



For Immediate Release

TSE: TUI

TRUE ENERGY REPORTS FIRST QUARTER RESULTS

Calgary, May 15, 2003 –True Energy Inc. (“True”, “the Company”) is pleased to announce its financial results for the three months ended March 31, 2003.

HIGHLIGHTS

True is pleased to report the first quarter highlights of 2003 including:

- 100% success on first quarter drilling program.
- Debt to first quarter cash flow ratio annualized of 1.0 times.
- Cash flow from operations increase of 751% to \$4.4 million (\$0.10 per share).
- Net earnings increase to \$1.5 million (\$.03 per share) from a loss of \$0.7 million in 2002.
- Production increase of 22% to 2,569 BOE per day.

FINANCIAL HIGHLIGHTS

	Three Months Ended		% Change
	March 31, 2003	March 31, 2002	
(\$000 except per share amounts)			
Revenue	9,916,043	3,818,240	160%
Cash flow from operations	4,373,714	513,878	751%
per share – basic	\$0.10	\$0.02	400%
per share – diluted	\$0.10	\$0.02	400%
Net earnings (loss)	1,537,717	(744,078)	307%
per share – basic	\$0.03	(\$0.03)	200%
per share – diluted	\$0.03	(\$0.03)	200%
Debt, net of working capital	18,137,642	17,720,727	2%
Capital expenditures, net	2,613,268	1,153,554	127%
Total assets	50,709,691	29,810,695	70%
Shareholders' equity	20,659,875	8,189,415	152%
Shares outstanding			
Basic	45,241,087	28,775,102	57%
Diluted	48,256,087	30,877,602	56%
Weighted average shares			
Basic	45,227,162	28,775,102	57%
Diluted	45,702,281	28,779,102	59%

OPERATING HIGHLIGHTS

	Three Months Ended		% Change
	March 31, 2003	March 31, 2002	
Volumes			
Oil and NGLs (bbls/d)	1,114	668	67%
Natural gas (mcf/d)	8,732	8,635	1%
Combined (boe/d, 6:1)	2,569	2,107	22%
Prices			
Oil and NGLs (\$/bbl)	33.75	23.14	46%
Natural gas (\$/mcf)	8.34	3.12	167%
Combined (\$/boe)	42.89	20.14	113%
\$/BOE			
Operating netback	24.09	7.21	234%
Operating expense	8.20	6.95	18%
G & A expense	3.71	2.77	34%
Royalties as a % of sales	25%	30%	-17%

REPORT TO SHAREHOLDERS

True is pleased to be able to report to you, our shareholders, the progress we have made during the first quarter of 2003. We continue to implement management's business strategy of disciplined growth in expanding production and reserves within our two concentrated areas of West Central Alberta and West Central Saskatchewan. During the first quarter of 2003, we enjoyed 100% success in our drilling program, reduced our net debt to cash flow ratio significantly, and increased cash flow from operations by 751% compared to the first quarter of 2002. The quarter generated net earnings of \$1.5 million on average daily production of 2,569 boe/d.

True's emphasis on bringing the net debt to historical cash flow ratio to a targeted ratio of approximately 1.3 times was reflected in a restrained capital expenditure program during the first quarter of 2003. This, combined with significantly higher commodity prices, have brought True's net debt to cash flow ratio for the first quarter of 2003, annualized, to 1.0.

During the first quarter of 2003, the Company successfully participated in four (2.37 net) wells in Saskatchewan and one (0.18 net) natural gas well at Rosevear, Alberta. Of the four Saskatchewan wells, three (1.87 net) were natural gas wells in the Dodsland and Smiley areas and one (0.5 net) a crude oil well at Smiley. These wells will be tied-in and placed on production after spring breakup.

Wet conditions during and following spring breakup have delayed True's capital expenditure program. Delaying drilling activity from the first quarter to later in the year will allow us to take advantage of reduced costs for drilling rigs and related services, but also will result in delays to resulting production volumes coming on-stream. Currently, the Company has nine natural gas, nine light oil and two horizontal heavy oil wells with working interests varying from 37.5% to 100% poised for drilling with necessary licenses, approvals and equipment ready, waiting for favorable surface conditions.

