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WESTGROWTH PETROLEUMS LTD.

Annual Report 1980

Directors
Eric C. Gronberg
President, Chief Executive Officer
Westgrowth Petroleums Ltd., Calgary

John M.S. Lecky
Chairman and President
The Resource Service Group Ltd., Calgary

J. Robert Paget
Secretary
Partner, Burnet, Duckworth & Palmer, Calgary

L. Lamont Gordon
Chairman
Gordon, Lloyd-Price Investments Ltd., Toronto

Richard Wengren
Retired, former President of the
Baystate Corp., Lincoln, Mass.

Harold M. Wright
Engineer, President of
Wright Engineering Limited, Vancouver

Officers
Eric C. Gronberg
President, Chief Executive Officer

J. Leslie Watson
Vice President Exploration

J. Robert Paget
Secretary

Rick A. Bonnett
Treasurer

Magdalena E. Robutka
Asst. Secretary

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Registered Office
555 Burrard Street
Vancouver, B.C.

Auditors
Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Bankers
Bank of Montreal
Calgary, Alberta

Solicitors
Burnet, Duckworth & Palmer
Calgary, Alberta

Registrar and Transfer Agent
National Trust Company, Limited
Vancouver, B.C., Calgary, Alberta and Toronto, Ontario

Stock Listing
Toronto Stock Exchange
Trading Symbol: WGP

Annual Meeting
May 14, 1981
Calgary Inn — 3:00 p.m.
Banff Room
Calgary, Alberta

Westgrowth continued to expand its activities and achieve new levels of success in 1980. Listing on the Toronto Stock Exchange to increase the Company's exposure and profile in the investment community was approved and initial trading took place October 6, 1980. During the course of the year your Company participated in a total of 79 wells in Canada and the United States, and on behalf of seven joint ventures, four limited partnerships and for its own account, spent approximately $16,000,000. In Canada 19 wells were cased as oilwells, 16 as gaswells and 19 were abandoned. In the United States 14 holes were cased as oilwells, 2 as gaswells and 8 were abandoned for an overall success ratio of 65%. Westgrowth's acreage holdings continued to expand to include various working interests in 382,906 gross acres (154,960 hectares), or 65,774 net acres (26,618 hectares) in Canada and the United States.

Continued financial growth was also achieved during 1980 including a 351% increase in revenues to $2,260,696 from $643,510 in 1979. Net earnings rose from $289,323 last year to $507,536, an increase of 175% despite more than a four fold rise in expenses. Forecasted revenues for 1981 are expected to exceed $3,000,000 in association with an exploration and development budget of approximately $17,000,000.

Proven plus probable Corporate reserves escalated from 9.12 bcf (257.1×10^6 cubic meters) of gas and 199,000 barrels (31,780 cubic meters) of oil to 11.2 bcf (315.2×10^6 cubic meters) of gas and 544,356 barrels (86,543 cubic meters) of oil. These results reflect the Company's greater emphasis on exploration for oil rather than gas, especially in Canada where considerable political uncertainty and delays continue to plague the contracting and marketing of natural gas. Notwithstanding this problem Westgrowth was able to place several gaswells onstream during 1980 under existing contracts as well as several oilwells resulting in an average daily producing rate of approximately 1.8 mmcf (52 cubic meters) of gas and 63 barrels (10 cubic meters) of oil.

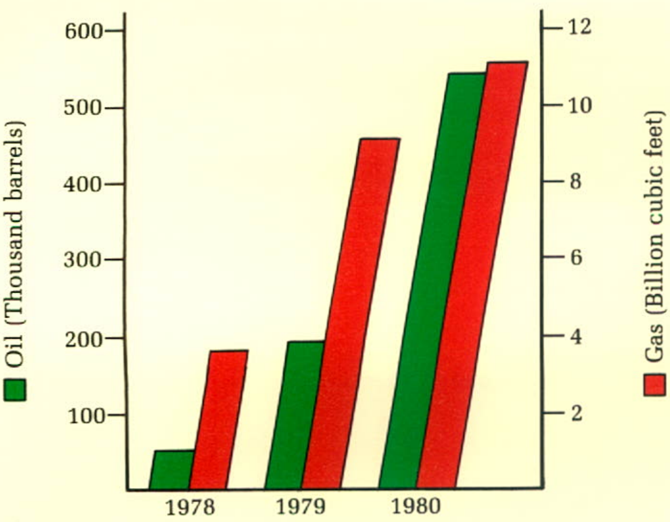
In the United States several wells were placed on production in late 1980 including 3 oilwells in Nebraska, 3 oilwells in Kansas and a gaswell in Texas. These wells had only a nominal effect on Westgrowth's overall daily production, however, during 1981 several additional wells coupled with the aforementioned producers should contribute significantly to the Company's production and cash flow.

