

Delphi Energy Corp. (TSXVEN: DEE) is pleased to announce second quarter results:

HIGHLIGHTS

- Production volumes increased 385% to average 877 boepd during the second quarter 2003 and increased 86% on a per share basis.
- Revenues increased over 500% to \$3,103,661 for the second quarter 2003 and \$5,652,578 for the first half of 2003.
- Cashflow increased over 1000% to \$1,740,556 (\$0.07 per share) for the second quarter 2003 and \$3,300,091 (\$0.14 per share) for the first half of 2003.
- Net earnings also increased dramatically to \$757,679 (\$0.03 per share) for the second quarter 2003 and \$1,343,249 (\$0.06 per share) for the first half of 2003.
- The Rise Energy Ltd. merger completed on June 19, 2003, will add approximately 300 boepd and added to the Company's inventory of development opportunities.

	Three months ended June 30		% Change	Six months ended June 30		% Change
	2003	2002		2003	2002	
FINANCIAL						
(\$000 except per share amounts)						
Petroleum and natural gas sales	3,103,661	454,425	568	5,652,578	839,693	573
Cash flow from operations	1,740,556	(6,511)	>1000	3,300,091	120,476	>1000
Per share – basic	0.08	(0.00)		0.14	0.01	
Per share – fully diluted	0.07	(0.00)		0.14	0.01	
Net earnings (loss)	757,679	(289,528)	262	1,343,249	(3,259,585)	242
Per share – basic	0.03	(0.03)		0.06	(0.35)	
Per share – fully diluted	0.03	(0.03)		0.06	(0.35)	
Capital expenditures	8,350,924	(224,483)		14,954,316	6,335,125	
Common shares outstanding						
Basic	22,929,635	9,244,560		22,929,635	9,244,560	
Diluted	23,780,135	9,244,560		23,780,135	9,244,560	
Weighted average shares outstanding						
Basic	22,929,635	9,244,560		22,929,635	9,244,560	
Diluted	23,335,080	9,244,560		23,194,340	9,244,560	
OPERATING						
Production						
Natural gas (mcf/d)	5,100	816	525	4,215	761	454
Oil & liquids (bbl/d)	27	45	(40)	27	47	(43)
Barrels of oil equivalent (boe/d)	877	181	385	730	174	320
Average sales price						
Natural gas (\$/mcf)	6.53	4.37	49	7.28	4.14	76
Oil & liquids (\$/bbl)	43.81	33.87	29	43.70	31.56	38

MESSAGE TO OUR SHAREHOLDERS

Delphi Energy Corp. reports its operating and financial results for the three months ending June 30, 2003. The financial results for the reporting period and comparative period represent the operating and financial results for DT Energy Ltd., with the amalgamation of Rise Energy Ltd. reflected as an acquisition on the Balance Sheet.

The three months ended June 30, 2003 were highlighted by the closing on June 19, 2003 of the merger of DT Energy Ltd. and Rise Energy Ltd. The transformation into Delphi Energy Corp. is yet another milestone in pursuing the Company's growth plan. Significant growth has been achieved over the past year through a combination of strategic acquisitions and a capital program focused primarily on development activities within the Company's core areas of operation. Production during the second quarter 2003 increased 86% on a per fully diluted share basis over the comparative period ended June 30, 2002 and does not include the approximately 300 barrels of oil equivalent per day from the Rise acquisition. Most importantly, cash flow from operations and net income have also grown significantly on a per share basis, due primarily to the increase in production volumes and lower reserve addition costs.

OPERATIONS UPDATE

Production for the three months ended June 30, 2003 averaged 877 barrels of oil equivalent per day (97% natural gas). Production volumes for the second quarter including the assets of Rise Energy Ltd. would have been approximately 1,165 barrels of oil equivalent per day (79% natural gas), an increase of more than 540% over the past year. The strong growth in production is a result of a combination of strategic acquisitions and successful development activities on the acquired properties.

