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FOR: FAIRBORNE ENERGY LTD.

TSX SYMBOL: FEL

November 25, 2003

Fairborne Energy Ltd. Announces Q3 Results

CALGARY, ALBERTA--Fairborne Energy Ltd. is pleased to present the results of its operations for the first nine months of 2003. The third quarter of 2003 saw significant changes in Fairborne's size, corporate structure and level of operations. On July 2, 2003, Fairborne completed the merger of the Company with Pivotal Energy Ltd. which resulted in the Company increasing its production and reserves by 60 percent and 78 percent, respectively, since the Company's commencement of operations in June, 2002. Concurrent with this acquisition, Fairborne began trading as a publicly listed company on the Toronto Stock Exchange effective July 7, 2003 under the trading symbol "FEL". As the transaction closed in July, the third quarter is the first quarter to include the results of both the original Fairborne and the Pivotal properties.

As indicated last quarter, the merged company has the advantage of a significant production base and strong financial resources giving the Company the ability to aggressively pursue existing drilling opportunities on the Pivotal and Fairborne properties as well as new drilling and property acquisition opportunities. Fairborne is pleased to report the Company is taking advantage of this portfolio and, in the third quarter, a total of 13 (12.2 net) wells were drilled resulting in 3 (2.9 net) crude oil wells, 7 (6.4 net) natural gas wells and 3 (2.9 net) wells were dry and abandoned for an overall success rate of 77 percent. Fairborne operated all but one well in this program.

Fairborne originally budgeted \$40 million for its 2004 capital program but available opportunities were substantially in excess of this amount. To expand the 2004 capital budget to \$50 million and maintain its financial flexibility, on November 21, 2003 Fairborne entered into a flow-through common share financing, on a bought deal basis, to issue 1,500,000 flow-through common shares, at a price of \$6.75 per share, for total gross proceeds of \$10,125,000. The additional expenditures include exploratory wells targeting accumulations of natural gas and the first phase of a drilling program for coal-bed natural gas in the Clive field. The total 2004 budgeted capital program of \$50 million is split approximately \$16 million to land, seismic and exploration, \$25 million to development and exploitation and \$9 million for related facilities.

With the addition of Pivotal, for the three month period ending September 30, 2003, Fairborne's production base is equally balanced between light crude oil and NGL and natural gas. Production averaged 2,436 barrels per day of crude oil and natural gas liquids ("NGL") and 14.3 million cubic feet ("Mmcf") per day of natural gas resulting in a total of 4,815 BOE per day. Fairborne had a very active third quarter of drilling and re-completions. The majority of new productive capability established by this active drilling program is targeted to be connected by year end and production levels should exit between 5,200 and 5,500 BOE per day depending on regulatory and surface access approvals. The Company also has approximately 500 BOE per day of sour crude oil and

natural gas production awaiting regulatory approvals for the tie-in and construction of new facilities which are expected to be completed by mid 2004.

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Selected Results from Operations for the Three and Nine Months Ended September 30, 2003

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
Production		
Oil and NGL (Barrels per day)	2,436	1,936
Natural Gas (Mcf per day)	14,265	9,077
Barrels of Oil Equivalent (BOE per day)	4,815	3,449
Prices		
Oil and NGL (\$/Barrel)	\$ 33.79	\$ 36.31
Natural Gas (\$/Mcf)	\$ 6.07	\$ 6.40
Barrels of Oil Equivalent (\$/BOE)	\$ 35.09	\$ 37.27
Financial		
Revenue (\$000)	\$15,711	\$35,397
Funds Generated From Operations (\$000)	\$ 9,056	\$20,743
Funds Generated From Operations per Share (Basic)	\$ 0.30	\$ 0.89
Net Income (\$000)	\$ 3,047	\$ 8,027
Net Income per Share (Basic)	\$ 0.10	\$ 0.35

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Clive/Wood River Area:

Fairborne is continuing its development of this area with seven work-overs completed in the third quarter and 36 completed to date in 2003. A five well shallow drilling program is planned at Clive. Three of these wells will be drilled and tested for productive capability in certain of the Edmonton Group/Horseshoe Canyon coals and the Belly River sands prior to year-end. An additional deep (Leduc) well is planned before year end. In this well, two Mannville coals also will be cored and evaluated.

