crew

2003 ANNUAL REPORT

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Corporate Profile

Crew Energy Inc. is a new growth-oriented junior oil and natural gas producer formed out of the reorganization of Baytex Energy Ltd. Crew's activities are concentrated in central Alberta and northeast British Columbia and focus on the development and expansion of its core natural gas and light oil producing areas and exploration of its large, undeveloped land base. Crew's experienced management team is committed to the pursuit of sustainable per share growth through a balanced mix of financially responsible exploration and development, complemented by strategic acquisitions.

Annual Meeting

The Annual Meeting of Shareholders of Crew Energy Inc. will be held at 3:00 p.m. on May 25, 2004 at the Sheraton Suites, Calgary Eau Claire, Calgary, Alberta. Shareholders are encouraged to attend and, if unable to do so, to sign and return the Form of Proxy at their earliest convenience.

crew: people working together, a team.

Highlights

	September 2, 2003 to December 31, 2003[1]
Financial ($ thousands, except share amounts)	
Petroleum and natural gas sales	7,354
Cash flow from operations[2]	4,612
Per share – basic	0.20
– diluted	0.18
Net income	1,565
Per share – basic	0.07
– diluted	0.06
Exploration and development expenditures	6,689
Working capital	3,940
Weighted average shares (thousands)	
Basic	22,981
Diluted	25,734
Operating	
Daily production	
Light oil and ngls (bbl/d)	454
Natural gas (mcf/d)	8,197
Oil equivalent (boe/d @ 6:1)	1,820
Average prices	
WTI oil (US$/bbl)	30.47
Edmonton par oil ($/bbl)	39.33
Crew light oil and ngls ($/bbl)	32.41
Crew natural gas ($/mcf)	5.62
Crew oil equivalent ($/boe)	33.39
Operating expenses	
Light oil and ngls ($/bbl)	3.39
Natural gas ($/mcf)	0.85
Oil equivalent ($/boe @ 6:1)	4.68
G&A expenses ($/boe)	1.14
Total cash costs ($/boe)	5.90
Cash flow netback ($/boe)	20.93

1 The financial information in this report comprises only the operating results for Crew for the period from commencement of operations on September 2, 2003 to December 31, 2003 with no comparative information.

2 Cash flow from operations is used before changes in non-cash working capital to analyze operating performance and leverage. Cash flow does not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations with similar measures for other companies.

experienced management: with a long history of working together, Crew's management has a proven track record of success.

Message to Shareholders

Crew was formed on September 2, 2003 as part of the Plan of Arrangement entered into by Baytex Energy Ltd. ("Baytex") under which certain producing properties and exploratory assets of Baytex were transferred to Crew. The remaining assets were reorganized into an income trust (Baytex Energy Trust). The assets transferred to Crew included primarily natural gas and light oil producing properties, combined with over 227,000 net acres of undeveloped land. These assets have formed the foundation for a growth-oriented junior oil and gas company with an emphasis on exploration and development.

Crew's Board of Directors, management and staff were assembled from existing Baytex staff to include individuals that have the skills and experience suited to successfully build an exploration company. The management team has over 100 years of combined oil and gas industry experience and have spent the majority of the last 10 years working together at Baytex. Crew's Board, management and staff have demonstrated their commitment to the Company's future success, owning 34 percent of the fully diluted shares of Crew.

Crew's business plan emphasizes internally generated growth through exploration and exploitation of its two core areas: the North Core in northeastern British Columbia and northwestern Alberta and the Plains Core in central Alberta. Within these core areas, Crew has four major producing properties, which is where the Company is currently focusing its capital investments. The distribution of capital expenditures among four different play types should avoid the potential of over capitalization of one property, allowing the Company to mitigate some business and exploration risk while ensuring maximum return on the capital invested in all areas.

Crew's business plan also emphasizes financial strength. The Company believes that a highly leveraged balance sheet limits future opportunities, especially when weak commodity prices provide opportunities to acquire assets at depressed values. In order to maintain financial strength, the Company has targeted a debt to one-year forward cash flow ratio of less than one. As a result, as prices fall or buying opportunities arise, Crew will be in a position to take advantage of these opportunities.

Crew's strategy has been validated to date with the successes achieved through the first four months of operations. Production has grown 25 percent from an average of 1,529 barrels of oil equivalent per day in September to average 1,911 barrels of oil equivalent per day for the quarter ended December 31, 2003 and is expected to average approximately 2,400 barrels of oil equivalent per day in March 2004. The Company drilled 10 (6.6 net) wells during the period, resulting in four (2.2 net) oil wells, four (3.5 net) natural gas wells and two (0.9) dry and abandoned wells for a success rate of 80 percent (86 percent net). This drilling resulted in an increase in the Company's proved reserves of 31 percent and proved plus probable reserves of 50 percent. Top decile capital spending efficiency resulted in finding and development costs of $8.79 per barrel of oil equivalent for proved reserves and $5.78 for proved plus probable reserves and the replacement of 416 percent of production for proved reserves and 661 percent of production for proved plus probable reserves.

Additionally, Crew remained financially strong at December 31, 2003, exiting the year with no debt, an undrawn $12 million credit facility and working capital of $3.9 million. Cash flow from operations for the four months was $4.6 million, or $0.20 per basic share, and earnings totalled $1.6 million, or $0.07 per share, for an earnings to cash flow ratio of 35 percent. These amounts exceeded the Company's expectations as production levels were above budgeted targets and commodity prices were stronger than projected. Crew's netback for the four months, calculated as revenue less royalties and operating costs, divided by production, was $21.98, resulting in a proven plus probable reserve recycle ratio of 3.8x. Capital spending for the four months was $6.7 million, representing only 83 percent of the Company's originally budgeted capital expenditures for the period.

Crew is heading into 2004 very confident of the success that lies ahead. The Company's large undeveloped land base has presented a number of new exploration opportunities outside of its main producing areas. In addition to Crew's plans to further develop its four main producing areas in 2004, the drilling of at least four of these high-impact exploration opportunities will expose the Company to the potential for significant natural gas production growth in excess of budget projections.

The Company's plans for 2004 also include the evaluation of coal bed methane ("CBM") opportunities on Crew lands. There has been a dramatic increase in activity on a number of CBM projects in close proximity to Crew's landholdings in central Alberta. Of particular interest is a large CBM project targeting Horseshoe Canyon coals on the southern border of the Company's lands at Wimborne and Drumheller. Crew has over 50 net sections of land, operates two gas processing facilities and has an extensive pipeline infrastructure in this area. The Company plans to drill or recomplete three wells in the summer of 2004 to evaluate the CBM potential on its lands at Wimborne and Drumheller.

Crew is currently forecasting a total capital budget of $25.5 million for 2004 and is projecting first quarter spending between $12 and $13 million. Crew's production estimate for 2004 is an average of 2,200 barrels of oil equivalent per day with a planned exit rate of 3,000 barrels of oil equivalent per day. March production is expected to average approximately 2,400 barrels of oil equivalent per day, with additional production of 500 to 700 barrels of oil equivalent per day awaiting tie-in and facility construction.

