

For Release – April 1, 2004

Fairborne announces its operational and financial results for the year ended December 31, 2003, and update for 2004.

Fairborne Energy Ltd. today announced the operational and financial results for the year ended December 31, 2003.

2003 Accomplishments

- Total proven and probable reserves, after production and revisions grew by 122 percent and replaced production by 549 percent.
- Proven plus probable finding, development and acquisition costs were \$8.93 per BOE (\$13.18 per BOE on a proven basis). Including future development costs, finding, development and acquisition costs were \$9.90 per BOE and \$14.46 per BOE on a proven and probable and proven basis, respectively.
- Fairborne invested \$80.4 million during 2003 with \$47.4 million invested in the acquisition of Pivotal Energy Ltd., \$34.4 million in its exploration and development program and \$1.4 million of dispositions.
- Cash flow from operations reached \$29.2 million (\$1.16 per share) for the year ended December 31, 2003.
- Average production increased 58 percent from 2,396 BOE per day (58 percent oil and NGL and 42 percent natural gas) for the seven month period ended December 31, 2002 to average 3,787 BOE per day (53 percent oil and NGL and 47 percent natural gas) for the year ended December 31, 2003.
- Fairborne exited 2003 producing 5,300 BOE per day (44 percent oil and NGL and 56 percent natural gas) reflecting exploration success and a continued emphasis on increasing levels of natural gas production.
- Drilling in 2003 resulted in 30 (25.1 net) wells with an average success rate of 87 percent. The program resulted in 20 (17 net) gas wells and 6 (5.0 net) crude oil wells.

2004 Update

- On February 8, 2004, the Company entered into a purchase and sale agreement to purchase operated oil, natural gas and NGL properties located in the West Pembina/Brazeau area of west central Alberta for a total consideration of \$116 million subject to certain closing adjustments. This acquisition closed on March 31, 2004 and the results of operations from these properties will be included in Fairborne's operations commencing April 1, 2004.
- Current production with the West Pembina/Brazeau acquisition totals approximately 9,000 BOE per day.
- A total of 42 (29.3 net) wells with an average success rate of 90 percent have been drilled to date in 2004. This portion of the year's program resulted in 36 (24.3 net) gas wells and 2 (2.0 net) crude oil wells.
- The Company announced the status of its exploratory well at Wild River which flow tested at various rates up to a maximum of 14.2 Mmcf per day at a flowing wellhead pressure of 3,700 psi.
- On February 27, 2004 Fairborne closed a private placement of 6,178,000 Subscription Receipts, at a price of \$6.65 each, for gross proceeds of \$41,083,700. The Subscription Receipts were converted into common shares

on a one-for-one basis in connection with the acquisition of the West Pembina/Brazeau properties. The proceeds from this issue together with increasing the available bank lines to \$85 million funded the acquisition.

2003 Highlights

	Year Ended	Seven Months Ended
	December 31, 2003	December 31, 2002
Production		
Oil and NGL (Barrels per day)	2,014	1,396
Natural Gas (Mmcf/day)	10.6	6.0
Barrels of Oil Equivalent (BOE/day)	3,787	2,396
Prices		
Oil and NGL (\$/Barrel)	\$35.64	\$37.23
Natural Gas (\$/Mcf)	\$ 6.24	\$ 4.20
Barrels of Oil Equivalent (\$/BOE)	\$36.54	\$31.88
Financial		
Revenue (\$000)	\$50,888	\$16,376
Cash Flow From Operations (\$000)	\$29,150	\$ 8,774
Cash Flow per Share	\$ 1.16	\$ 0.45
Net Income (\$000)	\$10,174	\$ 2,439
Net Income per Share	\$ 0.40	\$ 0.12

Activity Areas

Central Alberta

Since purchasing the Clive and Wood River assets in May, 2002, Fairborne has had an active drilling and re-completion program and this area remains a core focus for the Company. In 2004 the Company is increasing its focus on natural gas at Clive, in particular with the development of Coal Bed Methane (CBM). Fairborne presently has five wells on production in the Horseshoe Canyon coals and these wells are currently producing gas with no water, a characteristic of these coals. An additional 10 wells are awaiting completion and will be placed on production in the next several months with a plan to proceed to full scale development in the fall of 2004 based on longer term tests of these wells. The Company has applied for regulatory approval to drill up to 8 wells per section on a portion of its lands in the Clive area (26,000 acres).

At Westeros, Fairborne placed on production, from one zone, a well that tested gas in two zones. Three follow-up Basal Quartz development wells and one shallow well are being licensed for drilling in the second quarter of 2004. In addition, Fairborne has accumulated a significant land position (12,800 net acres) on a deep gas play in this area.

Technical analysis has been completed and eight deeper critical sour wells are being licensed for drilling in 2004/2005 after area consultations and regulatory approvals are complete.

Peace River Arch Area:

Since Fairborne purchased Pivotal in mid 2003, production in this area has doubled from 700 BOE per day to 1,400 BOE per day through a combination of drilling, work-overs and facility enhancements. At Gordondale, Fairborne is in the initial development of a pool discovered in 2003. At present the Company has 8 wells (averaging about 65% working interest) that are anticipated to produce about 500 BOE per day, net to Fairborne. These wells contain sour gas and production will likely be delayed until the middle of 2004 as regulatory requirements are fulfilled and pipeline and processing facilities are completed. Once regulatory approval is obtained, a number of development wells are planned to be drilled. Drilling also continues in sweet gas zones in this area, with five wells drilled in the first quarter and three to six wells planned for the second quarter of 2004.

Bassett Lake Area:

Basset Lake is a winter access area, located in northwestern Alberta, where 5 wells (2.5 net) were drilled in the winter of 2002/03 (four cased gas wells and one dry hole). The 2003/04 winter drilling program commenced in late December and Fairborne drilled 20 wells (10.0 net) in the first quarter, constructed new facilities and installed pipelines with production to commence in April 2004 from a total of 21 wells.