Expansion of the gas compression facilities at Wood River was completed recently and this will help stem declines and enable connection of additional gas in this area.

Peace River Arch Area:

In July, when Fairborne became operator of the Rycroft property, it was determined that in order to optimize production, additional field compression along with firm transportation capacity on the Atco system was required. The compressor was connected in late October and production from Rycroft is currently 3.2 Mmcf per day (530 BOE per day net to Fairborne). An additional gas well (50% working interest) was drilled in late September offsetting the original Rycroft discovery and has been tested for gas in the Bluesky zone. This well will be tied into facilities by the end of November and should add additional production of approximately 1.5 MMcf per day (250 BOE per Day net to Fairborne).

At Gordondale, a new pool is being developed by the Company that already includes 8 wells that will be able to produce approximately 770 BOE per day (500 BOE per day net to Fairborne). These wells all contain sour gas and production will likely be delayed for 6 to 9 months as regulatory requirements are fulfilled and pipeline and facilities are completed. Also in this area, a sweet gas development well was drilled in September and will be placed on-stream by the end of November.

#### Westeros/Pigeon Lake Area:

Fairborne was successful in acquiring a significant undeveloped land inventory in this area for a deep gas play. Technical analysis has been completed and eight deeper critical sour wells are being licensed for drilling in 2004. Preliminary engineering is underway in preparation for area consultations and an area open house is planned for January. In addition to the sour gas target, there is a shallower Basal Cretaceous sweet gas play in this area. The first well (at a 50% working interest) was drilled in early September, tested gas in two zones in the Basal Cretaceous and will be placed on production early in 2004 when pipeline connections are completed. An additional three follow-up tests are presently being licensed for drilling in early 2004.

#### Bassett Lake Area:

Bassett Lake is a winter access only area located in northern Alberta, where five wells were drilled in the winter of 2003 (four cased gas wells and one dry hole). Drilling plans in 2004 include 10 follow-up wells to evaluate the Bluesky formation with a view to placing new production on-stream in April 2004. Fairborne also has another shallow gas play south of Bassett Lake where one exploratory well is planned this winter.

#### Deep Basin Exploration:

Two large reserve potential, gas focused, deeper (4,000 meters) plays are being developed at Wild River and Obed. Licensing of the Wild River well is proceeding with plans to spud in late 2003. Fairborne will retain a 60% working interest in this well. Total gross cost of this well is budgeted between \$3 and \$4 million. At Obed, further seismic is required before drilling. A well at Obed is planned for late spring or summer of 2004.

#### Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the financial statements presented in this report. For the purposes of calculating unit costs, natural gas is converted to a barrel equivalent ("BOE") using six thousand cubic feet to one barrel.

Fairborne Energy Ltd. ("Fairborne" or the "Company") is now a publicly traded company with its head office in Calgary and is engaged in the business of acquiring crude oil and natural gas properties and exploring for, developing and producing crude oil and natural gas in Western Canada. The Company was incorporated as a private company in early 2002 and commenced active operations on May 31, 2002. On July 2, 2003, the shareholders of Fairborne agreed to the merger of Fairborne with a publicly listed company called Pivotal Energy Ltd. ("Pivotal") pursuant to which Pivotal shareholders received 0.485 of a Fairborne common share for each Pivotal share. Concurrent

with this merger, Fairborne's common shares commenced trading on July 7, 2003 on the Toronto Stock Exchange under the trading symbol "FEL".

This report presented and comments thereon are based on the results of operations of Fairborne for the nine month period ended September 30, 2003. As the purchase of Pivotal occurred effective July 2, 2003, the production, revenue and expenses associated with the additional Pivotal operations are only included for the period from July 2, 2003 until September 30, 2003. As Fairborne only had active operations for the four month period ended September 30, 2002 and this period did not include any operations associated with Pivotal, no comparative analysis will be discussed as the nature of operations and time periods are not comparable.