The Company's results to date highlight the significant potential that exists within Crew's asset base. Management, staff and the Board of Directors of Crew look forward to capitalizing on this potential, and providing shareholders with superior returns through consistent quarter-over-quarter per share growth in production, cash flow and reserves.

On Behalf of the Board of Directors,

[signed]

Dale O. Shwed
President and Chief Executive Officer

March 26, 2004

large prospective land base: Crew held 232,000 net acres of undeveloped land with an average working interest of 81 percent at December 31, 2003.

Operations

Property Review

Overview

Crew's operations are divided into two core areas, the "North Core" which includes northeastern British Columbia and northwestern Alberta and the "Plains Core" in central Alberta. These core areas include four main operating areas: Laprise, in British Columbia, and Ferrier, Edson and Viking-Kinsella in Alberta. Crew's 2003 operations focused on the exploration and development of these main operating areas, as they represent the majority of the Company's existing production base.

The Company's main operating areas will continue to be the primary focus in 2004. Current plans include the drilling of over 20 exploration and development wells in these areas throughout the year.

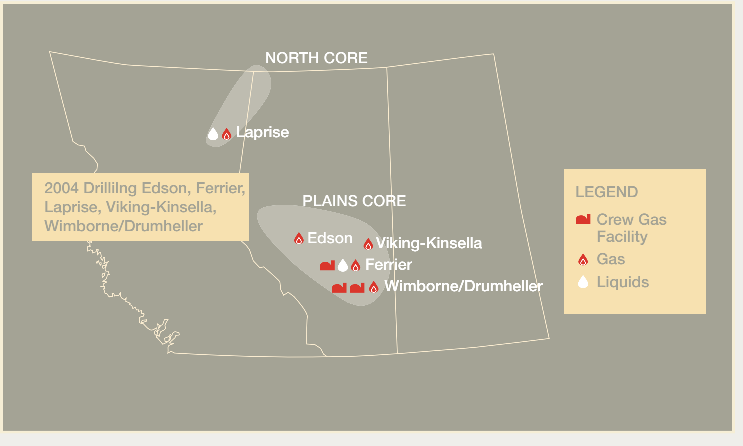
In 2004, Crew also plans to drill up to four high-impact exploration plays on undeveloped lands outside its main areas. These wells will expose Crew to high-impact gas opportunities that have the potential to significantly increase the Company's natural gas reserves and production.

Laprise, British Columbia

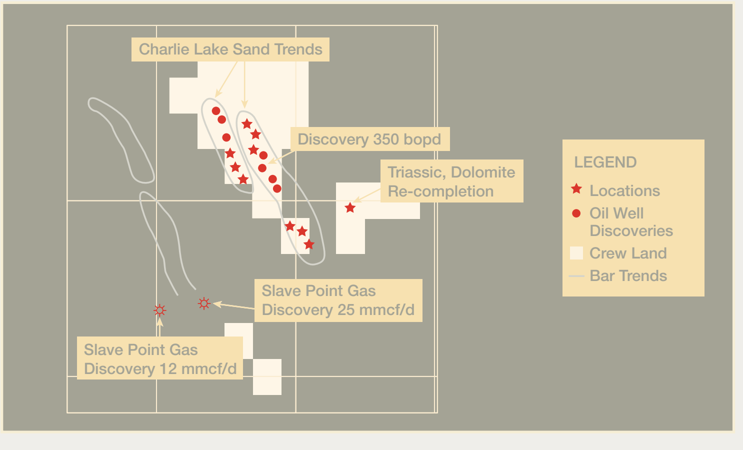
Laprise is located in Crew's North Core in northeastern British Columbia, approximately 150 kilometres northwest of Fort St. John. The Company's prime focus at Laprise is the development of two Charlie Lake sandstone light oil reservoirs that were discovered in 2003. To date, the Company and an industry partner have drilled seven successful oil wells into these reservoirs, which have been interpreted to be ideal candidates for enhanced recoveries using waterflood. Analogous reservoirs in the area have responded to waterflood by having recoverable reserves increased from less than 15 percent on primary recovery to over 40 percent on secondary recovery.

In 2003, Crew drilled six (3.1 net) wells in this area resulting in four (2.2 net) oil wells and two (0.9 net) dry and abandoned wells. Successful wells have initially produced at rates ranging from 300 to 600 barrels of oil equivalent per day. Wells are generally produced at these rates until 8,800 barrels of oil are produced, after which production rates are restricted by government regulations to a maximum of 63 barrels of oil per day until an enhanced recovery scheme is implemented. Crew plans to drill one to two additional development wells in this area to further delineate these two oil pools.

2003 operations: Crew focused on the exploration and development of these main operating areas, as they represented the majority of the Company's existing production base.



Core Areas



Laprise, British Columbia

Production – (Q4 –2003)

250 boe/d

Undeveloped Land (12/31/03)

11,698 net acres

66% average working interest

Development of this project has reached the stage where Crew and its partner are completing applications to the applicable regulatory authorities seeking approval for the waterflood project. When the project is approved, construction will begin on the required facilities, with completion currently planned for the fourth quarter of 2004. Upon completion of the waterflood project, production will be permitted at full rates, with the potential to increase Crew's production by approximately 400 to 600 barrels of oil equivalent per day.

Other activities at Laprise include the planned re-completion of one (1.0 net) well in a Triassic dolomitic zone to test for natural gas potential. Analogous wells in the region produce over 1.0 million cubic feet per day of natural gas with reserves of one to two billion cubic feet. In addition, Crew plans to evaluate its lands at Laprise for Slave Point gas potential. Slave Point wells in this area have had initial production rates exceeding 25 million cubic feet per day of natural gas.

Ferrier, Alberta

Ferrier is in the Company's Plains Core, located in central Alberta, approximately 80 kilometres west of Red Deer. In 2003, Crew's production from this area came from four (1.0 net) wells in the Ferrier F Pool. These wells produce liquids-rich, high heat content natural gas from an Ellerslie channel sandstone.

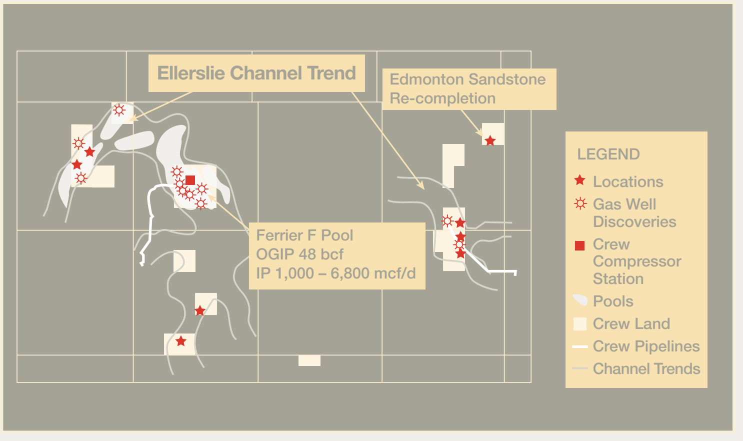
Crew also owns two (1.7 net) cased Rock Creek natural gas wells at Ferrier. In the first quarter of 2004, Crew tied in one of these wells and installed a 400 bhp compressor to enhance the Company's production capacity from the area. The second well is in the process of being tied in and is expected to be on production in the second quarter, with initial production rates from these wells anticipated to be 200 to 300 barrels of oil equivalent per day.