The Company incurred approximately \$15.0 million in capital expenditures during the first half of 2003 with approximately \$10.2 million attributed to acquisitions. The Company focused most of the remainder of its capital program during the first half of the year on exploitation projects targeting recompletion and workover projects as well as optimizing pipeline and surface facility infrastructure. The Company drilled 5 gross wells (1.6 net wells) during the first half of the year resulting in three gas wells and one dry hole. The fifth well (8% net to Delphi) has been suspended after casing the well and testing and abandoning the primary target. This exploration well was the second well drilled with our partners in a seven well exploration joint venture program.

2003 OUTLOOK

The commodity price environment remains positive and the Company anticipates spending approximately \$5 million during the second half of 2003. The Company's capital program for the remainder of the year will be primarily focused on development activities within its core areas of east central Alberta. Drilling activity for the remainder of the year will be primarily focused on natural gas targets with the drilling of 5 to 7 wells. Also, several projects will be initiated on our operated oil producing properties targeting reserve and production additions as well as improving operational efficiencies. Activity on the Company's high impact exploration program is expected to resume in late 2003 and carry on through 2004. The Company maintains an exposure of approximately 20% of its annual capital program to its high impact exploration program. In addition to our capital program, the Company continues to actively pursue and capture strategic acquisitions.

The transformation into Delphi Energy Corp. has been a very positive move to provide continued quarterly operational and financial growth on a per share basis. The current inventory of opportunities strategically positions the Company to successfully pursue its growth and value creation plan.

David J. Reid
President and Chief Executive Officer

August 24, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis as provided by the management of Delphi Energy Corp. ("Delphi" or the "Company") should be read in conjunction with the unaudited consolidated interim financial statements for the three and six months ended June 30, 2003 and 2002 and the audited consolidated financial statements for the year ended December 31, 2002.

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent ("BOE") using the ratio six thousand cubic feet to one barrel.

ANALYSIS OF OPERATING RESULTS

PRODUCTION

Production for the three months ended June 30, 2003 increased 385% to average 877 boe per day (5.1 million cubic feet per day of natural gas and 27 barrels per day of natural gas liquids) up from 181 barrels of oil equivalent per day (0.8 million cubic feet per day of natural gas and 45 barrels per day of natural gas liquids) for the three months ended June 30, 2002. For the six months ended June 30, 2003 production increased 320% to average 730 boe per day (4.2 million cubic feet per day of natural gas and 27 barrels per day of natural gas liquids) up from 174 barrels of oil equivalent per day (0.75 million cubic feet per day of natural gas and 47 barrels per day of natural gas liquids) for the six months ended June 30, 2002. The 525% increase in natural gas production resulted from two acquisitions in the Fontas area as well as a successful first and second quarter capital program.

COMMODITY PRICES

Realized natural gas prices for the three months ended June 30, 2003 increased 49% to \$6.53 per mcf compared with \$4.37 per mcf for the three months ended June 30, 2002. For the six months ended June 30, 2003 natural gas prices increased 76% to \$7.28 per mcf compared with \$4.14 per mcf for the six months ended June 30, 2002.

Condensate and NGL prices increased 29% to \$43.81 per barrel for the three months ended June 30, 2003 compared to \$33.87 per barrel for the three months ended June 30, 2002. For the six months ended June 30, 2003 condensate and NGL prices increased 38% to \$43.70 per barrel compared with \$31.56 per barrel for the six months ended June 30, 2002.

PETROLEUM AND NATURAL GAS REVENUE

Oil and gas revenues for the three months ended June 30, 2003 increased 568% to \$3,101,661 compared with \$454,425 recorded for the three months ended June 30, 2002. Interest income for the three months ended June 30, 2003 was \$27,381 compared with \$7,683 recorded for the three months ended June 30, 2002. Total revenue, net of royalties was \$2,392,652 for the for the three months ended June 30, 2003 compared to \$237,025 for the three months ended June 30, 2002.

For the six months ended June 30, 2003 oil and gas revenues increased 573% to \$5,652,578 compared with \$839,693 recorded for same period in 2002. Interest income for the six months ended June 30, 2003 was \$41,531 compared with \$24,785 recorded for the same period in 2002. Total revenue, net of royalties increased to \$4,327,483 for the six months ended June 30, 2003 compared to \$531,100 for the same period in 2002. The increase in revenues is the result of higher oil and gas production together with higher commodity prices.

