

REECE ENERGY INC.

Management's Discussion And Analysis

(As at December 31, 2004)

Reece Energy Inc. ("Reece") was incorporated under the Alberta *Business Corporations Act* on April 13, 2004 and is classified as a CPC as defined in Policy 2.4 of the TSX Venture Exchange. Reece's shares began trading on November 24, 2004.

Reece has no assets other than cash and accounts receivable and, as a CPC, has no revenue generating operations. Upon incorporation, Reece raised \$165,000 from its founders. An additional \$400,000 (net \$283,646 after costs) was raised pursuant to the issue of its initial CPC prospectus. This offering closed on September 9, 2004.

On November 12, 2004, Reece signed Letters of Intent with three non-arm's length private oil and gas companies, Ganze-Reece Operations Ltd. ("Ganze-Reece"), Render Resources Ltd. ("Render") and Blue Denim Exploration Inc. ("Blue Denim"). Under the terms of the Letters of Intent, (subsequently formalized by a Pre-Acquisition Agreement dated February 16, 2005) Reece would acquire all of the issued and outstanding shares of Ganze-Reece, Render and Blue Denim in exchange for shares of Reece. The transaction price for this offer is \$16,624,692 million. If concluded, this would constitute Reece's Qualifying Transaction.

Management of Reece is proceeding with its due diligence with respect to this transaction at this time. As any offer to purchase the shares of Ganze-Reece, Render and Blue Denim (collectively the "Target Companies") would be subject to acceptance of at least 90% of at least one of the Target Companies' shareholders, the approval of the majority of the minority shareholders of Reece and approval of the TSX Venture Exchange, there is no guarantee that the transaction as described or any transaction between these parties will be completed.

Should this transaction not be completed, Reece has sufficient liquidity to continue to identify and evaluate other potential Qualifying Transactions.

Reece presently has 3,650,000 issued and outstanding common shares. Reece also has granted 363,000 stock options to its directors and officers. The stock options have an exercise price of \$0.20 and expire on the earlier of five years from the date of grant or one year following the date the optionee ceases to be a director or hold an office of Reece by reason of death, or 90 days after ceasing to be a director or officer for any reason other than death. No options were cancelled, exercised or expired during the period.

Pursuant to an Agency Agreement dated August 17, 2004, a single non-transferable option to purchase 200,000 common shares of Reece at \$0.20 was granted to Reece's agent under its CPC initial public offering. The option expires 18 months from the date the shares were posted for listed on the TSX Venture Exchange (November 24, 2004). All options are currently outstanding.

Additional information regarding Reece is available on SEDAR at www.sedar.com.