Sunlite Oil Company Limited

Annual Report 1980

DESCRIPTION OF BUSINESS

The company was incorporated March 2, 1945, under the laws of the Province of Alberta, Canada. Sunlite is engaged in the exploration for and development of oil and gas properties and the exploration for mineral properties. Producing interest are held in the Canadian Provinces of Alberta, British Columbia and Saskatchewan and in Louisiana, Texas and Mississippi in the United States. The principal exploratory interests of the company are located throughout Canada, the United States, and in the British and Dutch Sectors of the North Sea.

ANNUAL MEETING AND FORM 10-K

The Annual General Meeting of shareholders will be held on Friday, December 12, 1980, at ten o'clock A.M. (local time) at the 18th Floor Auditorium of the Norcen Tower, 715-Fifth Avenue S. W., Calgary, Alberta. A formal notice of this meeting, together with a proxy statement and information circular and form of proxy, is being mailed with this report.

Sunlite will provide its Form 10-K Annual Report upon written request from its shareholders.

TO OUR SHAREHOLDERS

Highlights

Beaufort Sea

Two wells were drilled on Sunlite interest acreage during the 1980 drilling season, Dome et al Orvilruk 0-3 and Kenalooak 2J-94. Neither reached projected total depth. Deepening and possible testing are planned in 1981.

Dome Tarsuit A-25 tested 800 barrels per day of oil from a 160 foot oil zone at 5000 feet. Dome announced that this oil bearing zone could be a major reservoir. The well is located to the south of Orvilruk 0-3.

Davis Strait

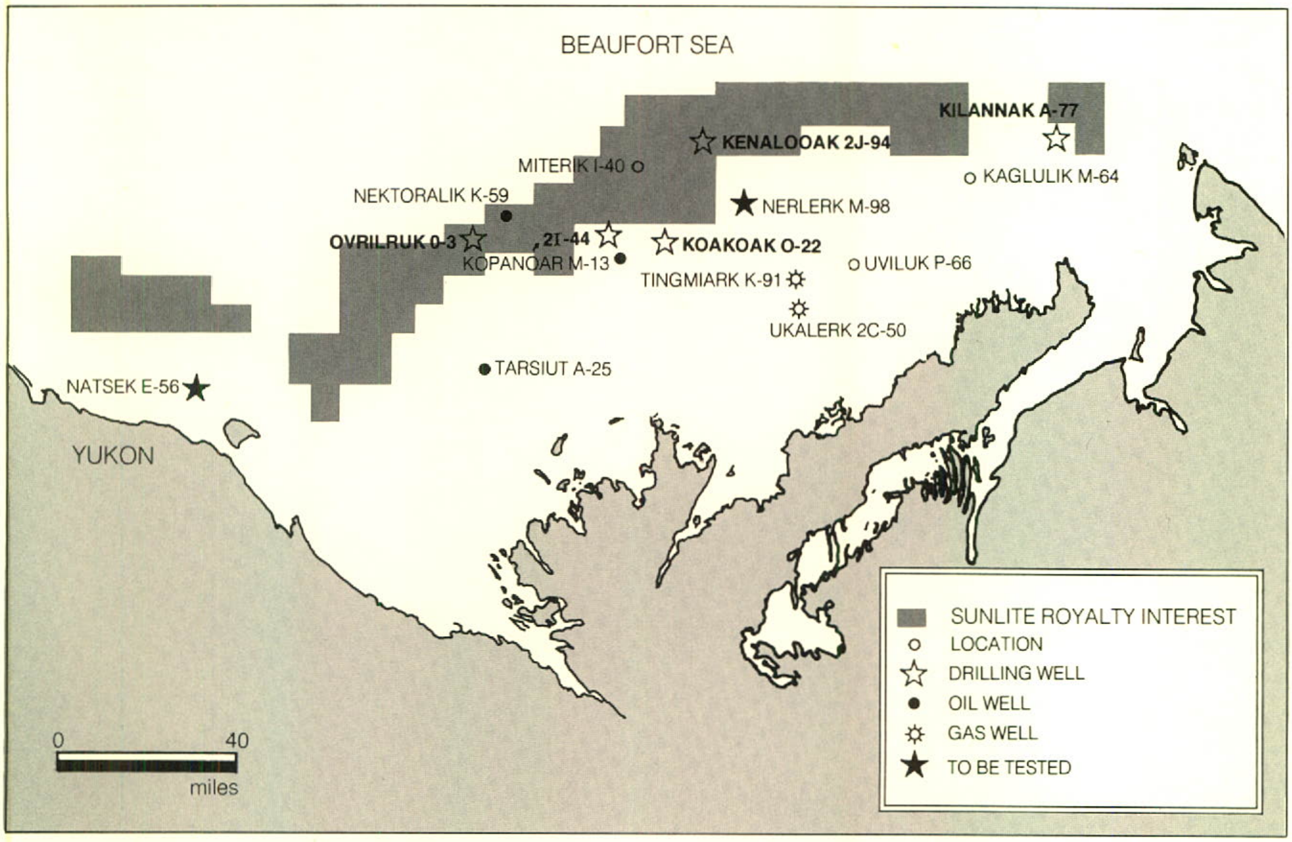
Elf Aquitaine et al Hekja 0-71 encountered 245 feet of hydrocarbon bearing sandstone in their Davis Strait exploratory well. This well which is to the south of our holdings is the most northerly Canadian East Coast well to encounter hydrocarbons.