#### Production

With the addition of Pivotal, for the three month period ending September 30, 2003, Fairborne's production base is equally balanced between light crude oil and NGL and natural gas. Production averaged 2,436 barrels per day of crude oil and natural gas liquids ("NGL") and 14.3 million cubic feet ("Mmcf") per day of natural gas for a total of 4,815 BOE per day. Fairborne had an active third quarter of drilling and re-completions and the majority of new productive capability established by this drilling program is planned to be connected by year end and production levels should exit between 5,200 and 5,500 BOE per day depending on regulatory and surface access approvals. The Company also has approximately 500 BOE per day of sour crude oil and natural gas production awaiting regulatory approvals for the tie-in and construction of new facilities which are expected to be completed by mid 2004.

Production levels for 2004 are budgeted to average 2,725 barrels per day of crude oil and NGL and 21.2 Mmcf per day of natural gas for a total of 6,250 BOE per day. The Company's capital budget has been more focused on the addition of natural gas reserves with the 2004 capital budget allocated approximately 80 percent to expanding natural gas reserves and 20 percent allocated to crude oil and NGL.

#### Revenue

Revenues for the nine month period of 2003 totaled \$35,397,000 from sales of crude oil, natural gas and NGL. More indicative of future operations, revenues in the three months ended September 30, 2003 totaled \$15,711,000 including the properties of both Fairborne and Pivotal. This revenue is a combination of the production levels indicated above and strong commodity prices.

With continuing supply uncertainty in the Middle East, commodity prices for crude oil and NGL have been strong over the first nine months of 2003. Fairborne's crude oil and NGL price averaged \$36.31 per barrel during the nine months however on a quarter by quarter basis, the prices have declined from \$40.70 per barrel recorded in the first quarter, \$35.69 per barrel recorded in the second quarter to \$33.79 per barrel recorded in the third quarter. Fairborne conducts a hedging program for both crude oil and natural gas prices. The above noted prices for crude oil and NGL have been reduced by \$7.14 per barrel in the first quarter, \$2.00 per barrel in the second quarter and \$2.69 per barrel in the third quarter as Fairborne had hedged an average of 29 percent of total crude oil production during the first nine months of 2003. At this point in time, Fairborne has not hedged any crude oil production for 2004.

With supply uncertainty during the first nine months of 2003, natural gas prices remained high. Fairborne's average natural gas price during the nine months was \$6.40 per Mcf with prices declining from an average of \$6.76 for the first six months to \$6.07 in the third quarter. The above noted prices for natural gas have been reduced by \$0.99 per Mcf in the first quarter, \$0.26 per Mcf in the second quarter and increased by \$0.07 per Mcf in the third quarter as Fairborne had hedged an average of 29 percent of total natural gas production during the first nine months of 2003. The most important factor influencing natural gas prices for 2004 is the weather in the consuming areas of North America. Similar to crude oil, at this point in time, Fairborne has not hedged any natural gas production for 2004.

#### Expenses

Royalties consist of payments made to the Alberta government, freehold landowners and overriding royalties. The majority of the Fairborne properties are located on freehold lands on which royalty rates tend to be lower. As such, royalties totaled \$6,653,000 for the first nine months of 2003 which is an overall royalty rate of 18.8 percent. Royalties for the three months ended September 30, 2003 totaled \$3,217,000 which is an overall rate of 20.5 percent reflecting the addition of the Pivotal properties. Royalty rates in 2004 are budgeted to average 22.5 percent as new production added is anticipated to carry higher royalties, more in-line with industry average levels.

Fairborne operates in excess of 95 percent of its production and consequently has control over these costs. On a BOE basis, operating costs were \$5.92 per BOE or \$5,575,000 in total during the first nine months of 2003. Important to shareholders, Fairborne has reduced unit operating expenses from \$6.96 per BOE in 2002, \$7.08 per BOE in the first three months of 2003, \$5.95 per BOE in the second quarter of 2003 and \$5.29 per BOE for the third quarter of 2003. This reduction was accomplished primarily by increasing production in operated areas while maintaining cost control. For 2004, Fairborne is budgeting operating costs to average \$5.75 per BOE.

In the first nine months of 2003, Fairborne's general and administrative costs totaled \$2,024,000 or \$2.15 per BOE including payments under the Fairborne bonus plan to all staff reflecting the excellent first half of results. As the Company grows and adds staff connected to the increased levels of both production and capital expenditures, these costs will increase on an absolute basis but Fairborne has budgeted to reduce these costs, on a BOE basis, to \$1.64 in 2004.