Other Exploration:

Fairborne intends to participate in one to two large potential, deeper natural gas plays each quarter that expose the Company to reserve and production additions that have the potential for significant growth. As such, prospects have been developed at Wild River, Gold Creek, Chambers, Wood River and South Obed. The Fairborne operated (50% working interest) Wild River well commenced drilling in December, reached a total depth of approximately 3,800 meters in February and in March was flow tested at various rates up to a maximum of 14.2 Mmcf per day at a flowing wellhead pressure of 3,700 psi. Plans are to construct a pipeline and processing facilities to connect this well for production to commence in the fourth quarter. A recent well at Chambers has been plugged back and been cased with natural gas potential in three Cretaceous sandstone reservoirs. At Obed, further seismic is required before a well is drilled. In addition to these deeper wells, two Nisku oil tests (targeting new pools identified on 3D seismic) are planned at Wood River in the second quarter of 2004.

In addition to the prospects detailed above, the West Pembina/Brazeau acquisition included a number of exploration opportunities. These prospects will be finalized in the coming months and integrated into our exploration drilling strategy.

Reserves

The corporate reserve estimates, effective January 1, 2004, were prepared by the independent engineering firm of Gilbert Laustsen Jung Associates Ltd. (“GLJ”) in accordance with the definitions set out under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (“NI 51-101”). The reserve highlights are;

- Total proven reserves at December 31, 2003 increased 87 percent to 10.1 million BOE compared to 5.4 million BOE at December 31, 2002 and total proven plus probable reserves at December 31, 2003 increased 122 percent to 13.8 million BOE compared to 6.2 million BOE at December 31, 2002.
- Proven and probable finding, development and acquisition costs were \$8.93 per BOE (\$13.18 per BOE on a proven basis). Including future development costs, finding, development and acquisition costs were \$9.90 per BOE and \$14.46 per BOE on a proven and probable and proven basis, respectively.

The change to proved and probable reserve definitions implemented by NI 51-101 for the year ended December 31, 2003 may make reserve quantity and value comparisons to prior years difficult. The proved plus risked probable reserves (“established reserves”) presented in 2002 and prior years, which were calculated under National Policy 2B, were considered to be a reasonable estimate of the reserves that would actually be recovered and, as a result, are comparable to the proved plus probable reserves calculated under NI 51-101. For the 2003 presentation, where comparisons of the 2003 proved plus probable reserves are made with prior years, the comparison is to the established reserves of the prior year.

Forecasted Prices and Costs

Summary of Oil and Gas Reserves - Gross Reserves (1)

	Light and Medium Crude Oil	Natural Gas Liquids	Natural Gas	2003 BOE	2002 BOE
	(mbbls)	(mbbls)	(mmcf)	(mboe)	(mboe)
Proved					
-Developed Producing	3,142	278	22,246	7,128	4,366
-Developed Non-Producing	269	41	3,878	956	1,013
-Undeveloped	921	147	5,531	1,989	0
Total Proved	4,332	466	31,655	10,073	5,380
Probable	1,065	140	15,195	3,738	841
Total Proved Plus Probable	5,397	606	46,851	13,811	6,221

NOTE: May not add due to rounding.

(1) "Gross" reserves means the total working interest (operating and non -operating) share before deduction of royalties payable to others and without including any royalty interest of Fairborne.

Net Present Value of Reserves – Forecasted Prices and Costs

	Undiscounted	Discounted at			
		5%	10%	15%	20%
December 31, 2003 ^{(1) (2) (3)}	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved					
- Developed Producing	129,074	109,882	96,918	87,494	80,236
- Developed Non-Producing	15,406	12,812	10,925	9,497	8,381
- Undeveloped	29,034	22,816	18,357	15,040	12,498
Total Proved	173,514	145,510	126,200	112,031	101,115
Probable	62,101	42,627	31,095	24,187	19,249
Total Proved Plus Probable	235,616	188,138	157,295	136,218	120,364

Note: May not add due to rounding

⁽¹⁾ Utilizing GLJ April 1, 2004 price forecast

⁽²⁾ As required by NI 51-101, undiscounted well abandonment costs of \$7.0 million for total proved reserves and \$7.6 million for total proved plus probable reserves are included in the Net Present Value determination

⁽³⁾ Prior to provision of income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the undiscounted and discounted future net revenues estimated by GLJ represent the fair market value of the reserves.

Pricing Assumptions – Forecasted Prices and Costs

The April 1,2004 pricing forecasts presented below have been prepared by GLJ. These prices have been utilized in determining the reserves and cash flow forecasts above.

Year	Crude Oil WTI	Crude Oil Edmonton Light	Natural Gas AECO	Inflation Rate
	(\$US/bbl)	(\$CDN/bbl)	(\$CDN/MMBtu)	(%/Year)
2004	34.25	44.75	6.65	1.5
2005	29.00	37.75	6.70	1.5
2006	27.00	35.25	5.55	1.5
2007	25.00	32.50	5.20	1.5
2008	25.00	32.50	5.00	1.5
2009	25.00	32.50	5.00	1.5
2010	25.00	33.00	5.10	1.5
2011	25.75	33.50	5.20	1.5
2012	26.25	34.00	5.25	1.5
2013	26.50	34.5	5.35	1.5
2014	27.00	35.00	5.45	1.5
There-after	+1.5%/yr	+1.5%/yr	+1.5%/yr	+1.5%/yr

Constant Prices and Costs

Net Present Value of Reserves – Constant Prices and Costs

December 31, 2003 ^{(1) (2) (3)}	Undiscounted (M\$)	Discounted at			
		5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)
Proved					
- Developed Producing	153,801	126,995	109,360	96,815	87,348
- Developed Non-Producing	19,593	15,991	13,419	11,502	10,024
- Undeveloped	37,917	29,695	23,841	19,516	16,220
Total Proved	211,311	172,681	146,620	127,833	113,592
Probable	76,488	51,884	37,601	29,029	22,998
Total Proved Plus Probable	287,800	224,565	184,221	156,862	136,590

Note: May not add due to rounding

⁽¹⁾ Price assumptions: \$40.81/bbl Cdn. Crude Oil Edmonton Light and \$6.09/mmbtu Cdn. AECO ‘C’

⁽²⁾ As required by NI 51-101, undiscounted well abandonment costs of \$7.0 million for total proved reserves and \$7.6 million for total proved plus probable reserves are included in the Net Present Value determination

⁽³⁾ Prior to provision of income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the undiscounted and discounted future net revenues estimated by GLJ represent the fair market value of the reserves.

