential performance or results that are stated in this report. These risks and uncertainties include the risk that planned drilling programs may not proceed on schedule, may not be successful and may not result in an increase in production or reserves to the extent set out herein. Additional risks associated with the Company's operations are set out in its Annual Information Form.

**Barrels of Oil Equivalent (Boe's)**

Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 boe is based on an energy equivalency conversion method, primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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**November 11, 2004**

**Management's Discussion and Analysis**

The following discussion should be read in conjunction with the unaudited financial statements of Centurion for the periods ending September 30, 2004 and 2003. The unaudited interim financial statements included in this report have been prepared by management and approved by Centurion's Audit Committee on behalf of the Board of Directors. Centurion also discloses certain financial information (cash flow and cash flow from operations) in this MD&A that do not have any standardized meaning as prescribed by Canadian GAAP and are therefore considered non GAAP measures. These measures may not be comparable to similar measures presented by other public issuers.

**Dilution Impact**

When a company issues new shares to fund new investments, as is the case with the October 2003 and August 2004 stock issues Centurion completed, a short term impact is dilution of period results until the cashflow and earnings from the new investments start to be reflected. Dilution associated with these stock issues decreased cashflow and earnings for the nine months ended September 30, 2004 by \$0.07 and \$0.03 per share respectively.

**Effects of Currency Value Changes**

Centurion's operations are conducted in geographic areas where the US dollar is the functional business currency. All of Centurion's revenues are paid in US funds and the majority of its operating expenses and capital expenditures are also US dollar based. As the Canadian dollar has strengthened considerably in 2004, all of Centurion's US dollar based revenues and expenses will be translated into fewer equivalent Canadian dollars than the comparable translated amounts in 2003. There has been an approximate year to date decrease of 8% in all US dollar based amounts being reported in Canadian dollars in 2004. Accordingly, earnings and cashflow for the three month period ending September 30, 2004 have

been reduced by less than \$0.01 per share and earnings and cashflow for the nine month period ending September 30, 2004 have been reduced by approximately \$0.01 and \$0.03 per share respectively compared to what they would have been if the 2004 average exchange rate had remained the same as the average rate for 2003.

**Change in Production Mix**

Throughout 2004, Centurion's production mix has changed from oil to gas. The proportion of natural gas income with lower netbacks realized has increased with the result that there is not a barrel for barrel increase in cash flow and earnings for the significant increase in daily production rates. Centurion's successful drilling program in Egypt for natural gas and condensate has replaced short life, high netback oil reserves with much longer life natural gas reserves, albeit with lower netbacks. The gas reserves are expected to ultimately provide a greater contribution to overall shareholder value.

**Revenue**

Sales, net of royalties for Q3 2004 were \$21,944,000 compared to \$7,826,000 for Q3 2003 and were \$52,194,000 for the nine months ended September 30, 2004 compared to \$34,083,000 for the comparable period in 2003. Q3 2004 net sales reflect increased production of approximately 239% over 2003 offset by lower price realizations due to the change in production mix to approximately 85% gas. Additionally, in Q3, 2003, Centurion produced approximately 85,000 barrels of crude oil in Tunisia that was inventoried at quarter end and consequently lowered the comparable Q3 2003 sales.

Oil and gas sales in Tunisia, net of royalties for Q3 2004, amounted to \$6,180,000 compared to \$2,303,000 for Q3 2003. The comparable amount for Q3 2003 would have been \$5,381,000 except that 85,000 barrels of Q3 2003 production were inventoried and not recorded as sales for the period as discussed above. For the nine months ended September 30, 2004, sales in Tunisia, net of royalties amounted to \$12,660,000 compared to \$18,518,000 for the same period in 2003. The

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lower sales amount for the nine month period in 2004 is largely attributable to significantly reduced Al Manzah production in 2004 compared to 2003 and the 2003 inventory adjustment set forth above, slightly offset by higher oil prices received in 2004.

Oil, gas and condensate sales in Egypt, net of royalties for Q3 2004, amounted to \$15,019,000 compared to \$4,328,000 for Q3 2003. For the nine months ended September 30, 2004, oil and gas sales in Egypt, net of royalties amounted to \$37,780,000 compared to \$13,638,000 for the same period in 2003. The increase in Egyptian sales is entirely attributed to South Manzala production which commenced in Q4 2003 and the El Wastani-3 discovery that was put on stream in early July.