U.K. North Sea

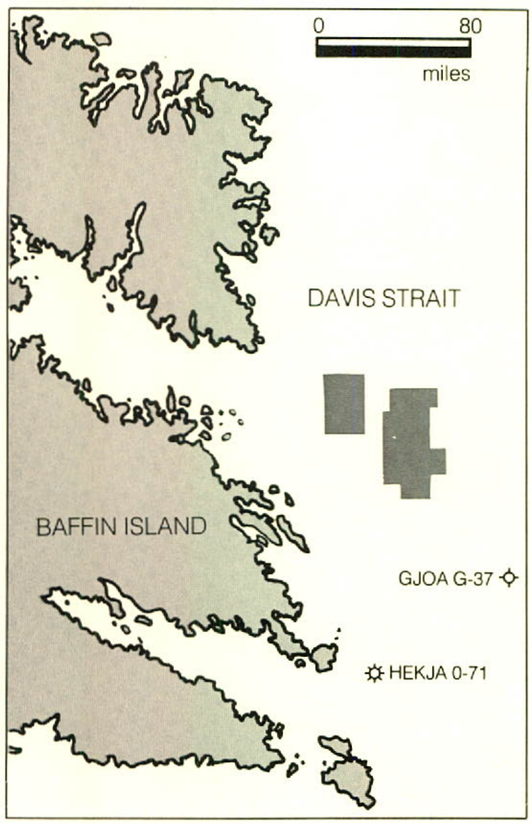
A joint appraisal well, Gulf et al 15/30-3, drilled on the boundary of our U.K. Block 16/26 tested 6,600 Mcf of gas and 500 barrels of condensate per day, extending the limits of the Cretaceous gas condensate reservoir in the Block 16/26 - Block 15/30 area. An additional appraisal well is planned to be drilled during the first quarter of 1981.

Texas

The John W. field (Bridge Creek) has been unitized and is expected to go on production during the last quarter of 1980.



BEAUFORT SEA



DAVIS STRAIT

Exploration

Beaufort Sea

Dome Petroleum Limited announced a very optimistic drilling program for the 1980 summer season which included drilling of five new wells, re-entry of two wells and testing of one well which had been drilled during the 1979 season. Three of the new well locations announced were to be on Sunlite overriding royalty acreage. By late August, two of the Sunlite interest wells, Dome Hunt Kenalooak 2J-94 and Dome Superior Orvilruk 0-3 were drilling at 3475 meters (11,398 feet), and 3035 meters (9955 feet). Due to the short period remaining of the summer drilling season, Dome probably will not be able to test these wells or begin the third well planned on Sunlite acreage, the Dome Hunt Miterk I-40. Dome is also currently drilling the Dome Hunt Gulf Koakoak 0-22 and the Dome Gulf Hunt Kopanoar 2I-44. The latter is an appraisal well to evaluate the discovery made during 1979 by the Kopanoar M-13 exploratory well. The announced productive capacity of this well was 12,000 barrels of oil per day, which is very significant in that it confirms the good to excellent reservoir capacity which is necessary for commercial production in the Beaufort Sea.

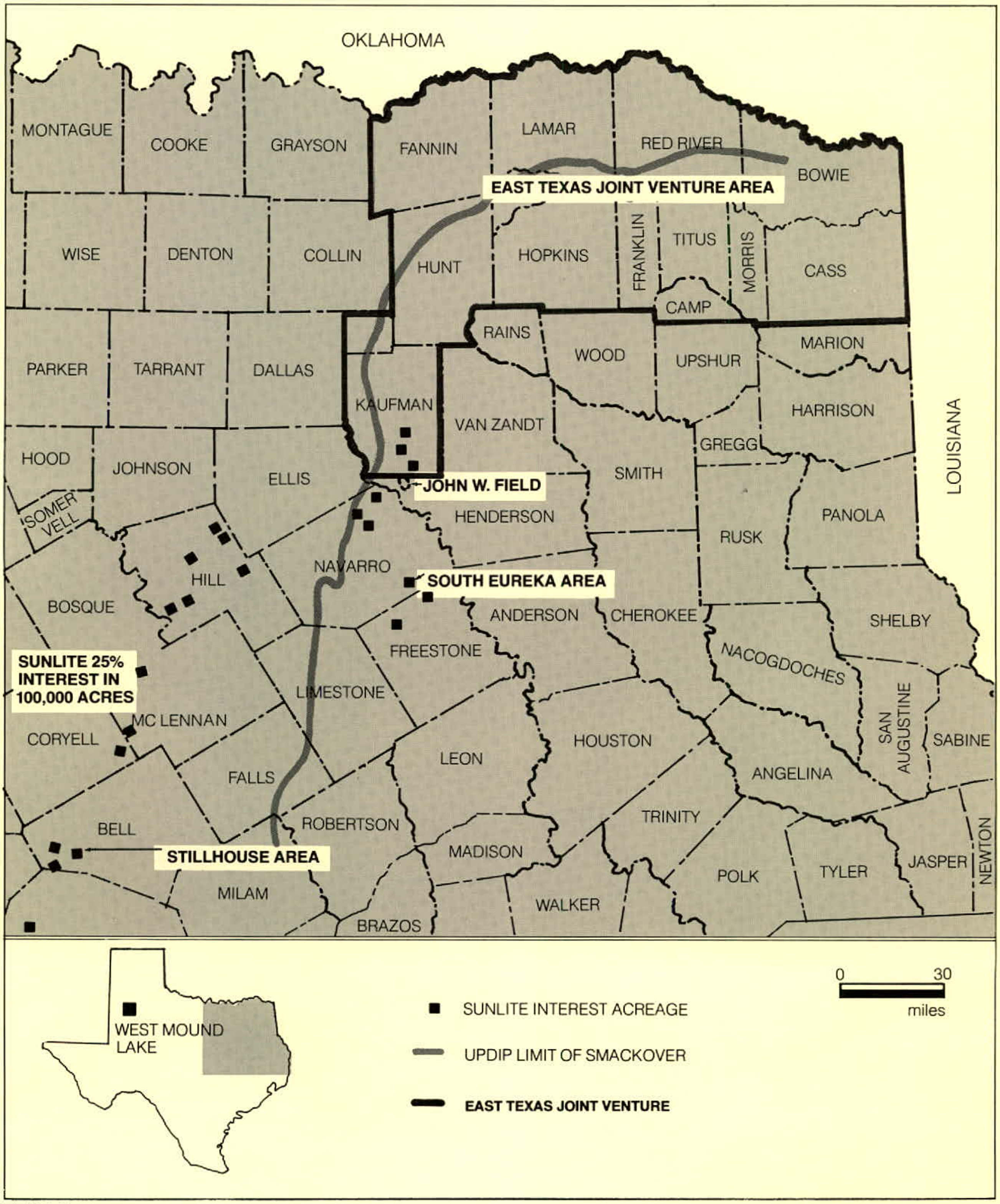
Dome has announced plans to begin production initially by producing oil from sea floor completions to tankers by 1985 or 1986. The ultimate production method is foreseen as being from a man-made loading atoll built from material dredged from the seabed. Production and oil loading on island facilities would permit year-round production into ice-breaker tankers. An interesting aspect of the Beaufort Sea exploration to date has been that oil and/or gas have been found in all wells drilled to a significant depth. The conclusion to be drawn from this is that the MacKenzie Delta-Beaufort Sea area is a major hydrocarbon province. Future drilling from contemplated man-made islands will no doubt speed up the delineation and development drilling in the area but it is still not possible at this time to project timing or the amount of production from the company holdings. Nevertheless, the one percent overriding royalty on the three million acres in the Beaufort Sea is a substantial asset of the company.