Before the merger with Pivotal, Fairborne had not drawn on its available lines of credit with two major Canadian banks, however, after the completion of this merger, Fairborne now has \$6,838,000 of bank lines drawn against authorized bank lines of \$47 million. In connection with the purchase of certain oil and gas assets located at Clive and Wood River, the Company assumed a capital lease on compression equipment which totals \$2,606,000 at September 30, 2003. Interest expense on this lease and the drawn bank lines totals \$204,000 or \$0.36 per BOE for the first nine months of 2003. As the capital budget is matched to the budgeted cash flow in 2004, the level of bank debt and lease obligation will likely average about \$10 million throughout 2004.

Fairborne purchased the oil and gas assets located at Clive and Wood River at very competitive prices, added the Pivotal assets at reasonable prices and has added significant reserves through its technical analysis and work-over program at relatively modest costs. Consequently, depletion and depreciation rates averaged \$8.37 per BOE for the nine month period and more indicative of future operations, the depletion and depreciation rate in the third quarter averaged \$9.05 per BOE. The provision for site restoration costs is \$0.90 per BOE in the nine month period and \$0.76 in the three months ended September 30, 2003 and reflects the anticipated costs of restoring the sites associated with current wells and facilities. Both of these expenses are expected to remain at current levels on a BOE basis for 2004.

As indicated above, the Company was quite efficient in purchasing and developing its crude oil and natural gas base but this has left Fairborne with higher levels of taxable income. Fairborne's effective income tax rate is 33 percent consisting primarily of future income taxes. Large corporation tax was relatively minor at \$67,000. In 2004, depending on the level of expenditures, Fairborne does not envision paying cash income taxes and is budgeting a future income tax rate remaining constant with the 33 percent recorded in 2003.

#### Funds Generated From Operations and Net Income

The combination of production levels, commodity prices and expenses detailed above resulted in funds generated from operations of \$20,743,000 (\$0.89 per share) and net income of \$8,027,000 (\$0.35 per share) for the nine month period in 2003. For the three months ended September 30, 2003, with the addition of the Pivotal assets, Fairborne's funds generated from operations totaled \$9,056,000 (\$0.30 per share) and net income was \$3,047,000 (\$0.10 per share)

#### Liquidity and Capital Resources

Fairborne's capital program in the first nine months of 2003 totaled \$23,644,000 and more importantly in building shareholder value, the capital expenditures for the three months ended September 30, 2003 totaled \$15,384,000. This third quarter program resulted in the drilling of 13 (12.2 net) wells which resulted in 3 (2.9 net) crude oil wells, 7 (6.4 net) natural gas wells and 3 (2.9 net) wells were dry and abandoned for an overall success rate of 77 percent. Fairborne operated all but one well in this program.

Fairborne commenced 2003 with working capital totaling \$2,255,000, a capital lease obligation of \$2,698,000 and had an un-drawn bank line. With the acquisition of Pivotal, capital expenditures and cash flow in the first nine months of 2003, Fairborne's financial position at September 30, 2003 was working capital deficiency of \$8,019,000, a capital lease obligation of \$2,606,000 and bank loans of \$6,838,000. Fairborne is in an excellent financial position with \$47 million of total bank lines. Funds generated from operations are budgeted to fund Fairborne's anticipated capital program with un-drawn bank lines available to either increase its capital expenditure program or complete strategic acquisitions but those will depend on available opportunities.

#### Business Environment and Risk

The Company is exposed to business risks that are inherent in the oil and gas industry as well as those governed by the individual nature of Fairborne's

operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of new reserves, commodity prices, foreign exchange risks, competition and government regulations - all of these govern the business and influence the controls and management at the Company. Fairborne manages these risks by:

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- attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company;
- operating properties in order to ensure efficient and cost effective operations;
- employing risk management instruments to minimize exposure to volatility of commodity prices, interest rates and foreign exchange rates;
- maintaining a strong financial position; and
- maintaining strict environmental, health and safety practices.

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Forward Looking Statements - Certain information regarding Fairborne Energy Ltd. set forth in this document, including management's assessment of Fairborne Energy Ltd's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Fairborne Energy Ltd.'s control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Fairborne Energy Ltd.'s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Fairborne Energy Ltd. will derive therefrom.