Continued high commodity prices will allow True to capitalize on its high quality inventory of drilling prospects on the Company's substantial undeveloped land base. Future growth prospects for True look excellent, with a solid base of high quality, long life reserves on which to fund a disciplined exploration program.

I would like to thank all the field operators and suppliers who have worked so diligently to keep our production flowing. This winter has seen very cold temperatures, followed by a spring breakup fraught with above average snowfall and significant temperature fluctuations. Our dedicated team has fought the elements valiantly, and their efforts and contributions are greatly appreciated. We recognize that it is through the expertise of our people that True will continue to grow and prosper.

Paul R. Baay
President & CEO
May 14, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results should be read in conjunction with the unaudited interim consolidated financial statements and selected notes for the three months ended March 31, 2003 and the audited consolidated financial statements and Management Discussion and Analysis for the year ended December 31, 2002. Where amounts are expressed on a barrel of oil equivalent basis (BOE), gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel.

Net Earnings and Cash Flow from Operations

Revenue during the first quarter of 2003 was \$9.9 million, up 160% from \$3.8 million for the corresponding three months of the previous year. Cash flow from operations for the three months was \$4.4 million (\$0.10 per share) compared to \$0.5 million (\$0.02 per share) for the same period of the prior year. For the three months ended March 31, 2003, True recorded net earnings of \$1.5 million (\$0.03 per share) compared to a net loss of \$0.7 million ((\$0.03) per share) for the corresponding period of the previous year.

Compared to the fourth quarter of 2002, oil & gas revenue increased 71% from \$5.8 million to \$9.9 million during the first quarter of 2003. Cash flow from operations increased 66% to \$4.4 million (\$0.10 per share) for the first three months of 2003 compared to the fourth quarter of 2002 when cash flow from operations totaled \$2.6 million (\$0.06 per share). Net earnings for the first quarter of 2003 were \$1.5 million (\$0.03 per share), compared to fourth quarter 2002 net earnings of \$0.7 million (\$0.02 per share).

Production

Production during the three months ended March 31, 2003 increased 22% to 2,569 BOE/d from 2,107 during the corresponding period of 2002.

Natural gas made up 57% of production volumes, averaging 8,732 Mcf/d during the first quarter of 2003. Daily average rates increased by only 1% over the same period in 2002, the net effect of asset dispositions and purchases in 2002 and successful exploration. The addition of Alberta properties effective August 1, 2002 in the Donalda, Doris and Rosevear areas contributed 3,038 Mcf/d during the first quarter of 2003. At Rosevear, the Company participated in the drilling of one natural gas well and one re-completion during the last quarter of 2002, both wells being placed on production in the first quarter of 2003.

Effective April 1, 2002, properties in the Hoosier, Milton and Marengo areas were sold. Production from these areas accounted for 2,519 Mcf/d of production during the first quarter of 2002, being 29% of gas production during this period.

A successful 100% natural gas well was drilled at Druid over the end of the third quarter of 2002 and placed on production in late December. Production from the well averaged 990 Mcf/d during the first quarter of 2003. Additional compression, to be on-stream during the second quarter, should allow production from this well to increase by 500 Mcf/d.

Compared to the first quarter of 2002, crude oil and NGL production increased 67% to 1,114 bbls/d from 668 bbls/d. During the first quarter of 2003, heavy oil production averaged 870 bbls/d, compared to 498 bbls/d during the comparable 2002 period.

Effective April 1, 2002, heavy oil production from the Hoosier and Milton areas were sold. Production from these areas during the first quarter of 2002 averaged 166 bbls/d. More than offsetting the lost production from the disposition package were additions from the Coleville South and Kerrobert McLaren areas. During the third quarter of 2002, True drilled sixteen oil wells in the Coleville South area, increasing production for the three months ending March 31, 2003 for the area to 441 bbls/d net compared to 251 bbls/d net in the first quarter of 2002. The successful drilling in 2002 of two horizontal 100% W.I. 11⁰API oil wells at Kerrobert McLaren increased heavy oil production rates from this area to 357 bbls/d during the first quarter of 2003 compared to 75 bbls/d during the same 2002 period.