Electricity sales from SEEB amounted to \$745,000 in Q3, 2004 compared to \$1,195,000 in Q3, 2003. Sales were lower in Q3 2004 as the power plant was operating on only one turbine until early September when full operations resumed.

**Royalty Expense**

Royalty expense for Q3 2004 amounted to \$8,451,000 (28% of sales) compared to \$3,107,000 (25% of sales) for Q3 2003 and was \$23,392,000 (30% of sales) for the nine months ended September 30, 2004 compared to \$11,533,000 (25% of sales) for the comparable period in 2003. The change in royalty rate is indicative of the change in production mix. Egyptian gas sales are subject to an effective 40% royalty whereby the effective royalty rate on Centurion's Tunisian production approximates 6%.

**Operating Expense**

Operating expense for Q3, 2004 amounted to \$2,864,000 (\$2.63 per boe) compared to \$1,552,000 (\$3.97 per boe) for Q3, 2003 and for the nine months ended September 30, 2004 amounted to \$8,192,000 (\$2.84 per boe) compared to \$6,904,000 (\$4.78 per boe) for the comparable period in 2003. The decrease in 2004 per boe operating expenses is attributable to a greater proportion of production from

Egyptian gas which has significantly lower operating costs per boe than oil production in Tunisia and Egypt.

Tunisian operating expense for Q3, 2004 amounted to \$1,160,000 (\$7.30 per boe) compared to \$338,000 (\$4.75 per boe) for Q3, 2003. The 2003 figures reflect the accounting treatment of the 85,000 barrels of export oil held in storage at September 30, 2003. Operating costs for Q3, 2003 represent only those costs related to domestic sales and the low cost Al Manzah operations. For the nine months ended September 30, 2004, Tunisian operating costs amounted to \$3,068,000 (\$7.47 per boe) compared to \$3,412,000 (\$6.37 per boe) for the comparable period in 2003. The increase in per boe operating costs for the nine months ended September 30, 2004 is reflective of the lower production volumes in Tunisia resulting in a higher overhead component per barrel of oil equivalent produced.

Egyptian operating expense for Centurion's fields amounted to \$1,523,000 (\$1.64 per boe) in Q3 2004, compared to \$741,000 (\$2.90 per boe) for Q3, 2003. For the nine months ended September 30, 2004, Egyptian operating expense totaled \$4,422,000 (\$1.79 per boe) compared to \$2,746,000 (\$3.40 per boe) for the comparable period in 2003. Decreases in per boe amounts over 2003 amounts relate to the lower cost South Manzala gas production which commenced in Q4, 2003 and the allocation of the fixed cost component of the Cairo district office over more production barrels of oil equivalent.

Operating expenses for SEEB for Q3, 2004 were \$181,000 compared to \$473,000 for Q3 2003 and were \$702,000 for the nine months ended September 30, 2004 (2003 - \$746,000). Decreases in the 3 month figures compared to 2003 relate to lower operating and maintenance costs as the power plant was on reduced operations until full capacity resumed in September 2004.

**General and Administrative Expense**

General and administrative expenses for Q3, 2004 were \$799,000 compared to \$490,000 for Q3, 2003. For the nine months ended

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September 30, 2004, general and administrative expenses totaled \$2,204,000 compared to \$1,400,000 for the corresponding period in 2003. The increase is related to increased investor relations costs, ongoing costs associated with the AIM listing and additional staff associated with increasing operations. Although general and administrative costs have increased for the quarter, Centurion's cost per boe is \$0.73 for Q3 2004 compared to \$1.07 for Q3 2003.

**Interest and Finance Costs**

Interest and finance costs for Q3, 2004 amounted to \$552,000 compared to \$341,000 for Q3, 2003. For the nine months ended September 30, 2004, interest costs totaled \$1,733,000 compared to \$996,000 for the comparable period in 2003. This represents interest on the bank indebtedness, the capital lease obligation and interest on the SEEB debt. Prior to May 2003, SEEB interest costs were capitalized.