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Fairborne Energy Ltd.  
Interim Consolidated Balance Sheets

	September 30, 2003 (Unaudited)	December 31, 2002
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Assets		
Current assets		
Cash and cash equivalents	\$ 79,265	\$ 3,586,747
Accounts receivable	12,015,735	4,430,697
Prepaid expenses and deposits	1,247,906	980,928
	-----	
	13,342,906	8,998,372

Fixed assets		
Petroleum and natural gas properties and equipment	112,244,385	43,210,759
Office furniture and equipment	819,427	325,771
Accumulated depletion and depreciation	(12,032,268)	(4,149,402)
	101,031,544	39,387,128
Goodwill	6,750,000	-
	\$121,124,450	\$ 48,385,500
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 21,361,836	\$ 6,743,395
Equipment lease	2,605,772	124,979
Bank indebtedness (Note 2)	6,838,300	-
	30,805,908	6,868,374
Equipment lease	-	2,573,332
Provision for site restoration	2,520,673	1,086,027
Future income taxes	11,127,943	982,000
Shareholders' Equity		
Capital stock (Note 3)	66,204,547	34,437,004
Retained earnings	10,465,379	2,438,763
	76,669,926	36,875,767
	\$121,124,450	\$ 48,385,500

See accompanying notes to the interim consolidated financial statements

Fairborne Energy Ltd.  
Interim Consolidated Statements of Operations and Retained Earnings  
(Unaudited)

	For the	For the	For the	For the
	three	three	nine	four
	months	months	months	months
	ended	ended	ended	ended
	September	September	September	September

	30, 2003	30, 2002	30, 2003	30, 2002
<b>Revenue</b>				
Petroleum and natural gas sales	\$15,711,176	\$ 6,083,882	\$35,396,911	\$8,008,324
Royalties	(3,216,882)	(1,068,462)	(6,653,062)	(1,413,449)
	12,494,294	5,015,420	28,743,849	6,594,875
<b>Expenses</b>				
Production	2,342,144	1,203,046	5,574,867	1,678,731
General and administrative	855,387	320,905	2,023,789	433,044
Interest	203,572	65,386	335,367	85,518
Future site restoration	338,300	239,300	846,400	335,100
Depletion and depreciation	4,007,354	1,652,560	7,882,866	2,265,488
	7,746,757	3,481,197	16,663,289	4,797,881
Income before taxes	4,747,537	1,534,223	12,080,560	1,796,994
Future income taxes	1,664,000	554,100	3,987,000	646,900
Capital taxes	36,944	15,000	66,944	20,000
	1,700,944	569,100	4,053,944	666,900
Net income for the period	3,046,593	965,123	8,026,616	1,130,094
Retained earnings, beginning of period	7,418,786	164,971	2,438,763	-
Retained earnings, end of period	\$10,465,379	\$ 1,130,094	\$10,465,379	\$1,130,094
<b>Net Income Per Share</b>				
Basic	\$ 0.10	\$ 0.05	\$ 0.35	\$ 0.06
Diluted	\$ 0.09	\$ 0.05	\$ 0.33	\$ 0.06

See accompanying notes to the interim consolidated financial statements

Fairborne Energy Ltd.

Interim Consolidated Statements of Cash Flows  
(Unaudited)

	For the three months ended September 30, 2003	For the three months ended September 30, 2002	For the nine months ended September 30, 2003	For the four months ended September 30, 2002
-----				
Operating Activities				
Net income for the period	\$ 3,046,593	\$ 965,123	\$ 8,026,616	\$ 1,130,094
Items not involving cash				
Depletion and depreciation	4,007,354	1,652,560	7,882,866	2,265,488
Future site restoration provision	338,300	239,300	846,400	335,100
Future income taxes	1,664,000	554,100	3,987,000	646,900
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Funds generated from operations	9,056,247	3,411,083	20,742,882	4,377,582
Change in non-cash working capital	2,859,559	-	1,356,567	188,323
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	11,915,806	3,411,083	22,099,449	4,565,905
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Financing Activities				
Issuance of common shares net of costs	86,710	296,004	86,710	33,812,004
Equipment lease payments	(31,109)	(28,412)	(92,539)	(37,517)
Bank indebtedness	(5,397,816)	-	(5,397,816)	-
Change in non-cash working capital		-		-
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	(5,342,215)	267,592	(5,403,645)	33,774,487
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Investing Activities				
Corporate acquisition (Note 1)	(800,000)	-	(800,000)	-
Capital expenditures	(15,384,342)	(2,696,320)	(23,644,385)	(35,995,177)
Property dispositions	1,542,903	-	1,542,903	-
Site restoration				