At Kerrobert, ten Viking light oil wells drilled during December of 2002 were placed on production in January 2003, increasing the light oil production rate from Kerrobert by 50 bbls/d over the average first quarter production rates in 2002. The addition of condensate and NGLs from Doris and Rosevear added an additional 53 bbls/d during the first three months of 2003 over the comparable 2002 period.

Sales and production from March 19, 2003 to May 14, 2003 have been dramatically affected by wet conditions within True's focus area in West Central Saskatchewan. In 2002, spring breakup and road bans required the Company to curtail operations for less than ten days. This year, spring breakup followed by heavy snow and rain have caused significant access problems to a number of True's well sites. If production could not be trucked due to access, wells had to be shut-in once tanks were full. Service work to maintain production had to be delayed where service personnel or equipment could not get to the site. Production rates during this extended spring breakup period, based on field estimates, were estimated to be 1,900 boe/d, weighted 65% towards natural gas. Conditions are now beginning to return to normal and wells are being returned to production.

Production Volumes

		Three Months ended March 31		
		2003	2002	% Change
Crude oil & NGLs	(bbls/d)	1,114	668	67
Natural gas	(mcf/d)	8,732	8,635	1
Total (6:1)	(boe/d)	2,569	2,107	22

Drilling

During the first quarter of 2003, True drilled 5 (2.55 net) wells with a success rate of 100% adding 0.5 net oil wells and 2.05 net gas wells. In Saskatchewan, the Company participated in four wells, three natural gas wells and one oil well. Two (0.87 net) of the gas wells were located at the Company's operated Smiley property, and will be tied into the Company operated Smiley natural gas facility after breakup. The third well, a 100% working interest natural gas well in the Dodsland area, will be completed and tied in to True's Dodsland Gas Plant. The oil well is a 50% working interest Bakken well located in the Smiley area of Saskatchewan. In Alberta, the Company participated in drilling one multi-zone natural gas well with an 18% working interest in the Rosevear area.

Revenue

Oil and gas revenue for the first quarter of 2003 increased 160% to \$9.9 million from \$3.8 million received in the comparable quarter in 2002, the result of higher prices and production rates. The price received for crude oil and NGL production in the first quarter increased 46% to \$33.75/bbl from \$23.14/bbl in 2002. Natural gas prices grew by 167% to \$8.34/mcf during the first quarter of 2003 from \$3.12/mcf in the prior year.

Revenue (\$000s)

		Three Months ended March 31		
		2003	2002	% Change
Crude oil & NGLs		3,383	1,390	143
Natural gas		6,533	2,428	169
Total		9,916	3,818	160

Average Prices

		Three Months ended March 31		
		2003	2002	% Change
Crude oil & NGLs	(\$/ bbl)	33.75	23.14	46
Natural gas	(\$/ mcf)	8.34	3.12	167
Total	(\$/ boe)	42.89	20.14	113

Royalties

For the three months ended March 31, 2003, the Company paid \$2.4 million in royalties compared to \$1.1 million in the corresponding period of the prior year. Royalties as a percentage of sales decreased from 30% in the first three months of 2002 to 25% in the same period of 2003.

The ratio of royalties to sales for crude oil and NGLs increased by 17% from the first quarter 2002 ratio of 18% to 21% in 2003, while the average price received improved by 46% for the comparable period. For heavy oil properties, the overall royalty rate compared to sales has remained relatively flat, increasing only 2% to 24% during the first quarter of 2003 compared to 2002. During the third quarter of 2002, True drilled sixteen 50% W.I. heavy oil wells in the Coleville South area. Production from most of these wells is expected to qualify for freehold mineral tax holiday status to the end of 2003. The condensate/ NGL production at Doris and Rosevear in Alberta incurred royalty rates of 40% and 34% respectively during the first quarter of 2003.