**Depreciation, Depletion and Amortization**

The depletion provision for Q3, 2004 amounted to \$5,005,000 (\$4.59 per boe) compared to \$2,254,000 (\$5.77 per boe) for Q3, 2003 and for the nine months ended September 30, 2004 amounted to \$14,802,000 (\$5.13 per boe) compared to \$8,521,000 (\$5.89 per boe) in 2003.

The depletion provision for Tunisian production for Q3, 2004 amounted to \$839,000 (\$5.28 per boe) compared to \$816,000 (\$6.04 per boe) for Q3, 2003. For the nine months ended September 30, 2004, the Tunisian provision totaled \$2,389,000 (\$5.79 per boe) compared to \$3,794,000 (\$5.91 per boe) for the corresponding period in 2003.

The Egyptian depletion provision for Q3, 2004 amounted to \$4,166,000 (\$4.47 per boe) compared to \$1,523,000 (\$5.97 per boe) for Q3, 2003. For the nine months ended September 30, 2004, the Egyptian provision totaled \$12,413,000 (\$5.02 per boe) compared to \$4,923,000 (\$6.09 per boe) in 2003. The

decrease in the Egyptian per boe depletion provision relates to proven reserve additions associated with El Wastani-3. Reserve additions associated with the Gelgel 2,3 & 4 discoveries have not yet been included in the depletion calculation.

Other depreciation and amortization related to non-oil and gas assets for Q3, 2004 amounted to \$91,000 (2003 - \$110,000) and for the nine months ended September 30, 2004 was \$281,000 (2003- \$285,000).

Depreciation on the SEEB power plant for Q3, 2004 amounted to \$392,000 (2003 - \$340,000) and \$699,000 for the nine months ended September 30, 2004 (2003- \$517,000). Prior to May 2003, the SEEB assets were not depreciated.

**Liquidity, Capital Resources and Capital Expenditures**

Capital expenditures for the nine months ended September 30, 2004 totaled \$32,041,000 including \$10,863,000 spent in Tunisia, \$20,888,000 spent in Egypt and \$290,000 spent on corporate assets. The expenditures in Tunisia were comprised of costs related to the Robanna-2, Ezzaouia-14&15 exploration wells and general geological and geophysical programs. The expenditures in Egypt consisted of 2004 drilling program costs, 3D seismic and general geological and geophysical programs.

Cash on hand at September 30, 2004, was \$42,497,000 compared to \$22,706,000 at December 31, 2003. Centurion had working capital of \$51,736,000 at September 30, 2004, compared to working capital of \$27,157,000 at December 31, 2003.

**Business Risk Assessment**

There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. There has been no substantial change in the business risk factors since the discussion provided in the Company's 2003 Annual Report and most recent AIF.

## Centurion Energy International Inc.

### Consolidated Balance Sheets

(\$000's CAD)

(Unaudited)

	As at September 30 2004	As at December 31 2003 (restated, Note 1b)
<b>Assets</b>		
<b>Current Assets</b>		
Cash	42,497	22,706
Accounts receivable	20,652	14,629
Inventory	-	35
Deposits and prepaids	1,120	1,027
	<u>64,269</u>	<u>38,397</u>
Capital assets	117,474	107,692
Deferred financing costs	668	418
Future tax asset	-	2,237
	<u>182,411</u>	<u>148,744</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	10,725	9,805
Short-term portion of long-term debt	1,808	1,435
	<u>12,533</u>	<u>11,240</u>
Limited recourse long-term debt (Note 2)	14,887	16,027
Other long-term debt (Note 3)	12,673	12,919
Capital lease obligation (Note 4)	2,527	-
Asset retirement obligation (Note 1b and note 9)	4,073	3,775
Future tax liability	1,964	-
Deferred credit	-	956
	<u>36,124</u>	<u>33,677</u>
<b>Shareholders' Equity</b>		
Capital stock (Note 6)	103,943	79,654
Contributed surplus	3,043	1,676
Foreign currency translation adjustment	(14,817)	(9,401)
Retained earnings	41,585	31,898
	<u>133,754</u>	<u>103,827</u>
	<u>182,411</u>	<u>148,744</u>

## Centurion Energy International Inc.

### Consolidated Statement of Income and Retained Earnings

Periods ended September 30, 2004 and 2003 (Unaudited)

