

SCHEDULE 'C'**(For the Nine Months ended September 30, 2003)****MANAGEMENT DISCUSSION AND ANALYSIS****Summary of Q3 2003 Operating Results**

	Q3 2003	Q3 2002
Petroleum and natural gas revenue	\$265,408	\$131,745
Net income (loss)	\$(98,829)	\$(86,749)
Net income (loss) per common share	\$(0.02)	\$(0.01)
Natural gas selling price (CDN\$/GJ)	\$5.96	\$3.08
Production (BOE/d)	97	97

Result of Operations

Petroleum and natural gas sales were \$265,408 for the third quarter of 2003 compared to \$131,745 during the comparable period of 2002. The average daily production was 97 BOE/day for the quarter (97 BOE/day in the 2002 period) with an average price of CDN\$5.96/GJ (\$3.08 in 2002). Production per day increased during the quarter over the previous three months as several wells in the newly acquired South Texas properties were brought on line.

Operating costs for the third quarter were \$63,069 (\$30,995 in 2002). Operating costs increased as a result of several workovers completed during the quarter on the Texas and Edson wells.

General and Administrative expenditures for the quarter were \$208,283 and a total of \$544,629 for the first nine months of 2003. This compares to \$154,035 and 485,084 for the respective periods in 2002. These increases are a result of increased activities of the Company in development of the Lateral Drainhole Drilling Tool in addition to increased activity of the E & P business unit in preparation for the Company's flow-through share offering.

Bank indebtedness at September 30 was \$92,500. This compares to \$412,500 at September 30, 2002. This decrease reflects the Company's position of minimizing risk by reducing debt as it executes its long term growth strategy.

Depletion, depreciation and site restoration provision was \$20,863 for the third quarter and total of \$76,168 for the first nine months of 2003. This compares to \$16,163 and \$26,504 for the respective periods in 2002. This provision has increased due to the number of wells purchased as part of the Texas properties acquisition.

Q3 2003 Highlights

For the three months ending September 30, 2003 the highlights are as follows:

- Assembled Downhole tool design team to fast-track current development efforts.
- Received approval for Private Placement financing of up to 1,250,000 units at a price of \$0.30 per unit for aggregate consideration of \$375,000. Each unit consisting of one common share and one share purchase warrant exercisable at \$0.40 for up to two years.
- Engaged Union Securities Ltd. as agent to assist the Company to raise between \$1,000,000 - \$2,000,000 through issuance of flow-through share offering at \$0.35/share.

Research and Development efforts continue to increase as we strive to commercialize our down-hole tool set.

Our E&P efforts will continue to focus on the low-risk, solid-return fundamentals that shape our business model. With the anticipated development funding in place by year-end, we expect greater production growth by the 1st quarter of 2004.

On behalf of the Board of Directors

Shelby D. Beattie
President