Davis Strait

To the south of the 1.8 million acre block offshore from Baffin Island on the east coast of Canada where Sunlite retains a one percent overriding royalty interest Aquitaine began drilling the Aquitaine et al Hekja 0-71 well in the summer of 1979. Federal drilling regulations brought the drilling to a halt in October 1979 and Aquitaine re-entered the well on July 23, 1980. At last report the well was suspended at a depth of 4555 meters (14,940 feet) which is short of the projected total depth of 4700 meters (15,400 feet). Aquitaine announced that they have penetrated a 75 meter (245 feet) section of hydrocarbon bearing sandstone, at a depth of 10,505 feet. The zone tested 9.3 million cubic feet of gas and 107 barrels of condensate per day.

Canada

In view of the relatively low wellhead prices, the political uncertainty of the future pricing, and the absence of gas contracts on new discoveries Sunlite has continued to scale down its exploratory program in Canada. During the past fiscal year Sunlite participated in drilling 20 wells of which only 7 were exploratory in nature. Three of the exploratory wells were gas discoveries and 4 were dry holes. One of the dry holes was drilled at no cost to Sunlite. Thirteen development wells were drilled during the year resulting in 8 oil wells, 4 gas wells and 1 dry hole.


OKLAHOMA
MONTAGUE
COOKE
GRAYSON
FANNIN
LAMAR
RED RIVER
BOWIE
EAST TEXAS JOINT VENTURE AREA
WISE
DENTON
COLLIN
HUNT
HOPKINS
FRANKLIN
TITUS
MORRIS
CASS
CAMP
PARKER
TARRANT
DALLAS
RAINS
WOOD
UPSHUR
MARION
KAUFMAN
VAN ZANDT
HARRISON
LOUISIANA
GREGG
HOOD
JOHNSON
ELLIS
SMITH
JOHN W. FIELD
SOMER VELL
HENDERSON
PANOLA
RUSK
HILL
NAVARRO
SOUTH EUREKA AREA
BOSQUE
ANDERSON
CHEROKEE
SHELBY
SUNLITE 25% INTEREST IN 100,000 ACRES
FREESTONE
NACOGDOCHES
LIMESTONE
MC LENNAN
SAN AUGUSTINE
SABINE
CORYELL
HOUSTON
LEON
FALLS
ANGELINA
BELL
TRINITY
ROBERTSON
STILLHOUSE AREA
MADISON
JASPER
NEWTON
POLK
TYLER
MILAM
WALKER
BRAZOS
WEST MOUND LAKE
SUNLITE INTEREST ACREAGE
UPDIP LIMIT OF SMACKOVER
EAST TEXAS JOINT VENTURE
0
30
miles

TEXAS

UNITED STATES

Texas

In Henderson County the Bridge Creek prospect reported last year as a discovery has undergone a name change by the operator and is now called the John W. Field. In order to increase the ultimate recovery the operator has unitized the field for pressure maintenance by gas injection. A gas injection well has now been drilled, and it is expected that the field will be placed on production during the last quarter of 1980. Sunlite's overriding royalty interest in the field-wide unit is approximately 8 percent.

Two additional prospects which were included in the McFarlane farmout in the East Texas area in the vicinity of the John W. Field will be drilled during the last quarter of 1980.

The East Texas joint venture formed in 1979 has continued seismic, geological work and acreage acquisition. The group now has 40,000 net acres under lease with 20 prospects in various stages of evaluation. One prospect has been evaluated with a dry hole at no cost to Sunlite. One prospect has been farmed out to others with the group retaining an overriding royalty interest. The Floyd and Tona prospects in Hunt County will be drilled the last quarter of 1980 depending on rig availability. Two additional prospects in Hunt County will probably be drilled the first quarter of 1981. Several additional prospects require more seismic to complete their evaluation. Sunlite's interest in this group remains at 20 percent.

The Stillhouse prospect in Bell County, which had been scheduled for drilling in early 1980 has been delayed due to the inability of the operator to form a drilling unit with other parties. The prospect is scheduled to be drilled either in late 1980 or early 1981. At least two other wells are planned to be drilled along this trend in the near future by other operators which indicates the interest of the industry in this rank wildcat area. Within this trend Sunlite has exercised its option to acquire a 25 percent interest in approximately 100,000 acres of leases.

In the San Antonio Bay area of Calhoun County, Texas, Sunlite participated in an additional discovery which was completed in January of 1980. The Parker #1 was completed flowing one million cubic feet of gas per day along with 67 barrels of condensate. On the nearby State Tract 70, where we reported a discovery in 1979, a second well was drilled this year. Unfortunately, a fault which had not been indicated by seismic was crossed and the producing sands in the discovery well were water-bearing.

In West Texas, Sunlite et al has formed a drilling unit with Houston Oil and Minerals on the West Mound Lake prospect in Terry County. The operator has advised that this well will be spudded in early October. This well will be drilled at no cost to Sunlite and we will retain a small overriding royalty until payout and a reversionary 13 percent working interest after payout. One other prospect in Terry County is still in the evaluation stage and may be matured for drilling this year.

In the South Eureka area of Navarro County where Sunlite holds 1000 acres of leases, other operators have been developing Cotton Valley Lime oil production within the Cheneyboro field. Development has progressed to the point where a direct offset to Sunlite acreage is in the process of completion. Sunlite will either drill for their 100 percent account or make arrangements with another operator depending upon the most favorable economics. In the same area we are in the process of farming out another block of acreage which is less prospective to a major oil company for drilling in the last quarter of 1980. In this case, a well will be drilled at no cost to Sunlite.