The Company's plans at Ferrier include the drilling of one (1.0 net) well targeting natural gas and natural gas liquids from an Ellerslie channel sandstone. In addition, one (1.0 net) re-completion is planned to test for natural gas in the Edmonton sandstone formation.

Edson, Alberta

At Edson, in west-central Alberta, 160 kilometres west of Edmonton, Crew owned two (2.0 net) producing natural gas wells at year-end. Production from these wells is characterized by high heat content natural gas with associated natural gas liquids.

In the first quarter of 2004, two (2.0 net) additional wells were drilled at Edson. One well was cased and completed, testing gas at over two million cubic feet per day. The second well is being cased and is scheduled for completion after spring break-up. The Company has started construction of a 2.6-kilometre pipeline to tie in one of these natural gas discoveries. An 810 bhp compressor is scheduled for installation in the second quarter of 2004 in order to increase the production capabilities of the currently producing wells and to allow for added operational flexibility for new discoveries. Crew plans to drill a minimum of three (3.0 net) additional wells in the Edson area during the remainder of 2004.



Ferrier, Alberta

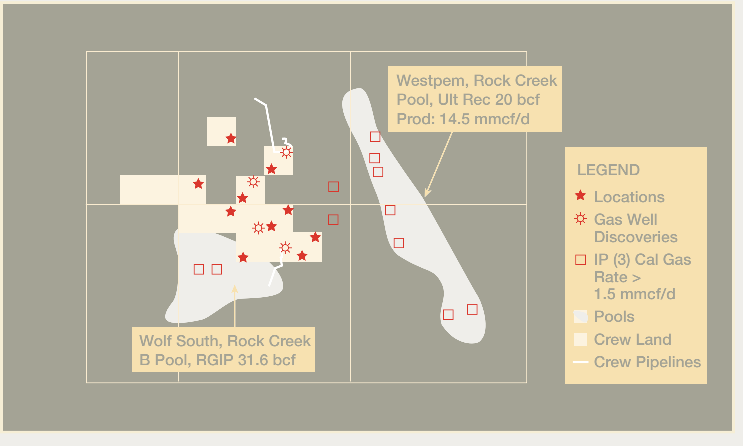
Production – (Q4 –2003)

443 boe/d

Undeveloped Land (12/31/03)

9,900 net acres

69% average working interest



Edson, Alberta

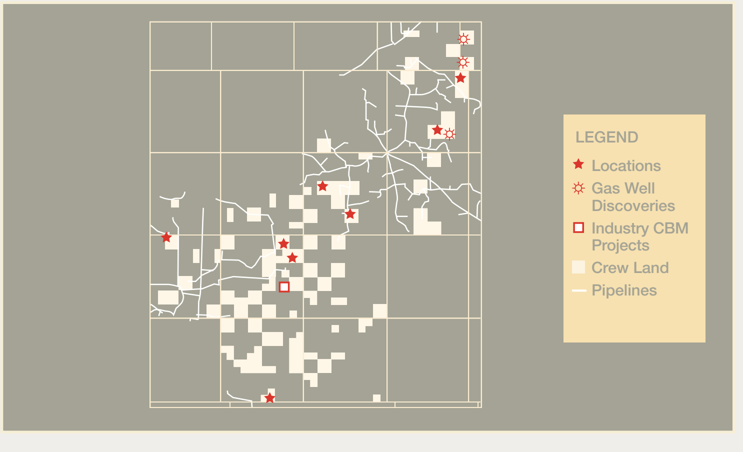
Production – (Q4 –2003)

199 boe/d

Undeveloped Land (12/31/03)

9,500 net acres

100% average working interest



Viking-Kinsella, Alberta

Production – (Q4 –2003)

704 boe/d (including Plain Lk.)

Undeveloped Land (12/31/03)

45,851 net acres

93% average working interest

Viking-Kinsella, Alberta

Viking-Kinsella, located in east-central Alberta approximately 120 kilometres southeast of Edmonton, is Crew's largest producing area. Production from the area is mainly natural gas from a variety of Cretaceous sandstone reservoirs.

During the fourth quarter of 2003, Crew drilled four (3.5 net) natural gas wells in this area. The tie-in of three (3.0 net) of these wells has been delayed until after spring break-up due to the high cost of completing the work during the peak winter drilling season. Once the three wells are tied in, it is anticipated they will add incremental natural gas production of 400 to 500 thousand cubic feet per day. These wells have been followed-up by the first quarter 2004 drilling of three (3.0 net) successful multi-zone natural gas wells. The Company plans to drill five (5.0 net) additional wells in this area before the end of 2004.

There has also been a dramatic increase in activity on a number of coal bed methane (CBM) projects in close proximity to Crew's landholdings in central Alberta. Of particular interest is a large CBM project targeting Horseshoe Canyon coals that has been developed on the southern border of the Company's lands at Wimborne and Drumheller. Crew has over 50 net sections of land, operates two gas-processing facilities and has an extensive pipeline infrastructure in this area. The Company plans to drill or re-complete three wells in the summer of 2004 to evaluate the CBM potential on its lands at Wimborne and Drumheller. Further development for 2005 will be assessed after the initial test wells are fully evaluated throughout the remainder of 2004.

Operations Review

Land

In conjunction with the Plan of Arrangement, Crew received 227,000 net undeveloped acres of prospective land in Alberta and British Columbia from Baytex. At December 31, 2003, the Company's undeveloped land base had grown to over 232,000 net undeveloped acres, with less than 17 percent expiring in 2004. This large inventory of prospective land is one of the largest among similar-sized junior oil and gas companies and provides Crew with the base upon which to grow through organic prospect generation.