In order to meet it's 1980 monetary requirements, Westgrowth was fortunate in securing United Kingdom and United States as well as Canadian sources of financing. New joint venture and limited partnership funds raised in these countries are anticipated to provide sufficient capital to allow for participation in 70 to 80 wells again this year in Canada and the United States. At least one third of Westgrowth's budget will be dedicated stateside, specifically Nebraska, Kansas, Oklahoma, Texas and Ohio where the Company is presently active. United States operations will be directed out of a recently opened division office in Dallas, Texas. Furthermore, we intend to incorporate in Australia in order to be in a position to take advantage of new opportunities emerging from this recently revitalized exploration area.

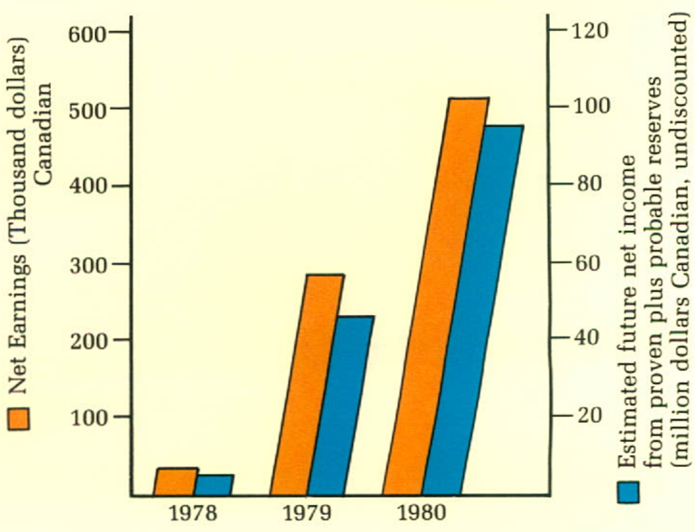
To conclude, 1980 was a year of tremendous activity and growth for your Company and, as evidenced by the accompanying graphs, continued a trend initiated in 1979 when Westgrowth was refinanced and reactivated from a relatively dormant state. Every sector has expanded, not the least of which was our staff which now totals eighteen full-time employees and several part-time and consulting personnel. To these people, on behalf of the Board of Directors, I wish to convey our appreciation and compliments.