Mississippi

In the Waveland Field, where Sunlite purchased in 1978 interests averaging about 2 percent in twenty wells, the properties paid out as projected in January, 1980, and the company is receiving income from the properties.

Alaska

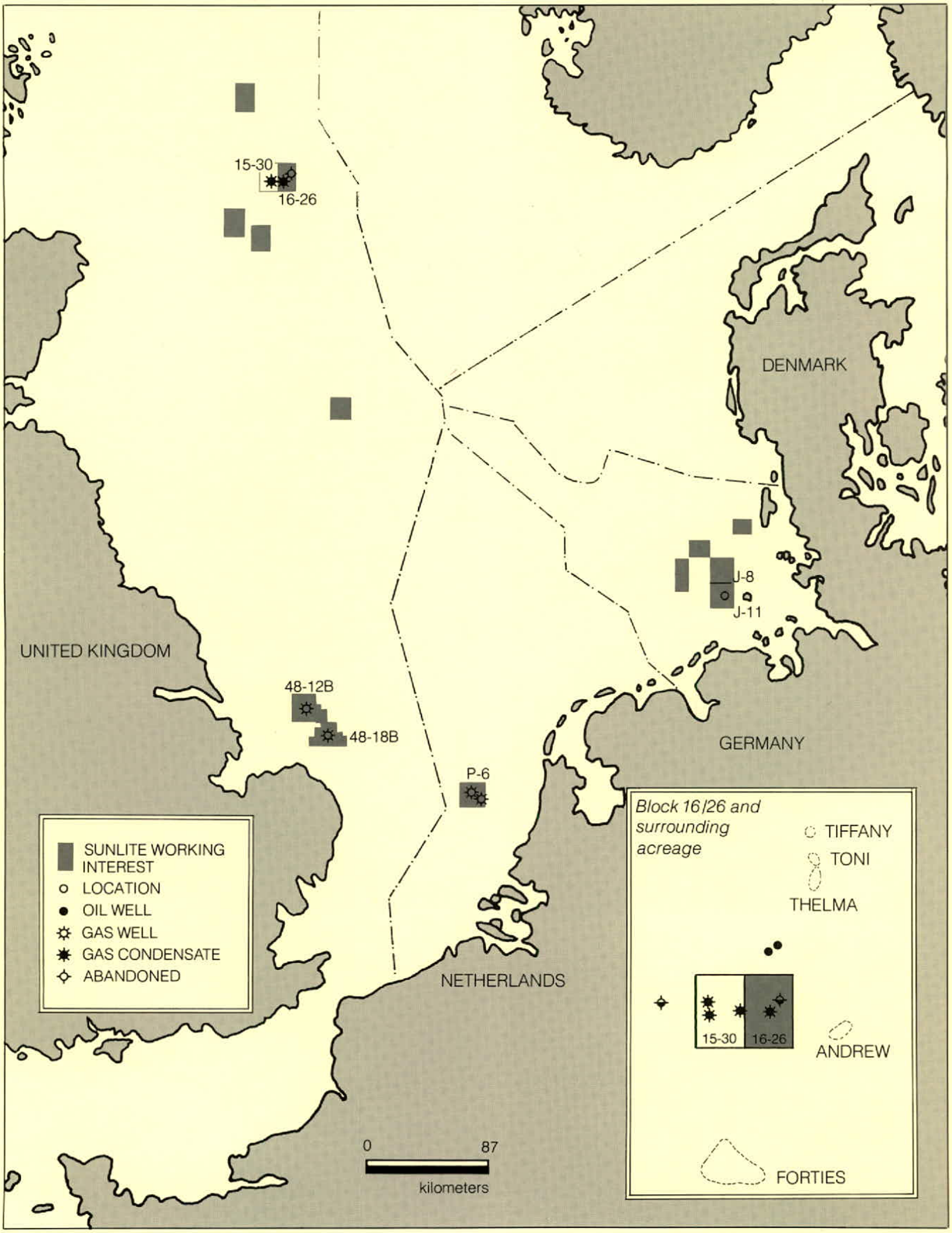
An exploratory well is nearing projected total depth in the Point Thompson acreage block. Sunlite elected not to participate in this well so we have no interest in the drilling unit. We retain a small interest in offsetting acreage.

U.S. OUTER CONTINENTAL SHELF

Sunlite participated with an eight company group which was successful in acquiring Tracts 10 and 77 comprising approximately 11,000 acres in the Georges Bank OCS Sale 42 in the eastern U.S. Offshore area. Sunlite has a 13.91 percent interest in these tracts.

In the Santa Barbara Channel offshore California area exploratory work has been delayed due to a moratorium caused by environmental permit problems. Sunlite has a 6.67 percent interest in Block 31.

It is anticipated that drilling by others in both the East and West Coast OCS blocks will help evaluate our acreage position.


15-30
16-26
DENMARK
J-8
J-11
UNITED KINGDOM
48-12B
48-18B
GERMANY
P-6
SUNLITE WORKING INTEREST
LOCATION
OIL WELL
GAS WELL
GAS CONDENSATE
ABANDONED
NETHERLANDS
Block 16/26 and surrounding acreage
TIFFANY
TONI
THELMA
15-30
16-26
ANDREW
FORTIES
0
87
kilometers

NORTH SEA

INTERNATIONAL

Umm Al Qaiwain

The joint venture group was unsuccessful after months of negotiation in obtaining a satisfactory gas contract with the Ruler of Umm Al Qaiwain. The concession has been dropped and we have no further participation in the Middle East.

Germany

We have farmed out our interest in Blocks J/8 and J/11 offshore Germany to a major oil company. The farmee is committed to drill a 17,000 foot Rotliegendes test on Block J/11 at no cost to Sunlite. The well will be drilled as soon as a rig is available. Sunlite retains a net 3 percent working interest in these blocks.

Cameroon

A major company group drilled a dry hole on our Cameroon concession this year at no cost to Sunlite. Additional seismic work has been performed and another well has been planned for 1981. The future exploratory work will require us to participate or further reduce our 1¼ percent by again making a farmout.