Landholdings

	Developed		Undeveloped		Total	
(thousands of acres)	Gross	Net	Gross	Net	Gross	Net
Alberta	98.2	39.0	268.5	220.6	366.7	259.6
British Columbia	0.9	0.5	17.8	11.7	18.7	12.2
	99.1	39.5	286.3	232.3	385.4	271.8

Drilling Activity

Crew's drilling activity from commencement of operations on September 2, 2003 to December 31, 2003 was focused on the development of its light oil area at Laprise and natural gas exploitation drilling at Viking-Kinsella. A summary of the Company's drilling activity during the period is outlined below:

	Exploratory		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Crude oil	–	–	4	2.2	4	2.2
Natural gas	1	1.0	3	2.5	4	3.5
Dry and abandoned	–	–	2	0.9	2	0.9
Total	1	1.0	9	5.6	10	6.6

Marketable Reserves

Crew's marketable reserves have been evaluated as at December 31, 2003 by Gilbert Laustsen Jung Associates Ltd. ("GLJ") using the GLJ (2004-01) price forecast and the rules provided by National Instrument 51-101 ("NI 51-101"). The results are summarized in the tables below:

	Proved producing	Proved developed non-producing	Total proved	Total probable	Total proved plus probable
Light/Medium Oil (mstb)					
Company interest[1]	267	39	306	60	367
Gross interest[2]	267	39	306	60	367
Net interest[3]	233	36	269	53	321
Gas (mmcf)					
Company interest[1]	10,705	2,701	13,406	3,913	17,319
Gross interest[2]	10,449	2,701	13,150	3,866	17,016
Net interest[3]	8,574	2,108	10,682	3,179	13,861
Natural Gas Liquids (mstb)					
Company interest[1]	313	79	391	72	463
Gross interest[2]	301	79	380	69	449
Net interest[3]	228	55	283	52	334
Oil Equivalent[4] (mboe)					
Company interest[1]	2,364	568	2,932	784	3,716
Gross interest[2]	2,310	568	2,878	774	3,652
Net interest[3]	1,890	441	2,331	624	2,966

1 Company interest reserves refer to the sum of royalty interest (including lessor royalty and overriding royalty volumes derived only from other working interest owners) and working interest reserves before deduction of royalty burdens payable. This definition is consistent with the basis on which reserves were reported in prior years, but is not mandated disclosure under NI 51-101. However, such information is included to assist the reader in comparing historical results to the current results during the period of transition from historical reporting requirements and practices and the new reporting regime under NI 51-101.

2 Gross reserves includes the Company's interest (operating and non-operating) share in reserves before deduction of royalty obligations and without including any royalty interest.

3 Net reserves equates to the Company's interest (operating and non-operating) share in reserves after deduction of royalty obligations, plus the Company's royalty interest in reserves.

4 Boe may be misleading, particularly if used in isolation. A conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Reserve Reconciliation

The following reconciliations of the Company's reserves for the period from September 2, 2003 to December 31, 2003 compares changes in the Company's reserves as at September 1, 2003, as evaluated following National Policy 2B ("NP-2B") definitions, to the reserves as at December 31, 2003, as evaluated following NI 51-101 definitions. Under NP-2B, Crew's probable reserves were adjusted by a factor of 50 percent to account for the risk associated with their recovery and reported combined with proved reserves as "established" reserves. Under NI 51-101, proved plus probable reserves are defined to have an aggregate 50 percent certainty of recoverability. Although not precisely comparable, proved plus probable reserves under NI 51-101 have been reconciled to established reserves as at September 1, 2003.

Net after Royalty

	Proved producing	Total proved	Total proved plus probable
	(mmboe)	(mmboe)	(mmboe)
Balance September 1, 2003	1.18	1.76	1.95
Exploration discoveries	0.24	0.39	0.64
Drilling extensions	0.06	0.12	0.14
Improved recoveries	0.26	0.00	0.01
New evaluation standards	0.01	0.00	0.00
Technical revisions	0.31	0.24	0.39
Production	(0.18)	(0.18)	(0.18)
Balance December 31, 2003	1.89	2.33	2.97

The following reconciliation of Company interest reserves is consistent with the basis on which reserve reconciliations were reported in prior years, but is not mandated disclosure under NI 51-101. However, such information is included to assist the reader in comparing historical results with the current results during the period of transition from historical reporting requirements and practices and the new reporting regime under NI 51-101.

Company Interest

	Proved producing	Total proved	Total proved plus probable
	(mmboe)	(mmboe)	(mmboe)
Balance September 1, 2003	1.51	2.24	2.48
Exploration discoveries	0.29	0.47	0.77
Drilling extensions	0.07	0.13	0.16
Improved recoveries	0.33	0.00	0.01
New evaluation standards	0.01	0.00	0.00
Technical revisions	0.38	0.31	0.51
Production	(0.22)	(0.22)	(0.22)
Balance December 31, 2003	2.36	2.93	3.72

Additional Reserve Information

For additional information regarding the Company's marketable reserves, reserve reconciliations and other oil and gas disclosures mandated by NI 51-101, reference is made to the Annual Information Form of Crew, which will be filed on SEDAR (www.sedar.com) after the date of mailing of this Annual Report to shareholders.

Reserve Net Present Value

The net present value of future net revenues associated with Crew's reserves as at December 31, 2003 is outlined below:

			Before tax			After tax
(thousands)	0%	10%	15%	0%	10%	15%
Proved developed						
Producing	$ 40,514	$ 30,705	$ 27,677	$ 34,674	$ 25,575	$22,826
Non-producing	7,997	6,125	5,517	5,004	3,515	3,060
Total proved	48,511	36,829	33,194	39,678	29,090	25,886
Probable	12,488	6,392	5,030	8,715	4,125	3,151
Total proved and probable	$ 60,999	$ 43,221	$ 38,224	$ 48,393	$ 33,215	$ 29,037

The net present value of cash flows indicated above are based on the following GLJ (2004-01) price forecast as of December 31, 2003:

Year	WTI @ Cushing	Edmonton light crude oil	Natural gas at AECO-C spot
	(US$/bbl)	(C$/bbl)	(C$/mmbtu)
2004	29.00	37.75	5.85
2005	26.00	33.75	5.15
2006	25.00	32.50	5.00
2007	25.00	32.50	5.00
2008	25.00	32.50	5.00
2009	25.00	32.50	5.00
2010	25.00	32.50	5.00
2011	25.00	32.50	5.00
2012	25.00	32.50	5.00
2013	25.00	32.50	5.00
2014	25.00	32.50	5.00
Thereafter	+1.5%/yr.	+1.5%/yr.	+1.5%/yr.

Capital Program Efficiency

The efficiency of the Company's capital program for the period from September 2, 2003 to December 31, 2003 is summarized below:

	Proved	Proved plus probable
Exploration and development costs (thousands)	$ 6,689	$ 6,689
Change in future development capital (thousands)	1,363	1,714
Total costs[1] (thousands)	$ 8,052	$ 8,403
Reserve additions incl. revisions[2] (mboe)	916	1,454
Finding and development costs ($/boe)	$ 8.79	$ 5.78
Operating netback ($/boe)	$ 21.98	$ 21.98
Finding and development costs ($/boe)	$ 8.79	$ 5.78
Recycle ratio	2.5x	3.8x
Reserve addition incl. revisions[2] (mboe)	916	1,454
Production Sept. 2 to Dec. 31 (mboe)	220	220
Reserve replacement ratio	4.16x	6.61x

1 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.

2 Net reserve additions used for the calculation of the Company's capital program efficiency are from the reconciliation of Crew's company interest reserves.

disciplined philosophy: with a strong emphasis on cost controls, Crew is targeting per share growth in production, cash flow and reserves.