ROYALTIES

Royalties, net of ARTC were \$738,390 (23.8% of oil and gas revenue) for the three months ended June 30, 2003 compared with \$235,083 (50.6% of oil and gas revenue) for the same period in 2002. For the six months ended June 30, 2003 royalties were \$1,366,626 (24.2% of oil and gas revenue) compared with \$333,378 (39.7% of oil and gas revenue) for the same period in 2002. The variance in royalty rates reflect a billing error by the crown during the first half of 2002 and was corrected prior to December 31, 2002. Royalties, net of ARTC averaged 23.1% for the full year 2002.

OPERATING EXPENSES

Production expenses were \$483,519 (\$6.12 per boe) for the three months ended June 30, 2003, compared with \$79,645 (\$4.83 per boe) for the three months ended June 30, 2002. For the six months ended June 30, 2003 production expenses were \$767,616 (\$5.81 per boe) compared with \$121,226 (\$3.86 per boe) for the same period in 2002. The increase in operating costs is related to slightly higher operating costs at the winter access producing property of Fontas.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$137,937 (\$1.75 per boe) for the three months ended June 30, 2003 compared with \$163,890 (\$9.93 per boe) for the three months ended June 30, 2002. For the six months ended June 30, 2003 general and administrative expenses were \$219,897 (\$1.66 per boe) compared with \$289,398 (\$9.21 per boe) for the same period 2002.

DEPLETION, DEPRECIATION AND SITE RESTORATION

The provision for depletion, depreciation and site restoration was \$460,784 (\$5.84 per boe) for the three months ended June 30, 2003 compared with \$290,588 (\$17.60 per boe) for the three months ended June 30, 2002. For the six months ended June 30, 2003 the provision for depletion, depreciation and site restoration was \$1,340,432 (\$10.15 per boe) compared with \$665,834 (\$21.18 per boe) excluding a ceiling test impairment charge of \$4.90 million incurred at March 31, 2002. The significant decrease in the unit rate depletion charges is attributable to lower cost reserve additions during the latter part of 2002 and the first half of 2003.

CASH FLOW FROM OPERATIONS AND NET EARNINGS

Cash flow from operations was \$1,740,556 (\$0.07 per fully diluted share) for the three months ended June 30, 2003 compared with a deficiency of \$ 6,511 (\$0.00 per share) for the three months ended June 30, 2002. For the six months ended June 30, 2003 cash flow from operations increased to \$3,300,091 (\$0.14 per fully diluted share) from \$120,476 (\$0.01 per share) for the same period ended June 30, 2002.

Net income was \$757,679 (\$0.03 per fully diluted share) for the three months ended June 30, 2003 compared with a net loss of \$289,528 ((\$0.03) per fully diluted share) for the three months ended June 30, 2002. For the six months ended June 30, 2003 net income was \$1,343,249 (\$0.06 per fully diluted share) compared with a net loss of \$3,259,585 ((\$0.35) per fully diluted share) for the six months ended June 30, 2002. In addition to the items affecting cash flow from operations, net earnings were positively affected by lower depletion and depreciation charges.

CAPITAL EXPENDITURES

During the three months ended June 30, 2003, Delphi incurred \$8,350,924 in capital expenditures, compared with a credit of \$224,483 for the period ended June 30, 2002. For the six month period ended June 30, 2003 the Company incurred \$14,954,316 in capital expenditures compared to \$6,335,125 during the same period in 2002. The increase in capital expenditures reflects \$10.2 million in acquisitions during the six month period as well as increased capital spending over an inactive second quarter 2002.

The Company has drilled 5 gross wells (1.6 net wells) during the first half of the year resulting in three gas wells and one dry hole. The fifth well (8% net to Delphi) has been suspended after casing the well and testing and abandoning the primary target.

LIQUIDITY AND CAPITAL RESOURCES

The company has a \$8.0 million revolving line of credit of which \$3,375,000 was drawn on at June 30, 2003. At June 30, 2003, Delphi had a working capital deficiency excluding the bank loan, amounted to \$2,808,993. The cash flow generated during the second quarter 2003 sufficiently funded the project capital program, while total debt did increase reflecting the acquisition activity during the first half of 2003.