	Three months ended		Nine months ended	
	2004	2003 (restated, Note 1b)	2004	2003 (restated, Note 1b)
<b>Revenue</b>				
Sales - net of royalties	21,944	7,826	52,194	34,083
Other income	128	33	423	131
	<u>22,072</u>	<u>7,859</u>	<u>52,617</u>	<u>34,214</u>
<b>Expenses</b>				
Operating	2,864	1,552	8,192	6,904
Depletion, depreciation and amortization	5,488	2,789	15,782	9,519
General and administrative	799	490	2,204	1,400
Foreign prospect review	573	14	619	46
AIM Listing	-	-	-	1,197
Stock option benefit (Note 5)	1,335	615	1,458	615
Interest and finance costs	552	341	1,733	996
Amortization of deferred financing costs	49	40	140	124
Accretion expense (Note 1b and note 9)	79	79	239	235
Foreign exchange loss (gain)	293	(1)	233	(2)
	<u>12,032</u>	<u>5,919</u>	<u>30,600</u>	<u>21,034</u>
<b>Income before income taxes</b>	<u>10,040</u>	<u>1,940</u>	<u>22,017</u>	<u>13,180</u>
<b>Income taxes</b>				
Current	4,093	1,026	9,085	3,669
Future	2,091	198	3,245	2,494
	<u>6,184</u>	<u>1,224</u>	<u>12,330</u>	<u>6,163</u>
<b>Net Income for the period</b>	<u>3,856</u>	<u>716</u>	<u>9,687</u>	<u>7,017</u>
<b>Retained earnings</b>				
- Beginning of period as previously reported	37,729	28,590	31,898	22,104
- Effect of change in accounting policy (Note 1b)	-	(1,018)	-	(833)
- Beginning of period - restated	<u>37,729</u>	<u>27,572</u>	<u>31,898</u>	<u>21,271</u>
Retained earnings - End of period	<u>41,585</u>	<u>28,288</u>	<u>41,585</u>	<u>28,288</u>
<b>Basic earnings per share</b>	<b>0.05</b>	0.01	<b>0.13</b>	0.11
<b>Diluted earnings per share</b>	<b>0.05</b>	0.01	<b>0.12</b>	0.11

## Centurion Energy International Inc.

### Consolidated Statement of Cash Flows

Periods ended September 30, 2004 and 2003 (Unaudited)

	Three months ended		Nine months ended	
	2004	2003 (restated, Note 1b)	2004	2003 (restated, Note 1b)
<b>Cash provided by (used in) operating activities</b>				
Net income for the period	3,856	716	9,687	7,017
Items not affecting cash				
Depletion, depreciation and amortization	5,488	2,789	15,782	9,519
Amortization of deferred financing costs	49	40	140	124
Stock option benefit	1,335	615	1,458	615
Accretion expense	79	79	239	235
Future taxes	2,091	198	3,245	2,494
AIM listing costs	-	-	-	1,197
	<u>12,898</u>	<u>4,437</u>	<u>30,551</u>	<u>21,201</u>
Listing costs	-	-	-	(1,197)
Changes in non-cash operating working capital	<u>(1,962)</u>	<u>(2,682)</u>	<u>(15,892)</u>	<u>(731)</u>
	<u>10,936</u>	<u>1,755</u>	<u>14,659</u>	<u>19,273</u>
<b>Investing activities</b>				
Capital asset expenditures	(10,437)	(10,588)	(32,041)	(26,691)
Changes in non-cash working capital items	113	6,405	10,731	7,656
	<u>(10,324)</u>	<u>(4,183)</u>	<u>(21,310)</u>	<u>(19,035)</u>
<b>Financing activities</b>				
Net proceeds (repayments) of long term debt	(225)	213	2,422	358
Issuance of capital stock - net of issue costs	23,600	251	24,269	221
	<u>23,375</u>	<u>464</u>	<u>26,691</u>	<u>579</u>
<b>Foreign currency translation</b>	<u>(267)</u>	<u>12</u>	<u>(249)</u>	<u>408</u>
<b>Increase / (decrease) in cash</b>	<u>23,720</u>	<u>(1,952)</u>	<u>19,791</u>	<u>1,225</u>
<b>Cash - Beginning of period</b>	<u>18,777</u>	<u>7,063</u>	<u>22,706</u>	<u>3,886</u>
<b>Cash - End of period</b>	<u>42,497</u>	<u>5,111</u>	<u>42,497</u>	<u>5,111</u>

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**Consolidated Notes to Financial Statements**

All dollar figures are Canadian dollars unless otherwise noted.  
(Unaudited)

These unaudited interim financial statements for the periods ending September 30, 2004 and 2003 have been prepared in accordance with Canadian Generally Accepted Accounting Principles and should be read in conjunction with the annual statements prepared for the year ending December 31, 2003.