Management's Discussion and Analysis

Management's Discussion and Analysis is the Company's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Company's financial position. It should be read in conjunction with the consolidated financial statements and notes thereto. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil.

Crew evaluates performance based on net income and cash flow from operations. Cash flow from operations is a measure that is not based on GAAP and is commonly used in the oil and gas industry. It represents cash generated from operating activities before changes in non-cash working capital. The Company considers it a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt.

Certain of the statements set forth under "Management's Discussion and Analysis" and elsewhere in this Annual Report, including statements which may contain words such as "could," "expect," "believe," "will" and similar expressions and statements relating to matters that are not historical facts, are forward-looking and are based upon the Company's current belief as to the outcome and timing of such future events. There are numerous risks and uncertainties that can affect the outcome and timing of such events, including many factors beyond the control of the Company. These factors include, but are not limited to, the matters described under the heading "Risk and Risk Management." Should one or more of these events occur, or should any of the underlying assumptions prove incorrect, the Company's actual results and plans for 2004 and beyond could differ materially from those expressed in the forward-looking statements. The Company does not undertake to update, revise or correct any of the forward-looking information. Such forward-looking statements should be read in conjunction with the Company's disclosures under the heading "Advisory" on the inside back cover.

Commencement of Operations

Crew Energy Inc. ("Crew") commenced operations on September 2, 2003 when certain assets of Baytex Energy Ltd. ("Baytex") were transferred to Crew under a Plan of Arrangement. The Plan of Arrangement resulted in the shareholders of Baytex becoming unitholders of Baytex Energy Trust and shareholders of Crew. For additional information regarding the Plan of Arrangement see note 2 to the consolidated financial statements on page 33 of this report. The financial information in this report comprises only the operating results for Crew for the period from September 2, 2003 to December 31, 2003, with no comparative information.

Sales Volumes

Sales volumes for 2003 averaged 1,820 barrels of oil equivalent per day, and consisted of 8.2 million cubic feet per day of natural gas and 454 barrels per day of liquids. Sales volumes increased throughout the period, averaging 1,529 barrels of oil equivalent per day in September, and increasing to 2,074 barrels of oil equivalent per day in December 2003. Natural gas volumes averaged 8.8 million cubic feet per day in December, an increase of 24 percent compared to September, as a result of production adds at Edson and Viking-Kinsella. Light oil and natural gas liquids volumes increased 71 percent to average 599 barrels per day in December, compared to 350 barrels per day in September, due to increased production from Laprise, British Columbia.

Operating Netbacks

Revenues for the period ended December 31, 2003 totalled $7.4 million, comprised of $5.6 million in natural gas sales and $1.8 million in oil and natural gas liquids sales. Royalties for the period were $1.5 million, or 20 percent of revenues, and operating costs totalled $1.0 million, or $4.68 per barrel of oil equivalent.

Netbacks Per Unit

Period ended December 31, 2003	Light oil and ngls	Natural gas	Total
	($/bbl)	($/mcf)	($/boe)
Revenue	32.41	5.62	33.39
Royalties	(7.23)	(1.09)	(6.73)
	25.18	4.53	26.66
Operating costs	(3.39)	(0.85)	(4.68)
Operating netbacks	21.79	3.68	21.98

General and Administrative

General and administrative expenses for the period from September 2 to December 31, 2003 totalled $250,000, or $1.14 per barrel of oil equivalent. The Company follows the full-cost method of accounting for its petroleum and natural gas operations under which $250,000 of overhead expenses were capitalized for the period.

Stock-based Compensation

The Company accounts for its stock-based compensation programs, including the performance shares and stock options, using the fair-value method. Under this method, a portion of the compensation expense related to these programs is recorded in the consolidated statement of operations over the vesting period and a portion of the expense is capitalized to the Company's full-cost pool over the vesting period. For the period from September 2, 2003 to December 31, 2003, a stock-based compensation expense of $73,000 was recorded, or $0.33 per barrel of oil equivalent, and $73,000 was capitalized to the Company's full-cost pool.

Depletion, Depreciation and Accretion

The provision for depletion, depreciation and accretion for the period from September 2, 2003 to December 31, 2003 was $1.75 million, or $7.96 per barrel of oil equivalent, including $213,000, or $0.97 per barrel of oil equivalent, of depletion and $72,000, or $0.33 per barrel of oil equivalent, of accretion associated with the Company's asset retirement obligation.

The Company has early adopted new recommendations regarding the accounting for asset retirement obligations. As a result, the Company has estimated the fair value of the asset retirement obligation associated with all of its petroleum and natural gas assets with a determinable economic life. The discounted fair value of the obligation is capitalized as part of the cost of the related asset and amortized to expense over the asset's economic life. The associated liability is accreted at the end of each period to reflect the passage of time and changes in the estimated cash flow underlying the initial fair value measurement.

Income Taxes

Current tax expense includes an estimate of the Company's Large Corporation Tax for the period. A summary of the Company's estimated tax pools at December 31, 2003 is outlined below:

(thousands)	As at December 31, 2003
Cumulative Canadian Exploration Expense	$ 249
Cumulative Canadian Development Expense	6,632
Cumulative Canadian Oil and Gas Property Expense	17,760
Undepreciated Capital Cost	6,137
Non-capital loss	1,452
	$ 32,230

Capital Expenditures

Total exploration and development expenditures for the period from September 2, 2003 to December 31, 2003 were $6.7 million. The expenditure breakdown is detailed below:

(thousands)	September 2 to December 31, 2003
Land	$ 496
Seismic	11
Drilling and re-completions	4,204
Equipment	1,538
Other	440
	$ 6,689

Liquidity and Capital Resources

At December 31, 2003, the Company had a net working capital surplus of $3.9 million, including cash and short-term investments on hand of $7.7 million. Additional capital to fund the 2004 capital expenditure program will be provided by an existing $12 million demand loan facility provided by a Canadian chartered bank and future cash flow from the Company's ongoing oil and gas operations.

As at March 11, 2004, 22,980,696 Common Shares and 1,881,000 Class C performance shares of the Company were outstanding, along with 157,500 options and 3,635,000 warrants to acquire Common Shares of the Company.

Contractual Obligations

Payments due (thousands)	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Operating leases	$ 283	$ 226	$ 57	$ –	$ –
Firm transportation agreements	235	164	71	–	–
Exploration and development commitments	935	935	–	–	–
	$ 1,453	$ 1,325	$ 128	$ –	$ –

Risk and Risk Management

The exploration for and the development, production and marketing of petroleum and natural gas involves a wide range of business and financial risks, some of which are beyond the Company's control. Included in these risks are the uncertainty of finding new economically recoverable reserves, the fluctuation of commodity prices, the volatile nature of interest and foreign exchange rates, and the possibility of changes to royalty, tax and environmental regulations. The petroleum industry is highly competitive and Crew competes with a number of other companies, many of which have greater financial and personnel resources.