Reserve Reconciliation

Reconciliation of Company Gross Reserves by Principal Product Type - Forecast Prices and Costs

	Crude Oil & NGL's (mbbls)		Natural Gas (bcf)		Equivalent (mboe)	
	Total Proved	Total Proved ⁽¹⁾ Plus Probable	Total Proved	Total Proved ⁽¹⁾ Plus Probable	Total Proved	Total Proved ⁽¹⁾ Plus Probable
Opening Balance ⁽¹⁾⁽²⁾ - January 1, 2003	3,726	4,275	9.9	11.7	5,380	6,221
Drilling	440	676	12.5	22.3	2,525	4,412
Improved Recovery	0	0	0	0	0	0
Revisions	-243	-194	2.0	1.8	90	100
Acquisitions	1,623	1,997	11.6	15.5	3,560	4,580
Dispositions	-13	-16	-0.5	-0.6	-100	-120
Production	-735	-735	-3.9	-3.9	-1,382	-1,382
Closing Balance ⁽²⁾ - December 31, 2003	4,798	6,003	31.7	46.9	10,073	13,811

NOTE: May not add due to rounding

⁽¹⁾ Opening balance is based on proved plus 50% risked probable reserves

⁽²⁾ Opening balance includes royalty interests whereas closing balance includes only working interests

Finding and Development Costs (F&D) and Finding, Development and Net Acquisition Costs (FD&A)

NI 51-101 specifies how finding and development ('F&D') costs should be calculated if they are reported. Essentially NI 51-101 requires that the exploration and development costs incurred in the year along with the change in estimated future development costs be aggregated and then divided by the applicable reserve additions. The calculation specifically excludes the effects of acquisitions and dispositions on both reserves and costs. By excluding the effects of acquisitions and dispositions Fairborne believes that the provisions of NI 51-101 do not fully reflect Fairborne's ongoing reserve replacement costs. Since acquisitions can have a significant impact on Fairborne's annual reserve replacement costs, to not include these amounts could result in an inaccurate portrayal of Fairborne's cost structure. Accordingly, Fairborne will also report finding, development and acquisition ('F,D&A') costs that will incorporate all acquisitions net of any dispositions during the year.

	Proven	Proven + Probable
2003 exploration and development capital (\$000)	34,215	34,215
2003 acquisition capital(\$000)	45,883	45,883
2003 total capital (\$000)	80,098	80,098
Total Capital including change in future capital (\$000)	87,863	88,798
F&D reserve additions (mboe)	2,615	4,512
Acquisition reserve additions (mboe)	3,460	4,460
Total reserve additions (mboe)	6,075	8,972
2003 F&D costs (\$/boe)	16.05	9.51
2003 F,D&A costs (\$/boe)	14.46	9.90
2003 F&D costs (\$/boe) (Excluding future capital)	13.08	7.58
2003 F,D&A costs (\$/boe) (Excluding future capital)	13.18	8.93

⁽¹⁾ Reconciliation of changes in future development capital – when calculating the change in future development capital costs, this change may not be comparable as the costs are computed under different proved plus probable reserve definitions. For proved plus probable reserves we have compared the 2003 future development costs with the proved plus risked probable reserve from prior years as these are more comparable.

⁽²⁾ The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

Reserve Life Index

The Company's reserve life index using annualized fourth quarter production is 5.8 years for proven BOE reserves compared to 5.6 years in 2002 and 7.9 years for proven plus probable BOE reserves compared to 6.5 years in 2002. Reserve life calculated using annualized fourth quarter production may be more reflective of reserve life due to the level of new production added during the year.

	2003		2002	
	Using Annualized Q4 Production	Using Average Production	Using Annualized Q4 Production	Using Average Production
BOE				
Production (<i>boe/d</i>)	4,799	3,787	2,612	2,396
Proved reserves (<i>mboe</i>)	10,073	10,073	5,380	5,380
Proved reserve life index (<i>years</i>)	5.8	7.3	5.6	6.2
Proved plus probable reserves (<i>mboe</i>)	13,811	13,811	6,221	6,221
Proved plus probable reserve life index (<i>years</i>)	7.9	10.0	6.5	7.1

Reserve Replacement

The Company's 2003 capital investment program replaced production by a factor of 4.4 times on a proved basis and 6.5 times on a proved plus probable basis.

	<u>2003</u>
Production (<i>mboe</i>)	1,382
Proved reserve additions after revisions of prior periods (<i>mboe</i>)	6,075
Proven replacement ratio	4.4
Proved plus probable reserve additions after revision of prior periods (<i>mboe</i>)	8,972
Proved plus probable replacement ratio	6.5

Recycle Ratio

The recycle ratio is a measure for evaluating the effectiveness of a company's re-investment program. The ratio measures the efficiency of capital investment. It accomplishes this by comparing the operating netback per barrel of oil equivalent to that year's reserve finding and development costs.

	<u>2003</u>
Operating netbacks (\$/BOE)	23.94
Proved finding, development and net acquisition costs after revisions of prior periods and including the change in future development capital (\$/BOE)	14.46
Proved recycle ratios	1.7
Proved plus probable finding, development and acquisition costs after revisions of prior periods and including the change in future development capital (\$/BOE)	9.90
Proved plus probable recycle ratios	2.4

Financial Review

The following financial review as provided by the management of Fairborne Energy Ltd. ("Fairborne" or the "Company") should be read in conjunction with the accompanying financial statements of Fairborne along with the Company's audited consolidated financial statements including notes thereto for the year ended December 31, 2003 and the seven month period ended December 31, 2002.