Holland

In the Dutch Sector of the North Sea plans to develop gas reserves on Block P/6 have been finalized and the operator expects the field to be on stream by early 1983. The Dutch Government has exercised their option to buy a 40 percent interest in this block which reduces Sunlite's net profits interest to .75 percent. We expect gas prices when production begins to be in excess of $5.00 per MCF and depending on the daily contract rates, payout should occur by 1985 with an estimated cash flow to Sunlite in the order of $1 million a year at that time.

United Kingdom

During 1980 in the U.K. Sector of the North Sea, Sunlite joined with its partners in drilling a one-half interest well near the boundary between our Block 16/26 and the Conoco-Gulf-BNOC Block 15/30. The joint appraisal well 15/30-3 successfully tested 6.6 MCF of gas and 500 barrels of condensate per day.

This most recent test was located approximately halfway between the previously drilled appraisal wells 15/30-1 and 16/26-2. These wells which are 15km (approximately 9½ miles) apart both tested gas condensate from the Cretaceous formation indicating potentially major gas condensate reserves in the Block 16/26 — Block 15/30 area.

The operator has proposed two additional appraisal wells with one planned for late 1980 which are designed to yield additional information on the areal extent and quality of the Cretaceous reservoir. This, along with the parameters of gas price and the timing of market will enable the joint venture group to plan future development of the field. A seventh round application has been made by our group for adjoining acreage in 16/27b. The U. K. Government is expected to announce the successful bidders in late 1980 or early 1981.

The British Government recently approved a 600 mile gas pipeline system which will provide market access for gas from the 16/26 area. The government expects gas deliveries to start by 1984 or 1985.

In the Southern Gas area of the North Sea Sunlite participated in prior years in drilling two Rotliegendes gas discovery wells, one on Block 48/12b and one on 48/18b, which are shut-in. The operator, Gulf Oil Company, is nearing completion of a study which indicates that these wells are on the edge of a large Rotliegendes gas prospect which could encompass both licenses. A well is planned to be drilled in 1981 to evaluate this new enlarged prospect.

WORLD WIDE

In April 1980, Sunlite entered into a joint venture agreement with Westburn International, Voyager Petroleum, Bluesky Oil and Gas, Oxoco, Seahawk Oil International and Albion Resources. The purpose of the joint venture is to obtain oil and gas concessions in various foreign countries. The joint venture has already been successful in obtaining a 2.6 million acre concession Offshore Sri Lanka and a 1,000 km marine seismic program will be started in late November 1980. Applications have been made in three other foreign countries.

A technical study group has been formed jointly with another group for evaluation of a major offshore hydrocarbon province in another country prior to making application for a permit. Sunlite's participation in these ventures will vary, but will generally be 16 to 20 percent.

Auditor's Report

The Stockholders and Board of Directors
Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited and subsidiaries as of June 30, 1980 and the related consolidated statements of loss, deficiency and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Sunlite Oil Company Limited and subsidiaries as of June 30, 1980, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

September 20, 1980
Houston, Texas

Main Hurdman & Cranstoun

Certified Public Accountants

The Directors of
Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited as at June 30, 1979 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As described in Note 2, the company is involved in litigation the outcome of which cannot presently be determined.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter referred to in the preceding paragraph, the consolidated financial statements present fairly the financial position of the company as at June 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
September 7, 1979

Thorne Riddell & Co.

Chartered Accountants

CONSOLIDATED BALANCE SHEET
June 30, 1980 and 1979

ASSETS

	1980	1979
	(in Canadian Dollars)	
Current Assets:		
Cash	$ 83,923	$ 621,052
Accounts receivable (Note 2)	611,941	597,372
Notes receivable (Note 3)	1,338,906	164,800
Treasury bills, at cost (market value: $1,415,238)	1,379,098	
Total current assets	3,413,868	1,383,224
Notes Receivable (Note 3)	220,000	396,800
Oil and Gas Properties at Cost (successful efforts method of accounting) —		
Producing properties	5,240,120	3,788,906
Less accumulated depletion and depreciation	(1,857,649)	(1,259,512)
	3,382,471	2,529,394
Non-producing properties:		
Leases	2,125,402	1,969,669
Royalty rights	641,309	641,305
Capped wells and work in progress	2,564,780	3,274,982
	8,713,962	8,415,350
Other assets	13,721	12,672
	$12,361,551	$10,208,046

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1980	1979
	(in Canadian Dollars)	
Current liabilities:		
Accounts payable	**$ 1,064,314**	$ 470,050
Current maturities on long-term debt		175,380
Total current liabilities	**1,064,314**	645,430
Long-term debt (Note 4)	**633,394**	2,103,734
Deferred income taxes	**505,485**	590,485
Stockholders' equity:		
Common stock — without nominal or par value; authorized 6,000,000 shares, issued and outstanding 3,349,469 shares in 1980 and 2,993,662 shares in 1979 (Note 5)	**14,919,697**	11,247,350
Deficiency	**(4,761,339)**	(4,378,953)
	10,158,358	6,868,397
	$12,361,551	$10,208,046

The accompanying notes are an integral part of these financial statements.

SIGNED ON BEHALF OF THE BOARD:

Edwin C. James
Director

Director

Sunlite Oil Company Limited

CONSOLIDATED STATEMENT OF LOSS
Years Ended June 30, 1980 and 1979

	1980	1979
	(in Canadian Dollars)	
Revenue:		
Oil and gas sales	$2,030,852	$1,601,388
Property sales	14,888	25,164
	2,045,740	1,626,552
Expenses:		
Well operating	384,066	284,023
General and administrative	837,032	662,568
Carrying charges on non-producing properties	125,771	97,428
Dry hole costs	76,394	263,679
Exploration	177,237	133,471
Property surrenders and write-offs	474,761	366,412
Interest on long-term debt	171,512	148,583
Other interest		29,755
Depletion and depreciation	603,771	215,319
	2,850,544	2,201,238
Operating loss	(804,804)	(574,686)
Interest income	331,218	79,141
Loss before income taxes	(473,586)	(495,545)
Recovery of (provision for) income taxes:		
Current	6,200	41,400
Deferred	85,000	(78,400)
	91,200	(37,000)
Loss for the year	$ (382,386)	$ (532,545)
Loss per share (based upon weighted average number of shares outstanding)	$(.12)	$(.18)

CONSOLIDATED STATEMENT OF DEFICIENCY
Years Ended June 30, 1980 and 1979

	1980	1979
	(in Canadian Dollars)	
Deficiency at beginning of year	$(4,378,953)	$(3,846,408)
Loss for the year	(382,386)	(532,545)
Deficiency at end of year	$(4,761,339)	$(4,378,953)

The accompanying notes are an integral part of these financial statements.