The business risks facing Crew are mitigated in a number of ways. Geological, geophysical, engineering, environmental and financial analyses are performed on new exploration prospects, development projects and potential acquisitions to ensure a balance between risk and reward. Crew's ability to increase its production, revenues and cash flow depends on its success in not only developing its existing properties, but also in acquiring, exploring for and developing new reserves and production and managing those assets in an efficient manner.

Despite best practise analysis being conducted on all projects, there are numerous uncertainties inherent in estimating quantities of proved petroleum and natural gas reserves, including future oil and natural gas prices, engineering data, projected future rates of production and the timing of future expenditures. The process of estimating petroleum and natural gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. An independent engineering firm evaluates Crew's properties annually to determine a fair estimate of reserves. A Reserve Committee of the Board of Directors assists the Board in their annual review of the Company's reserve estimates.

The Company's financial results can be significantly affected by the prices received for petroleum and natural gas production as commodity prices fluctuate in response to changing market forces. This pricing volatility is expected to continue. As a result, Crew may fix the price of oil and natural gas on a percentage of the Company's total expected production using derivative instruments on fixed price physical delivery contracts. The objective is to lock in prices on a portion of the Company's future production to decrease exposure to market volatility and ensure the Company's ability to finance its capital program. The use of derivative instruments and physical delivery contracts is governed under formal policies and subject to limits established by the Board of Directors. Derivative instruments are not used for speculative or trading purposes.

Crew's financial results are also impacted by fluctuations in the exchange rate between the Canadian dollar and the US dollar. Crude oil prices and, to a large extent, natural gas prices are based on reference prices denominated in US dollars, while the majority of expenses are denominated in Canadian dollars.

Crew may be exposed to changes in interest rates as the Company's banking facilities are based on its lenders' prime lending rate and short-term bankers' acceptance rates.

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risk. Purchases of the Company's natural gas, crude oil and natural gas liquids are subject to internal credit review to minimize the risk of non payment.

Application of Critical Accounting Estimates

Crew's significant accounting policies are disclosed in note 1 to the consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. Crew's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time-to-time, by various rule-making bodies.

Proved Oil and Gas Reserves Proved oil and gas reserves, as defined by the Canadian Securities Administrators in National Instrument 51-101 with reference to the *Canadian Oil and Gas Evaluation Handbook*, are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

An independent reserve evaluator using all available geological and reservoir data as well as historical production data has prepared Crew's oil and gas reserve estimates. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and gas reserves on the financial results of the Company is described under the headings "Full-cost Accounting" and "Full-cost Accounting Ceiling Test."

Full-cost Accounting The Company follows the full-cost method of accounting for petroleum and natural gas properties. Under this method, all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized. The capitalized costs are depleted and depreciated using the unit-of-production method based on estimated proved reserves. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depletion and depreciation. A downward revision in a reserve estimate could result in a higher depletion and depreciation charge to earnings. In addition, if net capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserve estimates (see "Full-cost Accounting Ceiling Test" discussion), the excess must be written off as an expense charged against earnings. In the event of property disposition, proceeds are normally deducted from the full-cost pool without recognition of gain or loss unless there is a change in the depletion rate of 20 percent or greater.

Unproved Properties Certain costs related to unproved properties are excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.

Full-cost Accounting Ceiling Test The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rate, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

Asset Retirement Obligations Effective September 2, 2003, the company early adopted CICA Handbook section 3110. This standard requires that the fair value of an asset's retirement obligation be recognized in the period in which it is acquired if a reasonable estimate of the fair value can be made. The present value of the estimated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. The depreciation of the capitalized asset retirement cost is determined on a basis consistent with depletion and depreciation of property, plant and equipment. With the passage of time, accretion will increase the carrying amount of the asset retirement obligation. The actual cost and timing of the Company's asset retirement expenditures may vary significantly from management's current estimates.

Income Taxes The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

New Accounting Standards

The following new accounting standards will be required to be implemented by the Company as discussed below:

Accounting for Derivative Instruments and Hedging Activities In Canada, the Accounting Standard Board "(AcSB") intends to bring Canadian accounting for derivative instruments and hedging activities in line with those in the U.S. by a two-stage approach. The first stage is an amendment to AcG-13, "Hedging Relationships," which is effective January 1, 2004 and establishes criteria to be satisfied before hedge accounting may be applied. The second stage comprises three exposure drafts that were issued on March 31, 2003. The culmination of stage two is expected to complete the harmonization of the Canadian accounting for derivatives, for all intents and purposes, with U.S. GAAP.

These accounting standards require that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded on the balance sheet as either an asset or liability measured at fair value. These standards further establish that changes in the fair value be recognized currently in earnings unless the arrangement can meet the "effective hedge" criteria. As at December 31, 2003, the Company was not party to any derivative or hedging contracts.

Oil and Gas Full-cost Accounting In July 2003, the AcSB issued Accounting Guideline 16, "Oil and Gas Accounting – Full Cost" ("AcG-16"), replacing AcG-5. The new standards prescribe the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measure the impairment amount as the difference between the carrying amount and the fair value.

Continuous Disclosure Obligations Effective March 31, 2004, the Company and all reporting issuers in Canada will be subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations." This new instrument is effective for fiscal years beginning on or after January 1, 2004. The instrument proposes shorter reporting periods for filing of annual and interim financial statements, MD&A and the Annual Information Form ("AIF"). The instrument also proposes enhanced disclosure in the annual and interim financial statements, MD&A and AIF. Under this new instrument, it will no longer be mandatory for the Company to mail annual and interim financial statements and MD&A to shareholders, but rather these documents will be provided on an "as requested" basis. It is the Company's intention to make these documents available on the Company's Web site on a continuous basis.

Dated as of March 11, 2004.

strong financial position: Crew has a strong balance sheet giving it flexibility to execute value-added drilling and acquisitions if appropriate.

Management's Report

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying consolidated financial statements of Crew Energy Inc. Financial and operating information presented throughout this Annual Report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP were appointed by the Company's Board of Directors to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included a review and evaluation of Crew's internal control systems and included such test and procedures, as they considered necessary, to provide a reasonable assurance that the consolidated financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

[signed]

Dale O. Shwed
President and
Chief Executive Officer

[signed]

John G. Leach, CA
Vice President, Finance
and Chief Financial Officer

March 11, 2004

Auditors' Report to the Shareholders

We have audited the consolidated balance sheet of Crew Energy Inc. as at December 31, 2003 and the consolidated statements of operations and retained earnings and cash flows from the commencement of operations on September 2, 2003 to December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the period from the commencement of operations on September 2, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 11, 2004

Consolidated Balance Sheet

December 31, 2003

(thousands)		
Assets		
Current assets		
Cash and short-term investments	$	7,721
Accounts receivable		5,848
		13,569
Future income taxes (note 6)		2,041
Property, plant and equipment (note 3)		30,150
	$	45,760
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$	9,629
Asset retirement obligation (note 7)		3,896
Shareholders' equity		
Share capital (note 5)		30,670
Retained earnings		1,565
		32,235
	$	45,760

See accompanying notes to the consolidated financial statements.