Royalty rates for natural gas declined in the first quarter of 2003 compared to 2002. During the fourth quarter of 2002 a well in the Coleville Driver area burdened with a 15% GORR plus regular crown royalties converted to a 50% working interest. Effective April 1, 2002, True disposed of high royalty burdened properties in the Milton area of Saskatchewan. The Company has recorded \$81 thousand of Alberta Royalty Tax Credit during the first quarter of 2003 with the addition of qualifying Alberta properties in Rosevear, Donalda and Doris. The royalty rate for the first quarter of 2003 reflects the impact of these three events – the removal of the GORR cost, the sale of high royalty properties, and the Alberta Royalty Tax Credit, partially offset by the impact of significant natural gas price increases.

Royalties, by Commodity Type \$000's

	Three Months ended March 31		
	2003	2002	% Change
Crude oil and NGLs	725	254	185
Natural gas	1,725	879	96
Total	2,450	1,133	116

Royalties, as a % of Commodity Sales

	Three Months ended March 31		
	2003	2002	% Change
Crude oil and NGLs	21.43	18.27	17
Natural gas	26.40	36.20	(27)
Total	24.71	29.68	(17)

Royalties, by Type \$ 000s

	Three Months ended March 31		
	2003	2002	% Change
Crown royalties	1,664	683	144
Freehold & GORR	867	450	93
Alberta Royalty Tax Credit	(81)	-	100
Total	2,450	1,133	116

Operating Expenses

Operating expenses for the three months ended March 31, 2003 were up 44% to \$1.9 million compared to \$1.3 million for the three months ended March 31, 2002, while production volumes grew 22% for the comparable time frame. On a barrel of oil equivalent basis, operating expenses were \$8.20, 18% higher during the first quarter of 2003 compared to \$6.95 in the corresponding period of the prior year. At \$8.20/boe operating expenses were 7% less in the first quarter of 2003 than the \$8.86/boe experienced in the fourth quarter of 2002.

Weather was a significant factor in increasing operating costs overall during the first quarter of 2003. Colder temperatures and heavier than normal snowfalls during the early part of the quarter added approximately \$12 thousand per month for steamer bills and related freeze-up costs, combined with snow removal costs. Spring breakup and the subsequent snow and rainfall resulted in an extended period of road bans and poor access to a number of wells, all translating to increased trucking costs, where trucking could occur at all. Load weight restrictions, towing and use of transfer trucks designed for severe mud conditions means that overall trucking costs will run approximately 45% over normal until the end of spring breakup. The Company also spent approximately \$83 thousand on non-recurring compressor overhauls in the Smiley, Coleville Driver and Dodsland areas.

Operating costs for natural gas properties grew from \$0.77/Mcf in the first quarter of 2002 to \$1.13/Mcf in the same period in 2003. At Doris, operating costs are relatively high at \$2.07/Mcf in the first quarter as a result of fees and expenses related to the partially owned third party operated gas plant. Production from this area was redirected to a different facility in late April 2003 with ultimate savings expected to be approximately \$0.30/Mcf. At Rosevear, operating costs averaged \$0.87/Mcf in the first quarter, the majority being third party processing fees. Operating costs at Dodsland/ Druid averaged \$1.12/Mcf during the first quarter of 2003. In the case of Dodsland/ Druid, the addition of the low operating cost gas produced from Druid has reduced the operating cost from an average of \$1.81/Mcf for 2002.

The impact of spring breakup on costs will continue into the second quarter of 2003. In addition, immediately after spring breakup the Company expects to incur additional tank cleaning and sand disposal costs, as minimal cleaning is performed during the winter months. True has traditionally had higher operating costs during the winter and spring months compared to the summer, and expects this historical trend to continue during 2003.