expenditures	(174,052)	-	(467,126)	-
Change in non-cash working capital	2,991,639	979,655	3,165,322	892,954
	(11,823,852)	(1,716,665)	(20,203,286)	(35,102,223)
Change in cash and cash equivalents	(5,250,261)	1,962,010	(3,507,482)	3,238,169
Cash and cash equivalents, beginning of period	5,329,526	1,276,159	3,586,747	-
Cash and cash equivalents, end of period	\$ 79,265	\$ 3,238,169	\$ 79,265	\$ 3,238,169
Cash interest paid	\$ 203,572	\$ 65,386	\$ 335,367	\$ 85,518
Capital taxes	\$ 36,944	\$ -	\$ 66,944	\$ -

See accompanying notes to the interim consolidated financial statements

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Fairborne Energy Ltd.

Selected Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2003 (unaudited)

Fairborne Energy Ltd. (the "Company" or "Fairborne"), was incorporated under the laws of the Province of Alberta on January 9, 2002 and commenced active operations with the purchase of certain petroleum and natural gas properties and equipment on May 31, 2002.

The comparative reporting period for the interim consolidated statements of operations and retained earnings and the interim consolidated statements of cash flows is for the period of May 31, 2002 to September 30, 2002.

The interim financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the seven months ended December 31, 2002. The disclosure, which follows, is incremental to the disclosure included with the annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto for the period ended December 31, 2002.

Note 1: Corporate Acquisitions

On July 2, 2003 the shareholders of the Company and Pivotal Energy Ltd. ("Pivotal") approved an Arrangement Agreement to merge the two companies and continue as a publicly listed company named Fairborne Energy Ltd. As consideration for the transaction, Pivotal shareholders received 0.485 of a Fairborne common share for each Pivotal common share held. In addition, options to acquire Pivotal shares were exchanged for 778,162 options to acquire Fairborne shares. Upon closing of the arrangement, Fairborne had approximately 30.3 million common shares outstanding, of which prior Fairborne shareholders held approximately 65% of outstanding common shares and prior shareholders of Pivotal held approximately 35%. As such the transaction was accounted for as an acquisition of Pivotal by Fairborne.

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The purchase price equation is as follows:

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Cost of Acquisition:

Shares	\$ 31,047,954
Transaction costs	800,000
Options	632,879
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	\$ 32,480,833
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Allocated:

Current assets	\$ 3,975,892
Petroleum and natural gas properties and equipment	47,425,800
Goodwill	6,750,000
Current liabilities	(6,220,428)
Bank indebtedness	(12,236,116)
Provision for site restoration	(1,055,372)
Future income taxes	(6,158,943)
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	\$ 32,480,833
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Note 2: Bank Indebtedness

At September 30, 2003 the Company has available \$47 million of demand operating credit facilities from two Canadian chartered banks subject to the bank's valuation of the petroleum and natural gas properties owned by the Company. The amounts drawn under the facilities bear interest at the bank's prime rate and as at September 30, 2003 \$6,838,300 was drawn under the facilities. The facilities are secured by a first ranking floating charge on all real property of the Company and a general security agreement.

Note 3: Capital Stock

a) Common Shares

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Common shares, issued and outstanding	Number	Amount
Balance, December 31, 2002	19,750,000	\$ 34,437,004
Shares issued on acquisition of Pivotal (Note 1)	10,576,688	31,047,954
Shares issued on exercise of options	28,061	86,710
	30,354,749	65,571,668
Options issued on acquisition of Pivotal (Note 1)	-	632,879
	30,354,749	\$ 66,204,547

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In connection with the acquisition of Pivotal on July 2, 2003, all existing Fairborne common shares and Class A voting common shares were converted into new common shares.

b) Per Share Amounts

The following table summarizes the weighted average common shares used in calculating net income per share:

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Common Shares and Class A voting Common shares	For the three months ended Sept 30, 2003	For the three months ended Sept 30, 2002	For the nine months ended Sept 30, 2003	For the four months ended Sept 30, 2002
Basic	30,101,000	19,750,000	23,238,000	19,750,000
Diluted	32,421,000	19,750,000	24,157,000	19,750,000

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The reconciling items between the basic and diluted average common shares are outstanding stock options and outstanding warrants.

c) Stock Options

There are 3,216,101 stock options outstanding at September 30, 2003 with a weighted average exercise price of \$2.78 per share. The options expire between January 2, 2004 and May 4, 2008.