The Company had 22,929,635 common shares outstanding at June 30, 2003 compared to 9,244,560 (18,126,588 common shares of DT Energy Ltd. pre-consolidated) common shares outstanding at June 30, 2002.

On January 30, 2003, the Company issued from treasury 1,836,000 common shares (3,600,000 common shares of DT Energy Ltd.) for total gross proceeds of \$1,800,000.

On June 19, 2003, Rise Energy Ltd exchanged 11,446,857 common shares for 2,861,714 Delphi Energy Corp. common shares representing a 12.5% increase in shares outstanding of Delphi Energy Corp.

COMMODITY HEDGING CONTRACTS

The following natural gas and crude oil contracts were outstanding at June 30, 2003.

Natural Gas

<u>Term</u>	<u>Volume</u>	<u>Pricing</u>
April to October 2003	1000 GJ/Day	Cdn\$6.145/GJ
April to October 2003	500 GJ/Day	Cdn\$5.50/GJ Floor and \$6.75/GJ Ceiling
Nov 2003 to March 2004	1000 GJ/Day	Cdn\$6.00/GJ Floor and \$7.00/GJ Ceiling

Crude Oil

<u>Term</u>	<u>Volume</u>	<u>Pricing</u>
January 2003 to September 2003	120 Barrels/Day	Cdn\$19.50/bbl

DELPHI ENERGY CORP.

(Formerly DT Energy Ltd.)

Balance Sheets

	June 30, 2003	December 31, 2002
	(unaudited)	
Assets		
Current assets:		
Cash	\$ —	\$ 1,595,103
Accounts receivable	1,648,451	366,282
Cash calls receivable	385,034	485,000
Prepaid expenses	77,772	39,982
	<u>2,111,257</u>	<u>2,486,367</u>
Capital assets (note 3)	32,967,767	19,097,949
	<u>\$ 35,079,024</u>	<u>\$ 21,584,316</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,651,430	\$ 1,734,227
Bank loan and cheques issued in excess of bank balance (note 9)	<u>3,643,820</u>	<u>—</u>
	8,295,250	1,734,227
Future income taxes (note 5)	2,010,723	1,076,312
Provision for site restoration	273,214	17,280
Shareholders' equity:		
Share capital (note 4)	26,447,059	22,046,966
Deficit	<u>(1,947,222)</u>	<u>(3,290,469)</u>
	24,499,837	18,756,497
Commitments (note 7)		
	<u>\$ 35,079,024</u>	<u>\$ 21,584,316</u>

See accompanying notes to financial statements.

On behalf of the Board:

Signed "David Reid" _____ Director

Signed "Tony Angelidis" _____ Director

DELPHI ENERGY CORP.

(Formerly DT Energy Ltd.)

Statement of Operations and Retained Earnings (Deficit)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(unaudited)		(unaudited)	
Revenue:				
Petroleum and natural gas sales	\$ 3,103,661	\$ 454,425	\$ 5,652,578	\$ 839,693
Royalties, net of Alberta Royalty Tax Credit	(738,390)	(235,083)	(1,366,626)	(333,378)
Interest	27,381	7,683	41,531	24,785
	2,392,652	237,025	4,327,483	531,100
Production expenses:				
Operating costs	483,519	79,645	767,616	121,226
Operating netback	1,909,133	157,380	3,559,867	409,874
General and administrative expenses				
Salaries and benefits	142,096	163,714	222,101	285,880
Depletion and depreciation	17,246	179	28,440	3,318
	460,784	290,588	1,340,432	5,565,834
	620,126	454,481	1,590,973	5,855,032
Net income (loss) before taxes	1,289,007	(297,101)	1,968,894	(5,445,158)
Income taxes:				
Current	9,235	—	9,235	—
Future	522,093	(7,573)	616,410	(2,185,573)
	531,328	(7,573)	625,645	(2,185,573)
Net income (loss)	757,679	(289,528)	1,343,249	(3,259,585)
Deficit, beginning of period	(2,704,901)	(3,010,187)	(3,290,471)	(40,130)
Deficit, end of period	\$ (1,947,222)	\$ (3,299,715)	\$ (1,947,222)	\$ (3,299,715)
Net income (loss) per share:				
Basic and diluted	\$ 0.03	\$ (0.03)	\$ 0.06	\$ (0.35)

See accompanying notes to financial statements.