Production Costs, by Commodity Type
\$ 000s

	Three Months ended March 31		
	2003	2002	% Change
Crude oil and NGLs	1,010	716	41
Natural gas	885	602	47
Total	1,895	1,318	44

Production Costs per Unit, by Commodity Type

		Three Months ended March 31		
		2003	2002	% Change
Crude oil and NGLs	(\$/ bbl)	10.07	11.91	(15)
Natural gas	(\$/ mcf)	1.13	0.77	47
Total	(\$/ boe)	8.20	6.95	18

Operating Netbacks

Operating netbacks increased for crude oil and NGLs as well as for natural gas during the first quarter of 2003 compared to the comparable quarter in 2002, primarily the result of higher commodity prices.

Field Operating Netbacks

	Three Months ended March 31			
	2003		2002	
	Crude oil & NGLs \$/ bbl	Natural gas \$/ mcf	Crude oil & NGLs \$/ bbl	Natural gas \$/ mcf
Petroleum & natural gas sales	33.75	8.34	23.14	3.12
Hedge	-	-	-	-
Royalties	(7.23)	(2.22)	(4.24)	(1.13)
Production expense	(10.07)	(1.13)	(11.91)	(0.77)
Field operating netback	16.45	4.99	6.99	1.22

General and Administrative

For the first quarter of 2003, general and administrative expenses increased to \$857 thousand from \$525 thousand in the first quarter of 2002. For the three months ended March 31, 2003, general and administrative expenses increased 34% to \$3.71 per barrel of oil equivalent from \$2.77 for the corresponding period in 2002.

During the first quarter of 2003, total general and administrative costs reflect the increased costs required to administer the increasing production base and foster the development of an approximately two year drilling prospect inventory. Total salaries and wages cost \$244 thousand more in 2003 compared to the first quarter of 2002, the cost of nineteen full time employees and six consultants compared to fifteen employees and six consultants during the same period in 2002. The growth in personnel necessitated an office move the first of February 2003, with approximately \$20 thousand of associated costs incurred. Increased public relations efforts during the first quarter cost approximately \$30 thousand over 2002 costs. Professional fees for external year end audit and tax work increased by \$51 thousand over the prior period.

True capitalizes direct costs incurred by exploration-focused personnel. Salaries and benefits for field personnel are charged to the related projects in which they are involved. During the first quarter of 2003, general and administrative recoveries increased by approximately \$146 thousand, reflecting increased costs reimbursed from the increased production base, combined with costs recovered through capital projects.

Many of the first quarter general and administrative costs, such as the year end audit and tax services, reserve report, and the TSX annual fee totaling \$187 thousand, are annual costs incurred during the first quarter of the year. During the second quarter, True will incur costs for the preparation of Annual and Special Meeting materials, service charges in conjunction with the renewal of the lending facility as well as continued public relations costs. Recoveries of general and administrative costs on capital projects are expected to increase for the second and third quarter, as more funds are expended on Company operated capital projects.

General and Administrative Costs \$ 000's

	Three Months ended March 31		
	2003	2002	% Change
Gross costs	1,183	651	82
Capitalized	(120)	(66)	82
Recoveries	(206)	(60)	243
Net costs	857	525	63
Net costs, per unit (\$/ BOE)	3.71	2.77	34

Interest Expense

During the first quarter of 2003 interest expense was \$237 thousand, down from the \$247 thousand incurred during the fourth quarter of 2002. On a year-over-year basis, interest expense for the three months ended March 31 increased 67% from \$142 thousand in 2002 due to higher interest rates and a slightly higher debt level.

True's emphasis on bringing the net debt to historical cash flow ratio to approximately 1.3 times drove a restrained capital expenditure program during the first quarter of 2003. This combined with significantly higher commodity prices have brought True's net debt at the end of the first quarter in 2003 to annualized first quarter cash flow to a 1.0 ratio.

During the second quarter of 2003, reduced production volumes from spring breakup problems combined with the resumption of capital expenditures will bring this ratio back up temporarily. The Company expects the ratio should be in line with the targeted 1.3 times by the end of 2003.