On behalf of the Board

[signed]   [signed]

Raymond T. Chan   **Dennis L. Nerland**

Consolidated Statement of Operations and Retained Earnings

Period from September 2, 2003 to December 31, 2003

(thousands, except per share amounts)		
Revenue		
Petroleum and natural gas	$	7,354
Royalties		(1,482)
Interest income		38
		5,910
Expenses		
Operating		1,030
General and administration		250
Stock-based compensation (note 5(e))		73
Depletion, depreciation and accretion		1,752
		3,105
Income before income taxes		2,805
Income taxes (note 6):		
Current		18
Future		1,222
		1,240
Net income		1,565
Retained earnings, beginning of period		–
Retained earnings, end of period	$	1,565
Per share amounts (note 5(f))		
Basic	$	0.07
Diluted	$	0.06

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Period from September 2, 2003 to December 31, 2003

(thousands)		
Cash provided by (used in):		
Operations		
Net income	$	1,565
Items not involving cash:		
Depletion, depreciation and accretion		1,752
Stock-based compensation		73
Future income taxes		1,222
Funds from operations		4,612
Change in non-cash working capital		(2,807)
		1,805
Financing		
Share issuance		6,017
Investments		
Exploration and development		(6,689)
Change in non-cash working capital		6,588
		(101)
Change in cash and short-term investments		7,721
Cash and short-term investments, beginning of period		–
Cash and short-term investments, end of period	$	7,721

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Period from September 2, 2003 to December 31, 2003

(Tabular amounts in thousands)

1. Significant accounting policies

Crew Energy Inc. ("Crew" or the "Company") was incorporated on May 12, 2003 and commenced operations on September 2, 2003 when certain assets of Baytex Energy Ltd. ("Baytex") were transferred into Crew under a Plan of Arrangement. The Plan of Arrangement resulted in the shareholders of Baytex becoming unitholders of Baytex Energy Trust and shareholders of Crew.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below:

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Crew Resources Inc., and a partnership, Crew Energy Partnership.

b) Cash and short-term investments

Cash and short-term investments includes monies on deposit and short-term investments accounted for at cost and having a maturity date of not more than 90 days.

c) Petroleum and natural gas properties

The Company follows the full-cost method of accounting for petroleum and natural gas properties, whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized. Capitalized costs include land acquisition costs, geological and geophysical expenses, cost of drilling both productive and non-productive wells, production facilities, the fair value of asset retirement obligations and related overhead.

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil.

The Company applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at period-end prices and include an allowance for estimated future general and administrative expenses, interest expense, income taxes and future capital expenditures.

Gains or losses on the disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a change in the depletion rate of 20% or more.

Depreciation of office furniture and equipment is provided using the declining balance method at an annual rate of 20%.

d) Interest in joint ventures

A portion of the Company's oil and gas exploration and development activity is conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

e) Asset retirement obligations

The fair value of the liability for the Company's asset retirement obligation ("ARO") is recorded in the period in which it is incurred, discounted to its present value using Crew's credit adjusted risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of the related long-lived asset. The liability is accreted each period, and the capitalized cost is depreciated over the useful life of the related asset. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO.

f) Measurement uncertainty

The amounts recorded for depletion of petroleum and natural gas properties and equipment and the asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

g) Per share amounts

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

h) Stock-based compensation plans

The Company accounts for its stock-based compensation programs using the fair-value method. Under this method, compensation expense related to these programs is recorded in the consolidated statement of operations over the vesting period.

i) Income taxes

The Company uses the asset and liability method of accounting for future income taxes. The future tax asset or liability is calculated assuming the financial assets and liabilities will be settled at their carrying amount. This amount is compared to the tax assets and the difference is multiplied by the substantively enacted tax rate when the temporary differences are expected to reverse.

j) Financial instruments

The Company periodically will utilize financial instruments to manage exposures to fluctuations in commodity prices and foreign currency exchange rates. All transactions of this nature that are entered into by the Company are related to underlying future petroleum and natural gas production. The Company does not use derivative financial instruments for trading purposes. Gains and losses on derivative contracts are recognized in income in the period that the transactions are settled. The fair value of derivative instruments are not recorded in the balance sheet.

2. Plan of arrangement/related-party transaction

Effective September 2, 2003 and pursuant to a Plan of Arrangement, Baytex transferred certain property, plant and equipment to Crew. In exchange, the former Baytex shareholders received 1/3 of a Crew Common Share for every common share of Baytex held prior to the arrangement. The number of shares of Crew, which were issued to former Baytex shareholders as a result of the transaction, were 19,345,696. At the time of the transaction, Crew and Baytex were related companies resulting in the transfer of the assets and related liabilities to Crew from Baytex at their carrying value. Details are as follows:

Allocated:		
Petroleum and natural gas properties and equipment	$	24,848
Office furniture and equipment		137
Future income tax asset		3,263
Asset retirement obligations		(3,741)
Net assets transferred and share capital issued	$	24,507

In conjunction with the Plan of Arrangement, the Company adopted a new accounting standard, Asset Retirement Obligations. As a result of adopting this section, an entry has been recorded to increase the asset retirement obligations by $3,182,000, increase petroleum and natural gas properties and equipment by $3,741,000, decrease the future income tax asset by $195,000 and increase share capital by $364,000.

Under the Plan of Arrangement, Crew and Baytex entered into a technical services agreement under which Baytex Energy Trust provided administrative services to Crew until December 31, 2003. As a result, Baytex Energy Trust handled a majority of Crew's receipts and disbursements during the period from commencement of operations on September 2, 2003 to December 31, 2003 and as at December 31, 2003 the majority of Crew's accounts receivable and accounts payable are due from/to Baytex Energy Trust.

3. Property, plant and equipment

	Cost	Accumulated depletion & depreciation	Net book value
Petroleum and natural gas properties and equipment	$ 31,530	$ 1,660	$ 29,870
Office furniture and equipment	300	20	280
	$ 31,830	$ 1,680	$ 30,150

The cost of unproven lands at December 31, 2003 of $5,530,000 has been excluded from the depletion calculation.

During the period ended December 31, 2003, $323,000 of corporate expenses related to exploration and development activities was capitalized.

4. Bank facility

Crew has a $12 million demand operating facility with a Canadian chartered bank, which is available by way of prime rate based loans or bankers' acceptances. Advances under the facility bear interest at the bank's prime lending rate, bankers' acceptance rates plus scheduled margins. The facility revolves at the Company's discretion, is repayable on demand of the bank and is secured by a first floating charge debenture over all of Crew's real property and a first priority security interest in all of Crew's personal property.

Cash interest income received during the period totalled $30,000.