DELPHI ENERGY CORP.

(Formerly DT Energy Ltd.)

Statement of Cash Flows

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(unaudited)		(unaudited)	
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ 757,679	\$ (289,528)	\$ 1,343,249	\$ (3,259,585)
Items not involving cash:				
Future income taxes (reduction)	522,093	(7,573)	616,410	(2,185,573)
Depletion and depreciation	460,784	290,588	1,340,432	5,565,834
	1,740,556	(6,513)	3,300,091	120,676
Changes in non-cash working capital	1,874,779	(1,402,103)	2,015,209	(494,351)
	3,615,335	(1,408,616)	5,315,300	(373,675)
Financing:				
Bank loan	2,053,727	–	3,643,820	–
Issue of share capital	2,681,862	15	4,400,093	15
	4,735,589	15	8,043,913	15
Investing:				
Additions to capital assets	(8,350,924)	224,482	(14,954,316)	(6,335,125)
Increase (decrease) in cash	–	(1,184,119)	(1,595,103)	(6,708,785)
Cash, beginning of period	–	1,750,764	1,595,103	7,275,430
Cash, end of period	\$ –	\$ 566,645	\$ –	\$ 566,645

See accompanying notes to financial statements.

DELPHI ENERGY CORP.

(Formerly DT Energy Ltd.)
Notes to Financial Statements

Information as at June 30, 2003 and for the three and six months ended June 30, 2003 and 2002 is unaudited

General:

DT Energy Ltd. ("DT"), a private company engaged in oil and gas exploration and development, merged with Rise Energy Ltd. ("Rise"), a public company engaged in oil and gas exploration and development, effective June 19, 2003 and continued as Delphi Energy Corp. (the "Company"), a public company. Reference should be made to the Arrangement Agreement, dated March 18, 2003, and Amended Arrangement Agreement, dated April 30, 2003. Following completion of the arrangement, previous shareholders and special warrant holders of DT held approximately 87.5% of the common shares of the Company. Accordingly, the combination has been treated as a reverse take-over of Rise by DT. The historical accounts of DT are now those of the Company with Rise being accounted for as a purchase by the Company.

As part of the plan of arrangement, the shares of DT were consolidated and these financial statements reflect this consolidation. The cost of the purchase is based on the estimated fair value of Rise's net assets. The following table shows the actual cost of the purchase as at June 19, 2003. For comparative purposes, the estimated amounts at December 31, 2002 disclosed in the pro forma statements provided with the plan of arrangement are also shown.

	June 19, 2003 Actual	December 31, 2002 Pro Forma
Property and equipment	\$ 6,880,658	\$ 6,796,000
Working capital	(1,668,449)	(2,509,496)
Revolving production loan	(1,725,000)	(375,000)
Future site restoration costs	(236,999)	(170,968)
Future income taxes	(360,000)	(870,000)
	\$ 2,890,210	\$ 2,870,536
Purchase price:		
Share consideration	\$ 2,770,536	\$ 2,770,536
Estimated acquisition costs	119,674	100,000
	\$ 2,890,210	\$ 2,870,536

The increase in estimated costs was mainly related to professional fees.

The full effectiveness of Rise's quarterly results will be included in the three months ended September 30, 2003.

The Company's operations are affected by the seasons. Demand for oil and gas is generally higher in the winter and drilling operations are usually concentrated in the first and last quarters of the year.

1. Significant accounting policies:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

(a) Petroleum and natural gas operations:

The Company follows the full cost method of accounting whereby all costs associated with the acquisition of, 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 undeveloped properties, drilling both productive and unproductive wells, production equipment and overhead charges directly related to these activities. Proceeds received from disposal of petroleum and natural gas properties are credited to capitalized costs unless the rate of depletion and depreciation would be altered by more than 20 percent, in which case, a gain or loss on disposal is recorded.