Interest Costs
\$ 000s, except where noted

	Three Months ended March 31		
	2003	2002	% Change
Interest expense	237	142	67
Interest (\$/ BOE)	1.03	0.75	37
Net debt at quarter end	18,138	17,721	2
Debt to first quarter cash flow ratio annualized	1.04 x	8.62 x	(88)

Capital Expenditures

True invested \$2.6 million on exploration and development activities during the first three months of 2003. During the same period of the previous year, True spent \$1.2 million on exploration and development activities.

During the first quarter of 2003, the Company participated in four wells in Saskatchewan. In the Dodsland area one 100% W.I. natural gas well was drilled and at Smiley the Company participated in two natural gas wells (37% W.I. and 50% W.I.) and one crude oil well (50% W.I.). In the Rosevear area of Alberta, the Company participated in an 18% W.I. natural gas well. In comparison, during the first quarter of 2002, the Company drilled one 100% W.I. horizontal heavy oil well at Kerrobert and one 100% W.I. oil well at Coleville Driver.

Capital expenditures during the first quarter of 2003 included the acquisition of 576 net acres in the Ferrier area of Alberta. Net undeveloped land as at March 31, 2003 is 147,168 net acres, marginally less than the 153,255 net acres held by the Corporation at year end.

Wet conditions during and following spring breakup has delayed True's capital expenditure program. Currently, the Company has nine gas, nine light oil and two horizontal heavy oil wells with working interests varying from 37.5% to 100% poised for drilling with necessary licenses, approvals and equipment ready, waiting for favorable surface conditions.

Capital Expenditures
\$ 000s

	Three Months ended March 31		
	2003	2002	% Change
Lease acquisitions & retention	393	136	189
Geological & geophysical	158	131	21
Drilling & completion costs	1,669	648	158
Facilities & equipment	342	262	31
Exploration & development	2,562	1,177	118
Acquisitions	30	(22)	236
Corporate acquisitions	-	-	-
Head office expenditures	21	9	133
Total expenditures	2,613	1,164	124
Dispositions	-	10	(100)
Net capital expenditures	2,613	1,154	126

Depletion, Depreciation and Site Restoration

Depletion, depreciation and site restoration expense increased by 5% to \$7.84/boe during the first quarter of 2003 from \$7.50/boe in the fourth quarter of 2002. Reserve additions, as estimated internally, during the first quarter of 2003 were partially offset by the reduction in reserves from the payout of wells in the Coleville Driver area. During the first quarter of 2002, depletion, depreciation, and site restoration expense was \$7.54/boe.

Depletion, Depreciation and Site Restoration Costs
\$ 000's, except where noted

	Three Months ended March 31		
	2003	2002	% Change
Depletion	1,020	723	41
Depreciation	702	619	13
Future site restoration	91	87	5
Total	1,813	1,429	27
Per unit (\$/ BOE)	7.84	7.54	4

Liquidity and Capital Resources

The Corporation ended the year 2002 in a net debt position of \$19.9 million, made up of draws of \$17.2 million on a \$19 million revolving line of credit and a working capital deficit of \$2.7 million. At March 31, 2003, the Corporation's net debt position was \$18.1 million, made up of a bank line drawn to \$16.8 million and a working capital deficit of \$1.3 million.

On April 25, 2003, the terms of the demand revolving credit facility were revised to increase the authorized borrowing amount to \$22.8 million. The availability under the facility is subject to reductions of \$1.2 million per month commencing April 30, 2003, with an interim review completed by June 30, 2003 and an annual review by May 31, 2004.

True intends to maintain its debt to historical cash flow ratio at a targeted 1.3 times. The Company expects to generate sufficient cash flow from operations to fund its capital expenditure program during 2003. If cash flows are other than projected, capital expenditure levels will be adjusted to meet the targeted ratio.

At March 31, 2003, the Company had 45,241,087 common shares outstanding and 45,702,281 common shares outstanding on a diluted basis based on 2,525,000 in-the-money stock options. During the first quarter of 2003, 106,666 employee options were exercised for total proceeds of \$79,000.

As at May 14, 2003 total common shares issued and outstanding was unchanged at 45,241,087 and the total number of options outstanding are 3,140,000 at an average price of \$0.77 per share.