Per barrel of oil equivalent ("BOE") amounts may be misleading, particularly if used in isolation. A BOE conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel and is based on an energy equivalent conversion method application at the burner tip and does not represent an economic value equivalency at the wellhead.

This financial review contains forward-looking statements. Forward looking statements are based on current expectations that involve a number of risks and uncertainties which could cause events or results to differ materially from those reflected in the financial review. Forward looking statements are based on the estimates and opinions of Fairborne's management at the time the statements were made. Fairborne assumes no obligation to update forward-looking statements should circumstances or management's estimates change.

This document contains the term ‘cash flow from operations’, which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Fairborne’s performance. Fairborne’s determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the statement of cash flows in the audited financial statements. Fairborne also represents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

Fairborne is 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 in June, 2002 commenced active operations. The report presented and comments thereon are based on the results of operations of Fairborne for the year ended December 31, 2003 but since Fairborne had active operations for the seven months ended December 31, 2002 only relevant comparative analysis will be discussed. 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. This acquisition increased Fairborne’s production by over 50 percent for the last half of 2003.

On February 8, 2004, the Company entered into a purchase and sale agreement to purchase operated oil, natural gas and NGL properties located in the West Pembina/Brazeau area of west central Alberta for a total consideration of \$116 million subject to certain closing adjustments. This acquisition was financed by a combination of the issuance of 6,178,000 subscription receipts at \$6.65 (each of which were converted into common shares on a one-for-one basis, without the payment of additional consideration) for net proceeds of \$38,900,000 with the remainder financed by increased bank lines. This acquisition closed on March 31, 2004 and the results of operations from these properties will be included in Fairborne’s operations commencing April 1, 2004. Fairborne’s present production, before the addition of these properties, was approximately 5,700 BOE per day and the West Pembina/Brazeau properties presently produce approximately 3,300 BOE per day thereby increasing production levels by 58 percent. The following discussion will indicate the effect of the addition of the West Pembina/Brazeau properties.

Production

Crude oil and NGL production averaged 2,014 bbls/day and natural gas averaged 10.6 million cubic feet (‘Mmcf’) per day for a total of 3,787 BOE/day for the year ended December 31, 2003. This compares favourably with the 2,396 BOE/day recorded in the seven month of operations in 2002 and represents a 58 percent increase in average production. In comparing the average volumes in the two periods, it is important to consider the effect of the Pivotal acquisition. During the first six months of 2003 average production was

2,758 BOE/day and in the last six months of 2003 average production was 4,799 BOE/day as a result of the Pivotal acquisition and the results of Fairborne's drilling and work-over program. The Pivotal acquisition and Fairborne's drilling program have been more focused on adding additional volumes of natural gas and, as such, the production mix has moved from being 58 percent crude oil and NGL in 2002 to 53 percent crude oil and NGL for the year ended December 31, 2003 and 49 percent crude oil and NGL for the last six months of 2003. The West Pembina/Brazeau properties presently produce approximately 74 percent natural gas, which further strengthens Fairborne as a natural gas producer.

Commodity Prices

Commodity prices for crude oil and NGL have remained strong during 2003. Fairborne's crude oil and NGL price averaged \$35.64 per barrel during 2003, although on a quarter by quarter basis, crude oil and NGL prices have moved down steadily from \$40.70 in the first quarter to \$32.69 in the last quarter. Crude oil prices have strengthened early in 2004 and presently are approximately 15 percent over the average crude oil prices of 2003.

Natural gas prices remained strong during 2003 as continuing supply uncertainty, especially during the summer, led to historically high prices. Fairborne's average natural gas price during the year was \$6.24 per Mcf with prices moving during the year from an average \$6.77 per Mcf in the first quarter to average \$6.17 per Mcf in the fourth quarter of 2003. Prices to date in 2004 are maintaining levels over \$6.00 per Mcf and it appears that increasing demand will help support this level of prices throughout 2004.

Fairborne conducts an active hedging program for both oil and gas prices. Hedging is intended to provide certainty to cash flow by fixing the price on a portion of the production portfolio. During 2003, Fairborne hedged an average of 527 barrels per day (26 percent of total crude oil production) and 2.6 Mmcf per day (25 percent of natural gas production). Hedging activity in 2003 reduced the realized crude oil price by \$3.14 per barrel and \$0.14 per Mcf of natural gas. Fairborne has hedged an average of 583 barrels per day of crude oil at an average price of U.S.\$ 29.97 per barrel for the first nine months of 2004 and 1.8 Mmcf per day of natural gas at an average price of Cdn. \$6.44 per Mcf for the first three months of 2004. In addition, Fairborne has hedged U.S. \$1,623,000 of foreign exchange exposure at Cdn.\$ 1.3230 to U.S.\$ 1.00 (U.S.\$0.7559 to Cdn.\$1.00).

Revenues for the year continued to increase during 2003 as production increased. This was offset slightly by declining prices. The first half of 2003, generated revenue of \$19,686,000 and this increased to \$31,202,000 in the last half of 2003.

Expenses

Royalties consist of payments made to the Alberta government, freehold landowners and overriding royalties. Some of the Fairborne properties are located on freehold lands on which royalty rates tend to be lower. As such, royalties totaled \$9,436,000 which is an overall royalty rate of 18.5 percent. Fairborne's royalty rate did increase during the year as the Pivotal properties were added. The royalty rate in the first half of 2003 was 17.5 percent and increased to 19.2 percent in the last half of 2003. The average royalty rate in 2004 is expected to average about 20 percent and will remain constant with the addition of the West Pembina properties.