The following table sets forth a reconciliation of the stock option plan activity through to September 30, 2003.

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	Number of options	Weighted average exercise price
Balance December 31, 2002	1,902,500	\$ 2.40
Options issued on acquisition of Pivotal (Note 1)	778,162	\$ 3.10
Granted	563,500	\$ 3.65
Exercised	(28,061)	\$ 3.09
Balance September 30, 2003	3,216,101	\$ 2.78

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The Company accounts for its stock based compensation plan using the settlement value method. Under this method, no costs are recognized in the financial statements for stock options granted to employees or directors when the options are issued at market value. If the fair value method had been used, the Company's net income for the period and net income per share would be as follows:

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	For the three months ended Sept 30, 2003	For the three months ended Sept 30, 2002	For the nine months ended Sept 30, 2003	For the four months ended Sept 30, 2002
Compensation Costs	51,475	-	51,475	-
Net Income for the period:				
As reported	3,046,593	965,123	8,026,616	1,130,094
Pro forma	2,995,118	965,123	7,975,141	1,130,094
Net Income per Share:				
Basic				
As reported	\$ 0.10	\$ 0.05	\$ 0.34	\$ 0.06
Pro forma	\$ 0.10	\$ 0.05	\$ 0.34	\$ 0.06
Diluted				
As reported	\$ 0.09	\$ 0.05	\$ 0.35	\$ 0.06
Pro forma	\$ 0.09	\$ 0.05	\$ 0.34	\$ 0.06

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The weighted average of the fair value of the options granted was estimated to be \$0.98 per option using the Black-Scholes option pricing model with the following weighted average assumptions:

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	Three months ended September 30, 2003	Nine months ended September 30, 2003
Risk free interest rate (%)	4.0	4.0
Expected life (years)	3.0	3.0
Expected volatility (%)	30.0	30.0

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d) Warrants

There are 1,960,000 warrants to purchase common shares at \$3.50 per share exercisable at any time prior to close of business on May 31, 2006.

Note 4: Financial Instruments

The Company has a price risk management program whereby the Company sells forward a portion of its future production through fixed price physical sales contracts with customers.

The following table summarizes the hedges outstanding at September 30, 2003:

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Commodity	Period	Volume	Price
Natural Gas	April 1 to October 31, 2003	2,000 GJ/day	C\$5.50
Natural Gas	July 1 to October 31, 2003	2,000 GJ/day	Floor-C\$6.00/GJ Ceiling-C\$6.90/GJ
Crude Oil	July 1 to December 31, 2003	100 bbls/day	WTI US\$25.10
Crude Oil	July 1 to December 31, 2003	200 bbls/day	WTI US\$23.93
Crude Oil	October 1 to December 31, 2003	100 bbls/day	WTI US\$24.30

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The Company has sold forward US \$225,000 of foreign exchange exposure at Cdn \$1.482 to US \$1.00 (US \$0.6748 to Cdn\$1.00) to December 31, 2003. At September 30, 2003 the estimated fair value of the foreign exchange contract is \$US 47,000 which represents the amount the Company would receive to terminate the contract at September 30, 2003.

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CORPORATE INFORMATION

Directors

Gary F. Aitken  
Michael E.J. Phelps  
David L. Summers  
Richard A. Walls  
Rodney D. Wimer

Auditors

KPMG LLP

Reserve Evaluators

Gilbert Laustsen Jung Associates Ltd.

Officers

Richard A. Walls  
President and CEO

David L. Summers  
Vice President, Operations  
and COO

Robert A. Maitland  
Vice President, Finance  
and CFO

Steven R. VanSickle  
Senior Vice President,  
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Stock Exchange Listing

The Toronto Stock Exchange  
Trading Symbol: FEL

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-30-

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INDUSTRY: OIL  
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