**1 Accounting Policies**

These interim financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended December 31, 2003, except as follows;

- a) Effective January 1, 2004, the Company prospectively adopted the new Canadian Accounting Guideline # 16, "Oil and Gas Accounting – Full Cost". The guideline modifies how the ceiling test is performed by requiring that a cost centre be tested for recoverability using undiscounted future cash flows determined using expected prices applied to proved reserves. When the carrying amount of a cost centre is not recoverable, the cost centre is written down to the fair value of proved and probable reserves plus the unimpaired cost of unproved property that does not contain probable reserves. This revised ceiling test would not have resulted in an impairment write-down as at January 1, 2004. An impairment test based on the provisions of the guideline was performed at September 30, 2004, resulting in no impairment of Centurion's assets.
- b) Effective January 1, 2004, the Company retroactively adopted a new Canadian accounting standard for asset retirement obligations. The standard requires that the fair value of an asset retirement obligation be recognized when a reasonable estimate of the fair value can be made. The present value of the obligation is capitalized as part of the carrying amount of the related asset. With the passage of time, accretion increases the carrying amount of the asset retirement obligation. Previously the Company used the unit of production method to accrue retirement costs over the life of the related assets. The following table summarizes the effect of this change in accounting on the financial statements as at December 31, 2003;

<b>Balance Sheet Account</b>	<b>Increase/(Decrease) in \$Millions</b>
Capital Assets	0.9
Asset retirement obligation	3.8
Provision for site restoration	(1.1)
Retained earnings	(1.2)
Future tax asset	0.9
Deferred credit	0.3

**2 Limited Recourse Long-Term Debt**

Limited recourse long-term debt is comprised of \$12,972,000 related to the credit facility secured by SEEB in respect to the construction of the power generation plant in Tunisia. The debt bears interest at LIBOR plus 2.0% and is secured by the power plant assets. Principal repayments of \$1,260,000 are required within the next 12 months and accordingly have been included in current portion of long term debt.

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The remaining balance of \$3,175,000 is comprised of additional project financing related to the construction of the power plant in Tunisia provided by Centurion's 50% partner in the project. The debt bears interest at 13%, however there are no fixed repayment terms nor will the lender demand repayment in the next 12 months. Accordingly, this additional financing has been classified as a long-term obligation.

**3 Other Long-Term Debt**

Other long-term debt consists of a credit facility with the Standard Bank London Ltd. approximating \$US 10 million. This debt bears interest at LIBOR plus 3.5%. Principal repayments are required when Centurion's debt drawings exceed the allowable borrowing base provided for in the credit facility. Management does not anticipate this to occur in the upcoming year and has accordingly classified this credit facility as a long-term obligation. Subsequent to quarter end, Centurion renegotiated the credit facility terms and increased the maximum borrowing amount available to \$US 40 million. All other terms remain unchanged.

**4 Capital Lease Obligation**

A capital lease arrangement with Northstar Trade Finance Ltd. was arranged for a sales leaseback of compression equipment that was previously purchased and installed at the Company's gas fields in Egypt. The lease liability amounts to \$3,075,000 and requires equal monthly payments of US\$51,000 until May 2009 with an interest rate of approximately 8.5 percent. Principal payments of \$548,000 are required in the next 12 months and have been included in current liabilities.

**5 Stock Based Compensation**

Effective January 1, 2003 the Company adopted the fair value method of accounting for employee stock options. For the three month period ended September 30, 2004 an expense of \$1,335,000 (2003-\$615,000) and for the nine months ended September 30, 2004 an expense of \$1,458,000 (2003-\$615,000) has been recorded in respect of these employee stock options. This expense has been calculated using a Black-Scholes model assuming a risk free rate ranging from 3.83% - 4.05%, a 3 year expected option life, a share price volatility ranging from 38%-56% and no dividends.