Fairborne operates in excess of 95 percent of its production and consequently maintains a higher degree of control over operating costs. On a BOE basis, operating costs were \$6.05 per BOE or \$8,365,000 in total during 2003. Fairborne has reduced unit operating expenses from \$6.96 per BOE in 2002. Fairborne will continue to enhance operating efficiencies and increase production but reduction in costs could be offset by inflation. Operating costs during 2004 are expected to average approximately \$5.80 per BOE. The addition of the West Pembina/Brazeau properties should not change this rate appreciably.

During 2003, Fairborne's general and administrative costs totaled \$3,369,000 or \$2.44 per BOE including payments under the Fairborne bonus plan to all staff reflecting the positive results. As the company grows and adds staff connected with additional requirement of operating the West Pembina/Brazeau production, these costs will increase on an absolute basis but Fairborne does anticipate reducing these costs, on a BOE basis, to less than \$1.50 during 2004.

At the end of 2003 Fairborne had drawn very little on its available line of credit with two major Canadian banks. In connection with the purchase of the certain oil and gas assets located at Clive and Wood River, the Company assumed a capital lease on compression equipment. Interest on this lease and the small amount of credit facilities drawn during 2003 totaled \$517,000 or \$0.37 per BOE. The term of this capital lease continues into early 2004 but it will be repaid in the second quarter of 2004. With the purchase of the West Pembina/Brazeau assets on April 1, 2004, interest expense in the last nine months of 2003 will increase substantially to average over \$1.00 per BOE.

Fairborne purchased the oil and gas assets located at Clive and Wood River at competitive prices and has added reserves through its technical analysis and work-over program at relatively modest costs. Consequently, depletion and depreciation rates averaged \$8.80 per BOE in 2003. The provision for site restoration costs is \$1.02 per BOE and reflects the anticipated costs of restoring the sites associated with current wells and facilities. Both of these expenses will increase on a BOE basis with the acquisition of the West Pembina/Brazeau properties and the magnitude of increases will be dependent on Fairborne's ability to efficiently add reserves on its properties.

As indicated above, the Company was 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 \$204,000. In 2004, Fairborne does not envision paying cash income taxes.

Cash Flow and Net Income

The combination of production levels, commodity prices and expenses detailed above resulted in funds generated from operations of \$29,150,000 (\$1.16 per share) and net income of \$10,174,000 (\$0.40 per share) in 2003. During the year, funds generated from operations increased from \$11,687,000 in the first half to \$17,309,000 in the last half of 2003 reflecting the assets acquired from Pivotal. This level of funds generated from operations results from the production of 3,787 BOE per day of production. With present production levels at approximately 9,000 BOE per day, the level of funds generated will increase, primarily in the last nine months of 2004 with the inclusion of the West Pembina/Brazeau properties.

Liquidity and Capital Resources

Fairborne's capital program in 2003 totaled \$80,379,000 including the acquisition of assets connected with the Pivotal acquisition as detailed in the following table:

<u>Capital Expenditures</u>	
Land and Lease Acquisitions	\$ 4,297,000
Geological and Geophysical	1,704,000
Drilling, Completions and Workovers	19,371,000
Well Equipment and Facilities	8,843,000
Corporate Assets	281,000
	<u>34,496,000</u>
Pivotal Acquisition	47,426,000
Dispositions	<u>(1,543,000)</u>
	\$ 80,379,000

Expenditures for land and leases during the year combined with the Pivotal assets resulted in Fairborne holding, at December 31, 2003, 115,318 net acres of undeveloped land with an average working interest of 73 percent. Drilling expenditures resulted in 27 net wells drilled, with an average working interest of 84 percent, and 5.0 net crude oil wells, 17.0 net natural gas wells and 3.1 wells were abandoned. The fixed asset program was financed by the issuance of common shares for the outstanding common shares of Pivotal and the remainder was financed by the issuance of common shares for net proceeds of \$10,939,000 and funds generated from operations of \$29,150,000.

Fairborne has a revolving demand loan based on a borrowing base determined by the Company's bankers. In connection with the acquisition of the West Pembina/Brazeau properties, the bankers have increased the available bank lines from \$50 million to \$85 million.

Fairborne commenced 2003 with positive working capital and undrawn bank lines. During the year, capital expenditures were financed by the issuance of common shares and funds generated from operations. The result is that at December 31, 2003, Fairborne had a working capital deficiency of \$1,430,000 and bank indebtedness of \$7,941,000. The capital program budgeted for 2004 totals direct capital of \$172,000,000, including the acquisition of the West Pembina/Brazeau properties and the disposition of minor properties. Fairborne typically utilizes three sources of funding to finance its capital expenditures: funds generated from operations, bank borrowings and new equity issues if available on favourable terms. The equity issue completed in March 2004, the increased bank lines and funds generated from operations are expected to be sufficient to fund the capital program and maintain a leverage level that allows Fairborne the flexibility to continue efficient operations.

Share Capital

During 2003, Fairborne issued a total of 12,578,000 common shares. 10,577,000 were issued in connection with the acquisition of Pivotal, 501,000 common shares were issued on exercise of share options and 1,500,000 common shares were issued pursuant to a flow through share offering completed in December, 2003. The following chart shows the common share equity outstanding at December 31, 2003.

	December 31, 2003	December 31, 2002
<hr/>		
Equity Outstanding: (000's, at period end)		
<hr/>		
Common shares	32,328	19,750
Warrants	1,960	1,960
Stock Options	2,861	1,903
<hr/>		
Weighted average shares outstanding for the period		
Basic	25,178	19,750
Diluted	26,424	19,750
<hr/>		