Sunlite Oil Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years Ended June 30, 1980 and 1979

	1980	1979
	(in Canadian Dollars)	
Working capital provided from:		
Loss for the year	$ (382,386)	$ (532,545)
Add charges (deduct credits) not affecting working capital:		
Depletion and depreciation	603,771	215,319
Deferred income taxes	(85,000)	78,400
Disposition of property interests:		
Non-producing leases	8,868	340,216
Capped wells and work in progress	97,344	119,285
Sale of leases	279,931	(25,164)
Working capital provided from operations	522,528	195,511
Reduction in notes receivable	176,800	284,800
Proceeds on sale of oil and gas properties	2,742	48,092
Issue of capital stock (Note 5)	3,672,347	13,093
Proceeds from long-term debt	—	821,050
Other	(5,634)	2,548
Total working capital provided	4,368,783	1,365,094
Working capital used for:		
Acquisition of oil and gas properties	1,286,683	835,657
Repayment of gas contract advances	59,853	99,846
Reduction of long-term debt	1,585,867	
Current maturities on long-term debt	(175,380)	175,380
Total working capital used	2,757,023	1,110,883
Increase in working capital	$1,611,760	$ 254,211
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	$ (537,129)	$ 162,363
Accounts and notes receivable	1,188,675	(294,787)
Treasury bills	1,379,098	
	2,030,644	(132,424)
(Increase) decrease in current liabilities:		
Bank loan		555,000
Accounts payable	(594,264)	7,015
Current maturities on long-term debt	175,380	(175,380)
	(418,884)	386,635
Increase in working capital	$1,611,760	$ 254,211

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 1980 and 1979

NOTE 1 — Summary of Significant Accounting Policies
Principles of Consolidation
The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, Sunlite International, Inc., and Sunlite Oil Company (U.K.) Limited and are prepared pursuant to Canadian accounting principles.

Amounts in foreign currency are converted to Canadian dollars on the following basis:

(i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.

(ii) Other assets and liabilities, at the rate of exchange in effect at the time the original transactions took place.

(iii) Other expenses and revenues, excluding depletion and depreciation which are converted at the rate of exchange applicable to the related asset, at the average rate of exchange for the year.

The accounting policy of converting foreign currency amounts on the basis outlined above differs from the United States accounting practice of converting such amounts. In addition, under United States accounting practice, gains or losses resulting from the conversion of foreign currency amounts are included in determining net earnings for the period in which the exchange rate changes. If the Company had followed these practices, the loss for the year ended June 30, 1980 would have been decreased by $44,981 ($.016 per share) and the loss for the year ended June 30, 1979 would have been increased by $24,078 ($.008 per share). Accumulated net unrealized gains on foreign exchange conversions approximated $116,000 which would decrease the deficiency as of June 30, 1979.

Petroleum and Natural Gas Properties
The Company accounts for petroleum and natural gas properties on the "successful efforts" method of accounting. The cost of acquisition of leases and royalty rights, including drilling expenditures and exploratory dry holes which earn an interest, are capitalized. Costs are charged to earnings when properties are surrendered or are determined to be of decreased value. The costs of producing leases and royalty interest are amortized using the unit of production method.

Exploration expenses, other than dry holes which earn an interest, and carrying charges of both producing and non-producing properties are charged to earnings as incurred. The costs of drilling a productive well, including the cost of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

Income Taxes
Deferred income taxes are provided to reflect the tax effect of timing differences between financial and tax reporting. The Companies follow the tax allocation method of accounting for income taxes under which the income tax provision is based upon earnings reported in the separate company accounts.

Loss Per Share
Loss per share is computed by dividing the loss by the weighted average number of common equivalent shares outstanding during the year. In determining the aggregate of common and common equivalent shares, no consideration has been given to the number of shares issuable on the exercise of options which, although considered to be common equivalent shares, have either an insignificant or anti-dilutive effect on the calculation of loss per common and common equivalent shares.

NOTE 2 — Accounts Receivable
During October 1971, the Company commenced legal action to collect an account receivable representing a balance due from the sale of mineral properties. The Company's claim was denied by a trial decision dated June 26, 1978. The trial judge also awarded the defendants its counter-claim for 50% of its expenditures during the period in which it operated the mining properties. The amount awarded is to be ascertained by audit, but in the opinion of the Company's legal counsel, the amount should approximate $150,000 (U.S.). Both of the decisions were appealed and on June 10, 1980, the appeals court upheld the decision of the trial judge.

During 1979, the Company charged to operations the account receivable balance of $190,000. Following the decision of the appeals court, the estimated outcome of $150,000 (U.S.) from the counter-claim was charged to operations in 1980.

NOTE 3 — Notes Receivable

	1980	1979
	(in Canadian Dollars)	
Due from officers and directors in: 1982 and 1985, non-interest bearing, secured by 15,000 common shares of the Company	$ 231,506	$ 220,000
Unsecured non-interest bearing notes, receivable in equal annual installments of $200,000 each to July 1, 1980 (less discount for 10% imputed interest)	176,800	341,600
Unsecured demand note receivable at a bank prime lending rate callable upon three days written notice	1,150,600	
	1,558,906	561,600
Less current maturities	1,338,906	164,800
	$ 220,000	$ 396,800

NOTE 4 — Long-Term Debt

	1980	1979
	(in Canadian Dollars)	
6% notes payable (including accrued interest of $98,031 in 1980 and $52,295 in 1979), at Canadian dollar equivalent of $900,000 (U.S.), repayable in varying amounts, secured by certain oil and gas properties and due July 5, 1982	$ 600,787	$1,060,175
Term bank loan, due in 1982 bearing interest at a bank prime lending rate plus 2% and secured by a right to attach certain oil and gas properties		709,230
Gas contract advances, repayable from 50% of future gas sales from certain wells and secured by the specified properties	32,607	92,460
Convertible notes payable (including accrued interest in 1979 of $47,649), at Canadian dollar equivalent of $350,000 (U.S.), bearing interest at 125% of a bank lending rate and due January 20, 1980 (Note 5)		417,249
	633,394	2,279,114
Less current maturities included in current liabilities		175,380
	$ 633,394	$2,103,734

The amounts of long-term debt maturities for the five years subsequent to 1980 are as follows: 1981 — None, 1982 — $189,333 (U.S.), 1983 — $284,000 (U.S.), 1984 — None, and 1985 — None.