All capitalized costs and future development costs on proved reserves, less the costs of undeveloped properties, are depleted and depreciated using the unit-of-production method based on total net proved reserves as determined annually by independent engineers and updated by management during interim periods. Depreciation is provided on furniture and fixtures and office equipment on a straight-line basis using a range of between two and five years.

Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These unproved 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 the impairment is added to costs subject to depletion.

At period end, capitalized costs, net of the provision for site restoration costs and future income taxes, are limited to the aggregate of estimated future net revenues from proved reserves, using period end prices and costs, net of estimated future site restoration, general and administrative, financing costs and income taxes, plus the unimpaired cost of undeveloped properties. Write-downs of petroleum and natural gas properties as a result of applying this cost recovery test are charged to earnings.

(b) Future site restoration costs:

A provision for estimated future site restoration costs for petroleum and natural gas properties is provided using the unit-of-production method. Costs are based on the Company's engineering estimates considering current regulations, costs, technology and industry standards. The provision is included in depletion and depreciation expense and actual site restoration costs are charged to the accumulated provision as incurred.

(c) Future income taxes:

The Company follows the tax liability method of accounting for income taxes. Under this method, estimated future income tax liabilities and assets are recognized based on the tax effects of differences between net costs of assets reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

(d) Per share amounts:

Per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts use the treasury-stock method. Under the treasury-stock method only "in the money" dilutive instruments affect the diluted calculations.

1. Significant accounting policies (continued):

(e) Flow-through securities:

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through securities arrangements are renounced to investors in accordance with tax legislation. The provision for future income taxes has been increased and share capital has been reduced to reflect the tax effect of the renounced tax deductions related to future expenditures to be made.

(f) Joint venture accounting:

A portion of the Company's exploration, development and production activities are conducted jointly with others and the financial statements reflect the Company's proportionate interest in such activities.

(g) Stock-based compensation:

The Company has a stock option plan as described in note 4.

The Company accounts for stock options granted to non-employees using the fair value based method. Under this method, compensation cost is measured at fair value at grant date and recognized over the vesting period. For stock options granted to directors, officers and employees, proceeds on issue of shares upon exercise of options is included in share capital.

2. Acquisition of interest in Fontas:

Effective December 17, 2002, the Company purchased an interest in oil and gas properties in the Fontas area of Alberta for \$7,520,000 cash. The cost was allocated as follows:

Petroleum and natural gas properties	\$	7,200,000
Production equipment		320,000
Total	\$	7,520,000

3. Capital assets:

June 30, 2003	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 33,425,086	\$ 7,190,507	\$ 26,234,579
Production equipment	7,142,426	495,750	6,646,676
Furniture, fixtures and office equipment	190,347	103,835	86,512
	\$ 40,757,859	\$ 7,790,092	\$ 32,967,767
December 31, 2002			
Petroleum and natural gas properties	\$ 21,424,211	\$ 6,222,552	\$ 15,201,659
Production equipment	4,015,752	154,932	3,860,820
Furniture, fixtures and office equipment	86,052	50,582	35,470
	\$ 25,526,015	\$ 6,428,066	\$ 19,097,949

3. Capital assets (Continued):

At June 30, 2003, petroleum and natural gas properties included approximately \$3 million (December 31, 2002 - \$670,000) relating to the cost of properties that have been excluded from the depletion and depreciation calculation.

During the three and six months ended June 30, 2003, the Company capitalized \$51,547 and \$103,095, respectively, of general and administrative costs directly related to exploration and development activities.

A ceiling test calculation as at March 31, 2002 indicated that the net book value of the Company's petroleum and natural gas properties exceeded the estimated future net revenues from proved reserves. The ceiling test is a cost recovery test and not intended to result in an estimate of fair market value. The prices used in the ceiling test were based on prices at March 31, 2002 being \$33.19 per barrel of crude oil and \$4.67 per mcf of natural gas. The Company recorded a ceiling test write-down of \$4,880,000 at March 31, 2002 which amount was included in depletion and depreciation.

4. Share capital:

(a) Authorized:

An unlimited number of voting common shares.

An unlimited number of preferred shares issuable in series.