Fairborne Energy Ltd.
Consolidated Balance Sheets

	December 31, 2003	December 31, 2002
Assets		
Current assets		
Cash and cash equivalents	\$6,151,841	\$3,586,747
Accounts receivable	14,126,079	4,430,697
Prepaid expenses and deposits	1,997,492	980,928
	<u>22,275,412</u>	<u>8,998,372</u>
Fixed assets (Note 4)		
Petroleum and natural gas properties and equipment	123,019,574	43,210,759
Office furniture and equipment	843,104	325,771
Accumulated depletion and depreciation	(16,312,598)	(4,149,402)
	<u>107,550,080</u>	<u>39,387,128</u>
Goodwill (Note 3)	6,360,000	-
	<u>\$136,185,492</u>	<u>\$48,385,500</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$21,131,962	\$6,743,395
Equipment lease (Note 5)	2,573,332	124,979
Bank indebtedness (Note 6)	7,940,800	-
	<u>31,646,094</u>	<u>6,868,374</u>
Equipment lease	-	2,573,332
Provision for site restoration	2,764,000	1,086,027
Future income taxes (Note 7)	15,791,000	982,000
Shareholders' Equity		
Capital stock (Note 8)	73,040,241	34,437,004
Contributed surplus (Note 8)	330,991	-
Retained earnings	12,613,166	2,438,763
	<u>85,984,398</u>	<u>36,875,767</u>
Commitments (Note 10)		
Subsequent events (Note 11)		
	<u>\$136,185,492</u>	<u>\$48,385,500</u>

See accompanying notes to the consolidated financial statements

Fairborne Energy Ltd.

Consolidated Statements of Operations and Retained Earnings

	For the year ended December 31, 2003	For the seven months ended December 31, 2002
Revenue		
Petroleum and natural gas sales	\$50,887,666	\$16,376,092
Royalties	(9,436,353)	(2,968,912)
	41,451,313	13,407,180
Expenses		
Production	8,365,003	3,566,787
General and administrative	3,369,116	876,847
Interest	516,967	152,031
Future site restoration	1,405,400	578,900
Depletion and depreciation	12,163,196	4,149,402
	25,819,682	9,323,967
Income before taxes	15,631,631	4,083,213
Taxes (note 7)		
Future income taxes	5,253,000	1,607,000
Capital taxes	204,228	37,450
	5,457,228	1,644,450
Net Income	10,174,403	2,438,763
Retained earnings beginning of period	2,438,763	-
Retained earnings, end of period	\$12,613,166	\$2,438,763
Net income per share (Note 8)		
Basic	\$ 0.40	\$ 0.12
Diluted	\$ 0.39	\$ 0.12

See accompanying notes to the consolidated financial statements.

Fairborne Energy Ltd.
Consolidated Statements of Cash Flows

	For the year ended December 31, 2003	For the seven months ended December 31, 2002
Cash provided by (used in):		
Operating activities		
Net income	\$10,174,403	\$2,438,763
Items not involving cash		
Depletion and depreciation	12,163,196	4,149,402
Future site restoration	1,405,400	578,900
Compensation expense	154,315	-
Future income taxes	5,253,000	1,607,000
	29,150,314	8,774,065
Site restoration expenditures	(782,799)	(292,873)
Change in non-cash working capital	(7,512,336)	(1,124,652)
	20,855,179	7,356,540
Financing activities		
Issuance of common shares net of costs	10,939,340	33,812,004
Equipment lease payments	(124,979)	(67,228)
Bank indebtedness	(4,295,316)	-
	6,519,045	33,744,776
Investing activities		
Capital expenditures	(34,496,454)	(7,170,991)
Property dispositions	1,542,903	-
Corporate acquisitions (Note 3)	(800,000)	-
Acquisition of petroleum, and natural gas properties (note 3)	-	(33,394,564)
Change in non-cash working capital	8,944,421	3,050,986
	(24,809,130)	(37,514,569)
Change in cash and cash equivalents	2,565,094	3,586,747
Cash and cash equivalents, beginning of period	3,586,747	-
Cash and cash equivalents, end of period	\$6,151,841	\$3,586,747
Cash interest paid	\$ 516,967	\$ 130,682
Capital taxes paid	\$ 104,228	\$ -

See accompanying notes to the consolidated financial statements

Fairborne Energy Ltd.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2003 and the Seven Months from May 31,
2002 to December 31, 2002

Nature of operations:

Fairborne Energy Ltd. (the "Company" or "Fairborne") is a resource-based company engaged in the exploration for, and the development and production of natural gas, natural gas liquids and crude oil in Western Canada. The Company 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.

1. Significant accounting policies

a) Basis of presentation

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada and they include the accounts of the Company and its wholly owned subsidiaries. All inter-company transactions have been eliminated.

b) Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas properties and facilities whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of both productive and unproductive drilling and production equipment. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the depletion rate of 20% or more.

The accumulated costs, less the costs of unproved properties, are depleted and depreciated using the unit-of-production method based on total proved reserves before royalties as determined by independent evaluators. Natural gas reserves and production are converted into equivalent barrels of oil based upon the estimated relative energy content.

The costs of acquiring and evaluating unproved properties, are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

The net carrying amount of the Company's petroleum, and natural gas properties is limited to a ceiling, being the aggregate of future net revenues from proved reserves, less future capital costs plus the costs of unproved properties, net of impairment allowances, less future site restoration costs, general and administrative costs, financing costs and income taxes. Further, net revenues have been calculated using prices and costs in effect at the Company's period-end without escalation or discounting.

c) Interest in joint ventures

Substantially all of the Company's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

d) Goodwill

The Company records goodwill relating to acquisitions when the total purchase price exceeds the fair value of the net identifiable assets and liabilities acquired. Goodwill is assessed for impairment annually at year-end or if events occur that could result in an impairment. Impairment is recognized based on the fair value of the Company compared to the book value of the Company. If the fair value of the Company is less than the book value, impairment is measured by allocating the fair value of the Company to the identifiable assets and liabilities as if the Company had been acquired in a business combination for a purchase price equal to its fair value. The excess of the fair value of the Company over the amounts assigned to the identifiable assets and liabilities is the fair value of the goodwill. Any excess of the book

value of goodwill over this implied fair value of goodwill is the impairment amount. Impairment is charged to earnings in the period in which it occurs.

e) Future Site Restoration

Estimated future site restoration costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

f) Risk management

Financial instruments may be utilized by the Company to manage its exposure to commodity price fluctuations and foreign currency exposures. The Company's practice is not to utilize financial instruments for trading or speculative purposes.