On January 31, 1979, the Company negotiated a revolving credit agreement for unrestricted borrowings up to $5,000,000 (U.S.). Borrowings will bear interest at 2 percent over the prevailing prime rate for 90 day loans from the U.S. bank. This agreement is available to the Company until September 1, 1982. There are no borrowings outstanding under this credit arrangement at June 30, 1980.

NOTE 5 — Capital Stock

Changes in capital stock during the years ended June 30, 1980 and 1979 were as follows:

	Number of Shares	Consideration
		(in Canadian Dollars)
Balance at June 30, 1978	2,984,770	$11,234,257
Shares issued on exercise of stock options	8,892	13,093
Balance at June 30, 1979	2,993,662	11,247,350
Shares issued on exercise of stock options	71,005	235,684
Shares issued January 18, 1980 to Mesa Petroleum upon conversion of convertible note payable (a)	84,802	456,023
Shares issued February 27, 1980 to Madison Fund, Inc. upon private placement (b)	200,000	2,980,640
Balance at June 30, 1980	3,349,469	$14,919,697

(a) Issued pursuant to an agreement dated May 27, 1976 evidenced by a promissory note of the Company (bearing interest at 125% of a bank prime lending rate). On January 18, 1980 the outstanding note in the principal amount of $369,600 (Cdn.), together with accrued interest thereon $86,422.97 (Cdn.) was converted into 84,802 shares of the Company's stock at a conversion price of $5.00 (U.S.) per share. All cash proceeds were credited to the account of Capital Shares.

(b) Issued pursuant to a private placement on February 27, 1980 with Madison Fund, Inc., at a price of $13.00 (U.S.) per share. All cash proceeds amounting to $2,980,640 (Cdn.), were credited to the account of Capital Shares. It is the intention of the Company to use the proceeds to fulfill projected drilling and associated obligations of the Company in the North Sea; however, if, in the reasonable judgment of the Company, new information or changed conditions indicate that further expenditures in the North Sea are not justified, these funds may be used for general corporate purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 — Capital Stock (continued)

(c) Unissued Common Shares

Unissued common shares were reserved as follows:

	1980	1979
For incentive stock option plans (see (d) below)	240,676	125,426
For convertible note (see (a) above)		70,000
	240,676	195,426

At June 30, 1980, 3,676 of the incentive stock options are exercisable as "market growth" options under which the optionee is not required to make a cash payment and receives shares based on the excess of the market value at the date of exercise over the option price. 200,000 of the incentive stock options are issuable under the Company's 1979 stock option plan as approved by stockholders on December 12, 1979. To date, 70,000 non-qualified options have been granted to employees under this plan. The remaining 37,000 incentive stock options are exercisable as non-qualified stock options pursuant to options granted employees during 1976 and 1979.

(d) Options to Purchase Capital Stock

Shares reserved for issue under incentive stock option plans

At June 30, 1980, officers and employees held options to purchase 110,676 common shares of capital stock as follows:

	Officers and Directors	Other Employees	Total	Consideration
				(in Canadian Dollars)
Outstanding at June 30, 1978	135,775	1,500	137,275	
Cancelled at $3.33	(3,102)*		(3,102)	
Exercised at $2.42 to $3.33	(8,747)		(8,747)	$ 13,093
Outstanding at June 30, 1979	123,926	1,500	125,426	
Cancelled at $3.66	(15,746)		(15,746)	
Exercised at $2.66 to $3.66	(69,504)	(1,500)	(71,004)	$235,684
Granted at $10.63 to $16.79	72,000		72,000	
Outstanding at June 30, 1980	110,676		110,676	

*Includes exercise of "market growth options" on 3,622 options resulted in the issuance of 2,517 shares.

NOTE 6 — Remuneration Of Directors And Officers

Remuneration paid during the year ended June 30, 1980, to directors and senior officers totalled $257,485 (June 30, 1979 — $217, 586)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED SUMMARY OF OPERATIONS

1980 Compared to 1979

Revenue from oil and gas sales increased $430,000 or 27% over 1979. This increase is attributable to new production in U.S. operations, higher production rates on existing U. S. operations, and price increases in both Canadian and U. S. operations.

Interest income increased $252,000, primarily a result of higher interest rates and additional funds invested.

Operating expenses increased due to the following:

Well operating costs increased $100,000 or 35% over 1979 primarily the result of new U.S. production and increased costs associated with production on older Canadian fields.

Carrying charges on nonproducing properties increased $29,000 or 30% over 1979 due to the additional leases acquired during the period.

Exploration and dry hole costs decreased $144,000 from 1979. Exploration costs increased $44,000 as seismic programs in U. S. operations increased. Dry hole costs decreased by $188,000 reflecting a reduction in the number of unsuccessful wells drilled primarily in Alberta, Canada.

Property surrenders and write-offs increased $109,000 over the same period in the preceding year. During the current period the Company has written off approximately $297,000 representing the costs of certain oil and gas properties primarily in Alaska and has made provision for additional costs on the disposal of certain mineral interests pursuant to an adverse court ruling.

Depletion and depreciation increased $389,000 during the current period primarily reflecting the production volumes from new U.S. fields; and revisions in proved reserve estimates in the Canadian fields.

Working capital was $2,350,000 at June 30, 1980 compared to $738,000 at June 30, 1979. The increase is primarily from stock issued pursuant to a private placement.

1979 Compared to 1978

Revenue from oil and gas sales increased $186,000 or 13% over 1978. This increase is attributable to the higher prices on the sale of oil and gas. Lease sales decreased by $58,000 during 1979. 1978 lease sales reflected profits realized on the farm-out of certain Texas leases whereby the Company recovered 100% of its costs and in addition retained a royalty interest.