True Energy Inc. is a Calgary-based oil and natural gas exploration and development company. The Company's shares trade on the Toronto Stock Exchange under the symbol **TUI**.

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CONSOLIDATED BALANCE SHEETS

At March 31, 2003 and December 31, 2002	March 31, 2003 (unaudited)	December 31, 2002 (audited)
ASSETS		
Current assets		
Accounts receivable	\$8,767,970	\$7,699,237
Deposits and prepaids	513,600	853,208
Property, plant and equipment	41,428,121	40,537,151
	<u>\$50,709,691</u>	<u>\$49,089,596</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$10,569,091	\$11,249,520
Bank debt	16,850,121	17,195,471
	<u>27,419,212</u>	<u>28,444,991</u>
Capital taxes payable	609,130	686,430
Future site restoration and abandonment costs	921,474	830,474
Future income taxes payable	1,100,000	
Shareholders' equity		
Share capital	38,442,581	38,448,124
Deficit	(17,782,706)	(19,320,423)
	<u>20,659,875</u>	<u>19,127,701</u>
	<u>\$50,709,691</u>	<u>\$49,089,596</u>

See accompanying selected notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the three months ended March 31	2003 (unaudited)	2002 (unaudited)
REVENUES		
Petroleum and natural gas sales	\$9,916,043	\$3,818,240
Royalties, net of Alberta royalty tax credit	(2,449,856)	(1,133,428)
	<u>7,466,187</u>	<u>2,684,812</u>
EXPENSES		
Production	1,895,469	1,317,613
General and administrative	857,175	525,471
Interest on debt	237,029	141,850
Depletion, depreciation and site restoration	1,813,297	1,428,956
	<u>4,802,970</u>	<u>3,413,890</u>
EARNINGS (LOSS) BEFORE TAXES	<u>2,663,217</u>	<u>(729,078)</u>
TAXES		
Current income tax (recovery)	-	-
Capital taxes	25,500	15,000
Future income tax (recovery)	1,100,000	-
	<u>1,125,500</u>	<u>15,000</u>
NET EARNINGS (LOSS)	<u>1,537,717</u>	<u>(744,078)</u>
Deficit, beginning of period	<u>(19,320,423)</u>	<u>(19,542,086)</u>
Deficit, end of period	<u>(\$17,782,706)</u>	<u>(\$20,286,164)</u>
Net earnings (loss) per share		
basic	\$0.03	(\$0.03)
diluted	\$0.03	(\$0.03)

See accompanying selected notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31	2003 (unaudited)	2002 (unaudited)
OPERATIONS		
Net earnings (loss)	\$1,537,717	(\$744,078)
Charges not involving cash:		
Depletion, depreciation and site restoration	1,813,297	1,428,956
Future income tax	1,100,000	-
Capital tax	(77,300)	-
Prepaid contract revenue	-	(171,000)
Cash flow from operations	<u>4,373,714</u>	<u>513,878</u>
Change in non-cash working capital	<u>(1,979)</u>	<u>(1,421,504)</u>
	4,371,735	(907,626)
FINANCING		
Issuance of common shares	79,066	-
Share issue costs	(84,609)	(8,998)
Increase in bank debt	<u>(345,350)</u>	<u>673,021</u>
	(350,893)	664,023
INVESTING		
Additions to property, plant and equipment	(2,613,268)	(1,163,258)
Acquisition of property, plant and equipment	-	-
Proceeds on sale of property, plant and equipment	<u>-</u>	<u>9,704</u>
	(2,613,268)	(1,153,554)
Change in non-cash working capital	<u>(1,407,574)</u>	<u>1,397,157</u>
	(4,020,842)	243,603
Increase (decrease) in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	<u>\$ -</u>	<u>\$ -</u>
Cash flow from operations per share		
basic	\$0.10	\$0.02
diluted	\$0.10	\$0.02

See accompanying selected notes to consolidated financial statements.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2003 and 2002 (unaudited)

1. BASIS OF PRESENTATION:

The interim consolidated financial statements of the Company have been prepared by management in accordance with the accounting policies generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2002. The disclosures provided below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company's annual report for the year ended December 31, 2002.