The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

Foreign exchange gains and losses on foreign currency exchange swaps used to hedge US dollar denominated commodity contracts are recognized in income as a component of oil and gas sales during the same period as the corresponding hedged position.

The Company may use forwards, futures and swap contracts to manage its exposure to commodity price fluctuations. The net receipts or payments arising from these contracts are recognized in income as a component of oil and gas sales during the same period as the corresponding hedged position.

g) Stock-Based Compensation

The Company has a stock based compensation plan, which is described in Note 8. Compensation expense associated with the stock based compensation plan is recognized in income over the vesting period of the plan with a corresponding increase in contributed surplus. Compensation expense is based on the fair value of the stock based compensation at the date of the grant using a Black-Scholes option pricing model.

Any consideration received upon exercise of the stock based compensation together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as an increase in shareholders' equity.

h) Income Taxes

The Company uses the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

i) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions when the shares are issued.

j) Office furniture and equipment

Office furniture and equipment is stated at cost. Depreciation is provided on a declining balance basis at a rate of 20%.

k) Cash and cash equivalents

The Company considers cash and short term deposits with maturities of three months or less as cash and cash equivalents.

l) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period then ended. Actual results could differ from those estimates.

The amounts recorded for depletion and depreciation and the provision for future site restoration are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and may impact the consolidated financial statements of future periods.

m) Per Share Information

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on the exercise of in the money options and warrants would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

n) Revenue Recognition

Revenue from the sale of oil and natural gas is recognized when the product is delivered. Revenue from processing and other miscellaneous sources is recognized upon completion of the relevant service.

2. Changes in accounting policies

Stock-Based Compensation Plan

Effective January 1, 2003, the Company prospectively adopted amendments to a Canadian accounting standard relating to recognizing the compensation expense associated with stock based compensation plans, as outlined in Note 1. Under the amended standards, the Company must recognize compensation expense based on the fair value of the stock options granted under the Company's stock based compensation plan. The company uses a Black-Scholes option pricing model to determine the fair value at the date of grant. The impact of adoption was a decrease in income and an increase in contributed surplus of \$154,315 for the year ended December 31, 2003.

3. 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.

The purchase price equation is as follows:

Cost of Acquisition:	
Shares	\$ 31,047,954
Transaction costs	800,000
Options	632,879
	<hr/>
	\$ 32,480,833
Allocated:	
Current assets	\$ 3,975,892
Petroleum and natural gas properties and equipment	47,425,800
Goodwill	6,360,000

Current liabilities	(6,220,428)
Bank indebtedness	(12,236,116)
Provision for site restoration	(1,055,372)
Future income taxes	(5,768,943)
	<u>\$ 32,480,833</u>

On May 31, 2002, the Company acquired certain petroleum and natural gas assets located in Central Alberta. The acquisition has been accounted for by the purchase method. Details of the acquisition are as follows:

Net assets acquired:	
Petroleum and natural gas properties and equipment	\$ 36,365,539
Future site restoration costs	(800,000)
Assumption of equipment lease	(2,765,539)
	<u>\$ 32,800,000</u>
Non-cash working capital	594,564
	<u>33,394,564</u>
Consideration:	
Cash	\$ 32,810,340
Transaction costs	584,224
	<u>\$ 33,394,564</u>

4. Petroleum and natural gas properties and equipment:

	2003	2002
Petroleum and natural gas properties and equipment	\$123,019,574	\$ 43,210,759
Office furniture and equipment	843,104	325,771
	<u>123,862,678</u>	43,536,530
Accumulated depletion and depreciation	(16,312,598)	(4,149,402)
	<u>\$107,550,080</u>	\$ 39,387,128

Included in petroleum and natural gas properties and equipment are compressors under capital lease. At December 31, 2003 the cost and the accumulated depletion and depreciation of the assets under capital lease was \$2,765,539 and \$402,686 respectively, (2002 - \$2,765,539 and \$248,750, respectively).

As at December 31, 2003, the Company had a surplus in its ceiling test using year end prices. Costs of acquiring undeveloped properties in the amount of \$9,730,000 were excluded from the depletion calculations, (2002 - \$541,000).

As at December 31, 2003, estimated future site restoration costs to be accrued over the life of the remaining proven reserves were approximately \$13.6 million.

5. Equipment lease

The Company has given notice to repay the equipment lease in early April 2004. The equipment lease is repayable in monthly installments of \$29,977 including interest at 8.9%.

6. Bank indebtedness

At December 31, 2003 the Company had available \$47 million of demand operating credit facilities from two Canadian chartered banks subject to the banks' valuation of the petroleum and natural gas properties owned by the Company. The facilities bore interest at the banks' prime rate. At December 31, 2003 \$7,940,800 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. On March 3, 2004, the two Canadian chartered banks increased the credit facilities to \$50 million.

7. Future income taxes

The provision for income taxes in the financial statements differs from the result, which would have been obtained in applying the combined federal and provincial tax rate to the Company's earnings before income taxes. The difference results from the following items:

	2003	2002
Earnings before taxes	\$15,631,631	\$4,083,213
Combined federal and provincial tax rate	40.62%	42.1%
Computed "expected" income tax expense	6,349,569	1,719,000
Increase (decrease) in income taxes resulting from:		
Non-deductible crown charges	2,037,000	874,000
Resource allowance	(2,738,000)	(986,000)
Effect of changes in tax rate	(878,700)	
Other	483,131	
Future income taxes	5,253,000	1,607,000
Capital taxes	204,228	37,450
	\$5,457,228	\$1,644,450

The components of the future income tax liability at December 31, 2003 and 2002 are as follows:

	2003	2002
Future income tax liabilities:		
Petroleum and natural gas properties and equipment	\$ 17,552,000	\$ 1,602,000
Less Future income tax assets:		
Future site restoration	(961,000)	(120,000)
Share issue costs	(800,000)	(500,000)
	(1,761,000)	(620,000)
Net future income tax liability	\$15,791,000	\$ 982,000