Operating expenses increased due to the following:

Exploration and dry hole costs increased $83,000 during the current year. Dry hole costs accounted for approximately 79% of the increase and reflect the costs of unsuccessful wells drilled primarily in Alberta, Canada and Texas under the Company's drilling program.

Property surrenders and write-offs decreased $841,000 during 1979 as compared to 1978. Current period surrenders and write-offs reflect the expiration of leases and other interests where projected economics did not support further expenditures. During the period an amount receivable relating to the disposal of certain mineral interests amounting to $190,000 have been written off as a result of an adverse court ruling currently being appealed by the Company. The Company also has written off the costs of certain oil and gas properties in Alaska and Texas amounting to $64,000 and $40,000, respectively, as well as $28,000 relating to interests in the German North Sea. Write-offs and surrenders during the prior period included interests in Ras al Khaimah and on Block Q/7 in the Dutch North Sea amounting to $675,000 and $216,000, respectively.

Interest expense increased $142,000 during 1979 as compared to 1978 primarily as a result of the Company's increase in long-term indebtedness.

Depletion and depreciation decreased $45,000 due primarily to a decrease in current years production volume; the basis by which the Company computes cost depletion.

Working capital was $738,000 at June 30, 1979 compared to $484,000 at June 30, 1978. During 1979 the Company refunded its short-term bank loans with long-term notes under a revolving credit agreement with maturities beginning in 1982.

CONSOLIDATED SUMMARY OF OPERATIONS

(Not covered by Report of Independent Certified Public Accountants)

	For the Year Ended			
	1980	1979	1978	1977
	(In Canadian Dollars, except for per Share Amounts)			
Operating revenues	$2,046,000	$1,627,000	$1,498,000	$1,576,000
Operating expenses	$2,850,000	$2,202,000	$2,883,000	$3,328,000
Interest income	$ 331,000	79,000	$ 75,000	$ 166,000
Recovery of (provision for) income taxes:				
Current	$ 6,000	$ 41,000	$ 27,000	$ 54,000
Deferred	85,000	(78,000)	(66,000)	185,000
	$ 91,000	$ (37,000)	$ (39,000)	$ 239,000
Net (loss)	$ (382,000)	$ (533,000)	$(1,349,000)	$(1,347,000)
Weighted average number of common shares outstanding	3,128,972	2,987,537	2,977,642	2,975,813
Loss per share	$ (.12)	$ (.18)	$ (.45)	$ (.45)

PRICE RANGE OF COMMON STOCK ON VANCOUVER STOCK EXCHANGE

	Year Ended June 30, 1980		Year Ended June 30, 1979	
	High	Low	High	Low
First Quarter: July 1 — Sept. 30	$19.50	$12.50	$13.75	$ 4.85
Second Quarter: Oct. 1 — Dec. 31	17.75	12.12	17.00	6.00
Third Quarter: Jan. 1 — Mar. 31	19.50	14.50	12.75	8.50
Fourth Quarter: Apr. 1 — Jun. 30	20.00	14.00	19.00	10.25

Nine Months Ended June 30, 1977	For the Year Ended September 30, 1976
$1,195,000	$ 1,224,000
$1,906,000	$ 3,194,000
$ 136,000	$ 215,000
$ 33,000	$ 65,000
(17,000)	247,000
$ 16,000	$ 312,000
$ (559,000)	$(1,443,000)
2,975,925	2,860,748
$ (.19)	$ (.50)

SUMMARY OF RESERVES AND PRODUCTION

	Crude Oil			Natural Gas		
	Production		Reserves	Production		Reserves
	Bbl.	Per Day	Bbl.	Mcf	Per Day	Mcf
June 30, 1980:						
Canada	35,465	97	176,061	474,418	1,296	7,451,000
United States of America	7,066	19	567,538	225,074	615	2,420,009
Foreign	—	—	—	—	—	3,153,300
	42,531	116	743,599	699,492	1,911	13,024,309
June 30, 1979:						
Canada	37,960	104	164,590	693,135	1,899	14,264,788
United States of America	4,015	11	15,000	112,055	307	832,000
Foreign	—	—	—	—	—	3,153,300
	41,975	115	179,590	805,190	2,206	18,250,088

Estimates of the Company's proved oil and gas reserves as contained herein are based on reports submitted to the Company by Independent Petroleum Consultants. Reserves for the period ended June 30, 1979, in Canada and Foreign operations have been restated accordingly to reflect those reserves classified as proved for comparative purposes.

CORPORATE INFORMATION

Directors and Officers

J. Farmer — Director
Vice President — Gulf Coast Div.
Mesa Petroleum Co.
Houston, Texas

J. Stewart Fisher — Director
Barrister and Solicitor
Didsbury, Alberta

John M. Gareau — Director
President & Chief Executive Officer
Pan Cana Resources Ltd.
Calgary, Alberta

Gaines L. Godfrey — Director
Vice President — Finance
Mesa Petroleum Co.
Amarillo, Texas

Bob Gray — Director
Executive Vice President

E. Christa Hinojosa
Assistant Secretary

Edwin C. James — Director
President

James A. King III
Secretary and Treasurer

Donald O. MacArthur — Director
Land Manager of the Company
Calgary, Alberta

John Twyman — Director
Independent Geologist
Calgary, Alberta

Common Shares Listed

VANCOUVER STOCK EXCHANGE
(Symbol — SLTV)
OTC — NASDAQ LIST
(Symbol — SNLTF)

Executive Office

1200 Smith
2740 Two Allen Center
Houston, Texas 77002

Canadian Office

1517 Norcen Tower
715 — 5 Avenue S. W.
Calgary, Alberta T2P2X6

Subsidiary Companies

SUNLITE INTERNATIONAL INC.
SUNLITE OIL COMPANY
(U.K.) Limited

Bankers

CANADIAN IMPERIAL BANK
OF COMMERCE
Calgary, Alberta
CONTINENTAL ILLINOIS
NATIONAL BANK
Chicago, Illinois
CAPITAL NATIONAL BANK
Houston, Texas

Auditors

Main Hurdman & Cranstoun

Solicitors

J. S. Fisher
Didsbury, Alberta
KRIST & ASSOCIATES
Houston, Texas

Transfer Agent

THE CANADA TRUST COMPANY
Calgary, Alberta
FIRST NATIONAL CITY BANK
New York, New York