(b) Issued:

Common shares/special warrants:

	Number of shares/ special warrants		Amount
Balance, December 31, 2001	9,244,560	\$	13,868,795
Issue of common shares	6,218,737		6,613,162
Issue of flow-through special warrants	2,768,623		3,257,203
Security issue costs (net of income tax effect of approximately \$233,350)	–		(320,926)
Tax effect of flow-through special warrants	–		(1,371,268)
Balance, December 31, 2002	18,231,920		
	22,046,966		
Issue of common shares for cash	1,836,000		1,800,000
Issue of common shares with respect to the reverse take-over of Rise Energy Ltd. (note 1)	2,861,714		2,770,536
Security issue costs	–		(170,443)
Balance, June 30, 2003	22,929,634	\$	26,447,059

(c) Stock options:

The Corporation has a stock option plan under which it has granted options to acquire common shares to certain officers, directors and employees. Under the terms of the plan, an amount equivalent to ten percent of the common shares outstanding from time to time can be reserved for issuance. The following table summarizes the change in the outstanding options during the six months ended June 30, 2003:

	Number of Share		Weighted average exercise price
Outstanding, beginning of period	–	\$	–
Granted	850,500		1.61
Outstanding, end of period	850,500	\$	1.61
Exercisable at period end	283,500	\$	1.61

4. Share capital (continued):

The options may be exercised over three years in equal amounts from the date of grant and expire from time to time to January 1, 2008. The weighted average remaining life of the options is 5.0 years.

Stock based compensation:

Had compensation cost for stock options granted to employees been determined based on a fair value method, the Company's 2003 net earnings would decline by approximately \$68,000 for the three months ended June 30, 2003 and by \$87,000 for the six months ended June 30, 2003.

The fair value of each option granted is estimated on the date of grant using the Black and Scholes option-pricing model with the following weighted average assumptions used for grants in 2003: zero dividend yield; expected volatility of 50%; risk-free rates of 3.5%; and expected life of five years.

5. Income taxes:

The provision for income taxes in the financial statements differs from the result that would have been obtained by applying the combined federal and provincial tax rates to the Company's net earnings before income taxes. The difference results from the following items for the six months ended June 30, 2003:

Earnings before income taxes	\$	1,968,894
Statutory tax rate		40.62%
Expected income tax expense (recovery)		799,765
Crown royalties		472,700
Resource allowance		(396,431)
ARTC		(192,191)
Other		(67,433)
	\$	616,410

The components of the net future income tax liability are as follows at June 30, 2003:

Future income tax assets:		
Future site restoration	\$	138,164
Security issue costs		452,050
Non capital losses		355,971
Other		61,226
Future income tax liabilities:		
Capital assets		(3,018,134)
Net future income tax liability	\$	(2,010,723)

6. Weighted average number of shares:

The weighted average number of common shares issued and outstanding used in calculating earnings per share for the periods ended June 30, 2003 and 2002, after giving effect to the reverse take-over of Rise (note 1) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(unaudited)		(unaudited)	
Basic	22,929,635	9,244,560	22,929,635	9,244,560
Diluted	23,335,080	9,244,560	23,194,340	9,244,560

7. Commitments:

As at June 30, 2003, the Company had commitments related to flow-through special warrants to spend approximately \$1.6 million towards qualifying exploration expenditures in 2003 and office lease payments of \$21,870 for the year 2003.

Subsequent to June 30, 2003, the office lease was terminated. New premises were leased for five years at an annual cost of approximately \$180,000.

8. Financial instruments:

The Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risk.

The carrying amount of financial assets and liabilities approximates their fair value because of the near-term maturity of those instruments.

The Company has gas hedging contracts involving 1,500 GJ per day to October 2003 and 1,000 GJ per day from November 2003 to March 2004 at prices ranging from \$5.50 to \$7.00 per GJ. Oil hedging contracts are for 120 bbls per day at \$19.50 per bbl to September 2003.

9. Bank loan:

At June 30, 2003, the Company had a bank credit facility of \$8 million (of which \$3,375,000 had been drawn at June 30, 2003) with a Canadian chartered bank, secured by a debenture with a floating charge over all assets. The facility is repayable on demand, and bears interest at bank prime rate plus 0.5%.

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