**6 Capital Stock**

	Number of shares	(\$)
Balance –December 31, 2003	74,351,127	79,654,000
Issued on prospectus offering (net of issue costs)	7,575,757	23,425,000
Issued on exercise of options	1,075,767	674,000
Issued on exercise of warrants	200,000	190,000
Balance – September 30, 2004	83,202,651	103,943,000

During the three months ended September 30, 2004, 70,800 options were exercised by employees of the Company at an average price of \$0.65 per option and 100,000 options were exercised by consultants of the Company at an average price of \$0.57 per option.

During the quarter the Company successfully completed a \$20 million underwritten financing consisting of the placement of 6,060,606 Common Shares at \$3.30 per Common Share. Additionally, 1,515,151 new common shares ("the UK

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Shares”) have been placed with UK investors at a price of CDN \$3.30 each, resulting in gross proceeds to the Corporation of approximately CDN \$5 million.

**7 Stock Options**

Balance –December 31, 2003	6,098,334
Options exercised in Q1, 2004	5,000
Options granted in Q2, 2004	160,000
Options exercised in Q2, 2004	899,967
Options granted in Q3, 2004	1,610,000
Options exercised in Q3, 2004	170,800
Balance – September 30, 2004	6,792,567

During the three months ended September 30, 2004, 1,610,000 options were granted to employees and directors of the Company at a strike price of \$3.40 per share. See note 6 for details of options exercised.

**Weighted Average Stock Option Exercise Prices and Remaining Option Lives**

Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Weighted –Average Remaining Contractual Life in Years	Options Exercisable	Weighted –Average Remaining Contractual Life in Years
0.46	655,000	2.0	655,000	2.0
0.57	50,000	0.3	50,000	0.3
0.58	420,000	0.5	420,000	0.5
0.84	335,000	1.2	335,000	1.2
0.60	2,393,333	2.8	2,393,333	2.8
1.63	1,169,234	3.9	1,019,234	3.9
3.05	160,000	4.5	53,333	4.5
3.40	1,610,000	4.9	1,236,666	4.9
	<b>6,792,567</b>		<b>6,162,566</b>	

**8 Earnings per Share**

Per share basic amounts are calculated using the weighted average common shares outstanding during the period. Diluted per share amounts are calculated assuming all in the money securities are exercised with the resultant proceeds realized on the exercise of these securities being used to repurchase the Company’s common shares at the average share price during the period. For the three months ended September 30, 2004, the weighted average common shares outstanding were 79,003,342 securities and 4,653,804 dilutive securities existed. For the nine months ended September 30, 2004, the weighted average common shares outstanding were 76,244,380 securities and 4,653,904 dilutive securities existed. No anti-dilutive securities existed during 2004.

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**9 Asset Retirement Obligation**

	\$
Asset retirement obligation at December 31, 2003	3,775,000
Additions during 2004	59,000
Accretion expense	239,000
Asset retirement obligation at September 30, 2004	4,073,000

**10 Segmented Information**

**Operating Segments (thousands of \$CAD)**

Three months ended September 30, 2004	Oil & Gas Operations	Electricity Generation Operations	Corporate	Total
Sales – net of royalties	21,199	745	-	21,944
Depletion, depreciation and amortization	5,027	392	69	5,488
Interest expense	270	282	-	552
Income taxes	6,157	-	27	6,184
Net income (loss)	7,138	(241)	(3,041)	3,856

Nine months ended September 30, 2004	Oil & Gas Operations	Electricity Generation Operations	Corporate	Total
Sales – net of royalties	50,440	1,754	-	52,194
Depletion, depreciation and amortization	14,889	699	194	15,782
Interest expense	734	999	-	1,733
Income taxes	12,303	-	27	12,330
Net income (loss)	14,670	(646)	(4,337)	9,687
Capital assets	91,490	25,646	338	117,474
Capital expenditures	30,949	802	290	32,041

The Company sells natural gas from its oil and gas operations to its electricity generation operations at market prices. These inter-segment revenues have been eliminated upon consolidation and the figures provided in the segmented information table above are net of intercompany eliminations.