2. BANK DEBT:

The Corporation has a demand revolving credit facility with an authorized borrowing amount of \$19,000,000 with a Canadian chartered bank. Interest is payable at the bank's prime rate plus one and a quarter percent. Security is provided by a general assignment of book debts of the Corporation, a \$10,000,000 floating charge debenture over all assets of the Corporation, a fixed charge over certain producing petroleum and natural gas reserves at Smiley and first floating charge supplemental debentures of \$80,000,000.

On April 25, 2003, the terms of the demand revolving credit facility were revised to increase the authorized borrowing amount to \$22,800,000. Furthermore, the availability under the facility is subject to reductions of \$1,200,000 per month commencing April 30, 2003, with an interim review by June 30, 2003 and an annual review by May 31, 2004. A standby fee is charged on one half of one percent on the undrawn portion of the credit facility.

3. CAPITAL STOCK:

(a) Authorized:

Unlimited number of voting Common Shares

Unlimited number of non-voting First Preferred Shares

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance December 31, 2002	45,134,421	\$ 38,448,124
Issued on exercise of stock options	106,666	79,066
Share issue costs		(84,609)
Balance March 31, 2003	45,241,087	\$ 38,442,581

The following table summarizes the changes in stock options outstanding for three months ended March 31, 2003:

	Options	Weighted-Average Exercise Price
Outstanding at Dec. 31, 2002	2,529,166	\$ 0.77
Cancelled	-	-
Granted	592,500	0.78
Exercised	(106,666)	0.74
Outstanding at March 31, 2003	3,015,000	\$ 0.77

4. SUPPLEMENTAL CASH FLOW INFORMATION:

	2003	2002
Cash paid:		
Interest	\$ 237,021	\$ 141,850
Taxes (net of refunds)	(165,952)	-
Non-cash investing and financing activities:		
Net assets acquired on acquisitions	\$ 422	\$ -

5. STOCK BASED COMPENSATION:

Effective January 1, 2002 the Corporation prospectively adopted the new recommendations of the CICA with respect to the accounting for stock-based compensation and other stock-based payments. In accordance with the new standard, the Corporation elected to continue its policy that no compensation is recorded on the grant of employee stock options and consideration paid on the exercise of such options is recorded as share capital. In addition, the new standard requires a fair value based method of accounting for other stock-based payments. During the three months ended March 31, 2003, the Corporation granted 592,500 (2002: 377,500) stock options. Had compensation cost for the stock options granted since January 1, 2002 (2,671,666, net of options exercised and cancelled) been determined on a fair value based method, using the Black Scholes Model and assuming forfeitures of 10%, risk free interest of 5.8% and volatility of 74%, net earnings, before taxes, for the three months ended March 31, 2003 would have decreased by \$183,997 (2002: net loss before taxes would have increased by \$17,398).

6. FINANCIAL INSTRUMENTS – COMMODITY RISK:

On January 30, 2003, the Corporation entered into a natural gas commodity price swap for 3,000 gigajoules per day for the period April 1, 2003 to October 31, 2003. The contract establishes that the Corporation will pay the counter party the differential for any month when the AECO “C” price is established at more than Cdn\$6.08 per gigajoule and that the counter party will pay the Corporation the differential when the AECO “C” price is established at less than Cdn\$6.08 per gigajoule.

6. FINANCIAL INSTRUMENTS – COMMODITY RISK (cont.):

In addition, the Corporation had entered into a fixed price sales contract to deliver heavy oil Lloydblend (LLK) at a price of \$26.74 per barrel on 100 barrels per day for the period from May 1, 2002 to April 30, 2003. Effective October 1, 2002, the fixed price sales contract was modified in

respect of the committed volumes to 50 barrels per day from October 1, 2002 to April 30, 2003. The Corporation has entered into another fixed price sales contract to deliver heavy oil Lloydblend (LLK) at a price of \$27.87 per barrel on 200 barrels per day for the period January 1, 2003 to June 30, 2003.