5. Share capital

a) Authorized

Unlimited number of Common Shares

1,881,000 Class C non-voting performance shares ("performance shares")

b) Share capital issued

	Number of shares	Amount
Common Shares		
Issued for cash as private placement	3,635	$ 5,998
Issued on transfer of assets (note 2)	19,346	24,507
Stock-based compensation	–	146
Common Shares, December 31, 2003	22,981	30,651
Class C, performance shares		
Issued for cash	1,881	19
Share capital, December 31, 2003		$ 30,670

c) Private placement

On September 1, 2003, the Company issued 3,635,000 units for proceeds of $5,998,000. Each unit consisted of one Class B non-voting share and one warrant. Each Class B non-voting share was subsequently exchanged for one Common Share.

d) Warrants

The 3,635,000 outstanding warrants entitle the holder to acquire one Common Share of the Company at a price of $1.65 per share at any time subsequent to September 1, 2005 and prior to September 30, 2005.

e) Stock-based compensation

The Company measures compensation costs associated with stock-based compensation using the fair market value method and the cost is recognized over the vesting period of the underlying security. The fair value of each performance share and stock option is determined at each issue or grant date using the Black-Scholes model with the following assumptions: risk-free interest rate 4.5%, expected life four years, and volatility 45%.

During the period, the Company recorded $146,000 of compensation expense related to the performance shares and stock options, of which $73,000 was capitalized in accordance with the Company's full-cost accounting policy.

(i) Performance shares In conjunction with the private placement of Common Shares, the Company issued 1,881,000 performance shares to employees, officers and directors at a price of $0.01 per share. Each performance share is convertible into a fraction of a Common Share over a three-year period with the conversion rights expiring on September 1, 2007 after which, if the shares have not been converted, they are redeemed by the Company at $0.01 per share. On conversion, each performance share converts at the rate determined by subtracting $1.65 from the current market price of the Company's Common Share and dividing the result by the current market price of the Company's Common Share. The fair value of the performance shares at the date of issue, as calculated by the Black-Scholes method, was $0.67 per share.

(ii) Stock options The Company has a fixed stock option plan in which the Company may grant options to its employees and directors for up to 417,000 Common Shares. Under this plan, the exercise price of each option equals the market price of the Company's Common Shares on the date of grant. All granted options vest over a three-year period and have a four-year term. Stock options are granted periodically throughout the year.

During the period from commencement of operations on September 2, 2003 to December 31, 2003, 156,000 stock options were granted to Crew employees with exercise prices ranging from $3.50 to $3.75 and a weighted average exercise price of $3.70. At December 31, 2003, 156,000 stock options were outstanding with a weighted average remaining term of 3.9 years, a weighted average price of $3.70 and none of the options had vested. The fair value of the stock options granted during the period, as calculated by the Black-Scholes method, was $1.50 per share.

f) Per share amounts

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the period ended December 31, 2003 was 22,981,000.

In computing diluted earnings per share for the period ended December 31, 2003, 2,753,000 shares were added to the weighted average number of Common Shares outstanding for the dilution added by the warrants, performance shares and stock options.

6. Income taxes

a) Income tax provision

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

Earnings before income taxes	$	2,805
Combined federal and provincial tax rate		40.9%
Computed "expected" income tax expense	$	1,148
Increase (decrease) in income taxes resulting from:		
Non-deductible crown charges		420
Resource allowance		(400)
Stock-based compensation		60
Rate change		(35)
Other		29
Future income taxes		1,222
Capital taxes		18
Income taxes	$	1,240

Cash taxes paid during the period were nil.

b) Future income tax asset

The components of the Company's future income tax asset are as follows:

Asset retirement obligation	$	1,360
Property, plant and equipment		101
Non-capital loss		580
Future income tax asset	$	2,041

7. Asset retirement obligations

The total future asset retirement obligation was determined by management and was based on Crew's net ownership interest, the estimated future cost to reclaim and abandon the Company's wells and facilities and the estimated timing of when the costs will be incurred. Crew has estimated the net present value of its total asset retirement obligation to be $3,896,000 as at December 31, 2003 based on a total future liability of $6,847,000. These payments are expected to be made over the next 33 years. A 10% interest rate and 2% inflation rate were used to calculate the present value of the asset retirement obligation.

The following table reconciles Crew's asset retirement obligations:

Carrying amount, beginning of period	$	3,741
Increase in liabilities during the period		83
Accretion expense		72
Carrying amount, end of period	$	3,896

8. Financial instruments

a) Commodity price risk management

At December 31, 2003, the Company had no fixed price contracts associated with future production.

b) Foreign currency exchange risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

c) Fair value of financial instruments

The carrying amounts of financial instruments included on the balance sheet approximate their fair value due to their short-term maturity.

d) Credit risk

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risk. Purchases of the Company's natural gas, crude oil, and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

Corporate Information

Board of Directors

John A. Brussa
Partner, Burnet, Duckworth & Palmer LLP

Raymond T. Chan
President, Baytex Energy Trust

Fred C. Coles
Independent Businessman

Gary J. Drummond
Independent Businessman

Dennis L. Nerland
Partner, Shea Nerland Calnan

Dale O. Shwed
President, Crew Energy Inc.

Officers

Dale O. Shwed
President and Chief Executive Officer

Ryan K. Chong
Vice-President, Production

Daniel B. Horner, LLB
Vice-President, Land

John G. Leach, CA
Vice-President, Finance and Chief Financial Officer

S. Dale McAuley
Vice-President, Operations

Garry J. Wasylycia
Vice-President, Exploration

Michael D. Sandrelli
Secretary
Partner, Burnet, Duckworth & Palmer LLP

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Auditors

KPMG LLP

Bankers

The Toronto-Dominion Bank

Legal Counsel

Burnet, Duckworth & Palmer LLP

Reserve Engineers

Gilbert Laustsen Jung Associates Ltd.

Transfer Agent

Valiant Trust Company

Exchange Listing

Toronto Stock Exchange
Stock Symbol: CR

Abbreviations

bbl	barrels
bbl/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent (6 mcf: 1 bbl)
bopd	barrels of oil per day
bhp	brake horsepower
mmbtu	million British thermal units
mboe	thousand barrels of oil equivalent (6 mcf: 1 bbl)
mmboe	million barrels of oil equivalent (6 mcf: 1 bbl)
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
ngls	natural gas liquids

Advisory

This report contains forward-looking statements relating to Management's approach to operations, expectations relating to the number of wells, amount and timing of capital projects, company production, cash flow and debt levels. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable by Crew at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; competitive action by other companies; fluctuations in oil and gas prices; the ability to produce and transport crude oil and natural gas to markets; the result of exploration and development drilling and related activities; fluctuation in foreign currency exchange rates; the imprecision of reserve estimates; the ability of suppliers to meet commitments; actions by governmental authorities including increases in taxes; decisions or approvals of administrative tribunals; change in environmental and other regulations; risks associated with oil and gas operations; the weather in the Company's areas of operations; and other factors, many of which are beyond the control of the Company. There is no representation by Crew that actual results achieved during the forecast period will be the same in whole or in part as those forecast.

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