8. Capital Stock

a) Authorized

- (i) Unlimited number of common shares; and
- (ii) Unlimited number of preferred shares, issuable in series, rights and privileges to be determined upon issue, of which none have been issued.

b) Common Shares, Issued and Outstanding

	2003		2002	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	19,750,000	\$ 34,437,004	-	-
Initial private placement issued for cash			4,600,000	\$ 5,060,000
Private placement of common shares				
Issued for cash			15,150,000	30,300,000
Shares issued on acquisition				
Of Pivotal (Note 3)	10,576,688	31,047,954		
Issued on exercise of options	501,481	1,807,341		
Flow-through shares issued for cash	1,500,000	10,125,000		
Future tax impact of flow through shares	-	(4,011,357)	-	-
Share issue costs	-	(590,001)	-	(1,547,996)
Future tax benefit of issue costs	-	224,300	-	625,000
	32,328,169	\$73,040,241	19,750,000	\$34,437,004

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

The Company has a commitment to spend \$10.1 million in 2004 on qualifying expenditures pursuant to the December 9, 2003 flow through private placement. All of the expenditures were renounced effective December 31, 2003 but are required to be incurred in 2004.

c) Contributed Surplus

	2003
Balance, beginning of year	-
Options issued on acquisition of Pivotal (Note 3)	\$ 632,879
Options granted	154,315
Options exercised	(403,000)
Options cancelled and expired	(53,203)
	330,991

The Company recorded the compensation cost related to stock options granted in 2003. The amount of compensation cost is reduced for stock options granted on or after January 1, 2003 which were subsequently cancelled.

The weighted average fair value of stock options granted in 2003 was \$1.11 per option using the Black-Scholes option pricing model with the following weighted average assumptions: risk free rate of 4 percent, expected volatility of 30 percent and expected life of 3 years.

The fair value of stock options and warrants granted prior to January 1, 2003 is not significant.

d) Per Share Amounts

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

	2003	2002
Basic	25,177,504	19,750,000
Diluted	26,424,044	19,750,000

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

e) Stock Options

There are 2,861,049 stock options outstanding at December 31, 2003 with a weighted average exercise price of \$2.90 per share. The options expire between March 11, 2004 and November 4, 2008.

The following table sets forth a reconciliation of the stock option plan activity for the periods ended December 31, 2002 and December 31, 2003:

	2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,902,500	\$ 2.40	-	\$ -
Options issued on acquisition of Pivotal (Note 1)	778,162	\$ 3.10		
Granted	759,500	\$ 4.17	1,902,500	\$ 2.40
Exercised	(501,481)	\$ 2.80	-	\$ -
Expired and cancelled	(77,632)	\$ 5.82	-	\$ -
Outstanding, end of period	2,861,049	\$ 2.90	1,902,500	\$ 2.40
Exercisable, end of period	841,209	\$ 2.52	-	\$ -

The following table summarizes stock options outstanding under the plan at December 31, 2003:

Exercise Price	Options Outstanding	Remaining Term (years)	Options Exercisable
\$ 1.75 - \$ 1.84	57,162	1.7	57,162
\$ 2.40 - \$ 3.09	2,108,086	3.5	767,246
\$ 3.42 - \$ 4.76	388,912	4.3	10,912
\$ 5.20 - \$ 5.92	306,889	4.7	5,889
	2,861,049	3.7	841,209

f) 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.

9. Financial instruments

a) Credit Risk:

A significant portion of the Company's accounts receivable are from joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

b) Fair value of financial instruments:

The carrying value of the Company's financial instruments, other than bank indebtedness, approximate their fair value due to their short maturity. The fair value of the bank indebtedness approximates its carrying value as it bears interest at a floating rate.

c) Forward Sales Contracts:

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 summarizes the contracts outstanding at December 31, 2003:

Commodity	Period	Volume	Price
Natural Gas	January 1 to March 31, 2004	2,000 GJ/day	CDN\$6.54/GJ
Natural Gas	March 1 to March 31, 2004	2,000 GJ/day	CDN\$6.33/GJ
Natural Gas	January 1 to February 29, 2004	2,000 GJ/day	CDN\$6.40/GJ - \$7.10/GJ
Crude Oil	January 5 to June 30, 2004	350 bbls/day	CDN \$37.90
Crude Oil	January 5 to March 31, 2004	350 bbls/day	WTI US\$31.35
Crude Oil	April 1 to June 30, 2004	350 bbls/day	WTI US\$30.32
Crude Oil	Jul 1 to Sept 30, 2004	350 bbls/day	WTI US\$32.25

On January 28, 2004 the Company has sold forward US\$1,623,000 of foreign exchange exposure at Cdn \$1.3230 to US \$1.00 (US \$0.7559 to Cdn \$1.00) to June 30, 2004.

10. Commitments

The Company has certain lease commitments for its office premises through to September 30, 2008. As at December 31, 2003 the payments due under these commitments are approximately:

Year	Commitment
2004	\$ 348,000
2005	\$ 348,000
2006	\$ 348,000
2007	\$ 348,000
2008	\$ 261,000

11. Subsequent events

On March 31, 2004 Fairborne Energy Ltd. acquired oil, natural gas and natural gas liquids assets located in the West Pembina/Brazeau area of West Central Alberta for total consideration of \$116 million subject to closing adjustments.

On February 27, 2004, the Company issued, on a private placement basis, 6,178,000 Subscription Receipts at a price of \$6.65 each, for gross proceeds of \$41,083,700 (net proceeds of approximately \$38,900,000) exchangeable into common shares on closing of the acquisition noted above. On March 31, 2004, the subscription receipts were converted into 6,178,000 common shares. In addition, on March 31, 2004, the Company's credit facilities were increased to \$85 million. The proceeds of the issue of common shares combined with bank borrowings were used to acquire the assets noted above.