Eric C. Gronberg
President

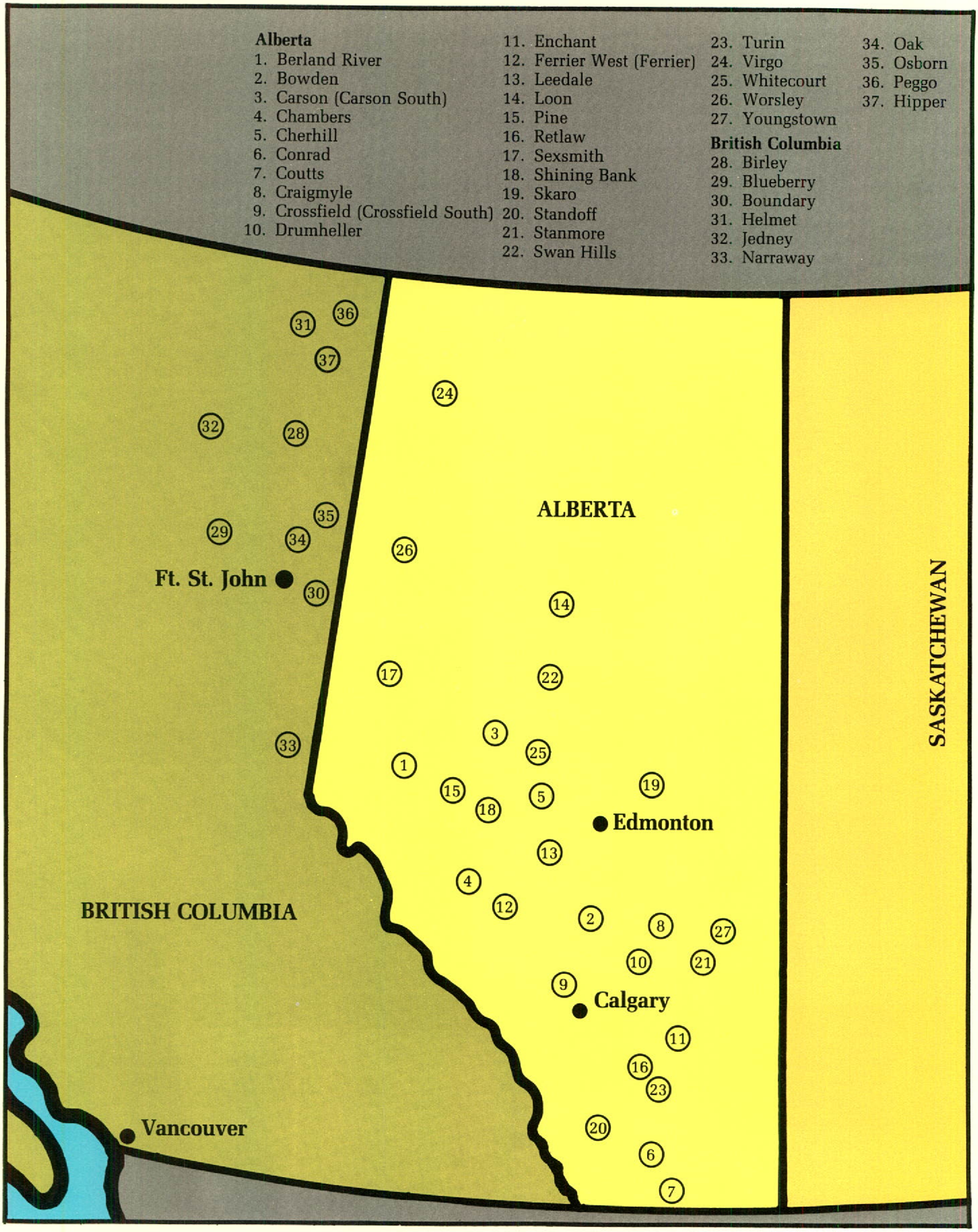
Proven Plus Probable Oil & Gas Reserves 1978-1980
(net of royalties)



Net Earnings & Estimated Future Net Income 1978-1980

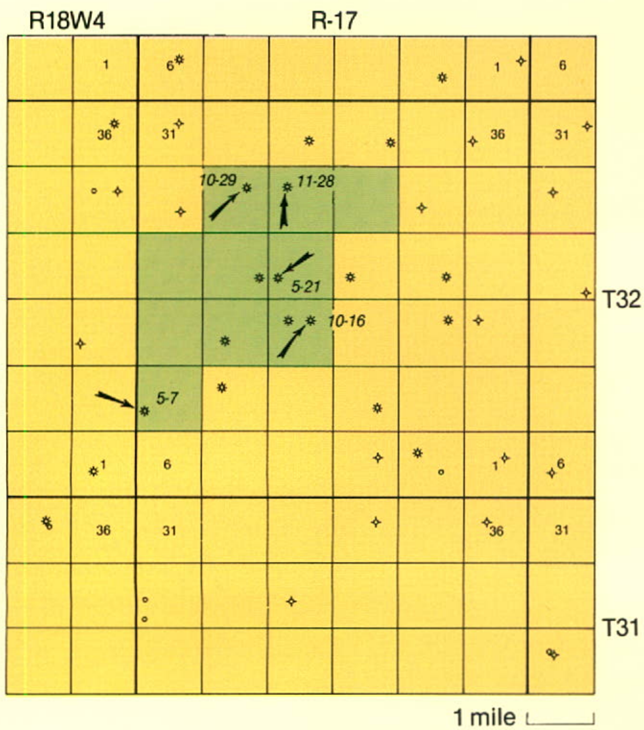


Canada–Areas of Exploration Activity - 1980



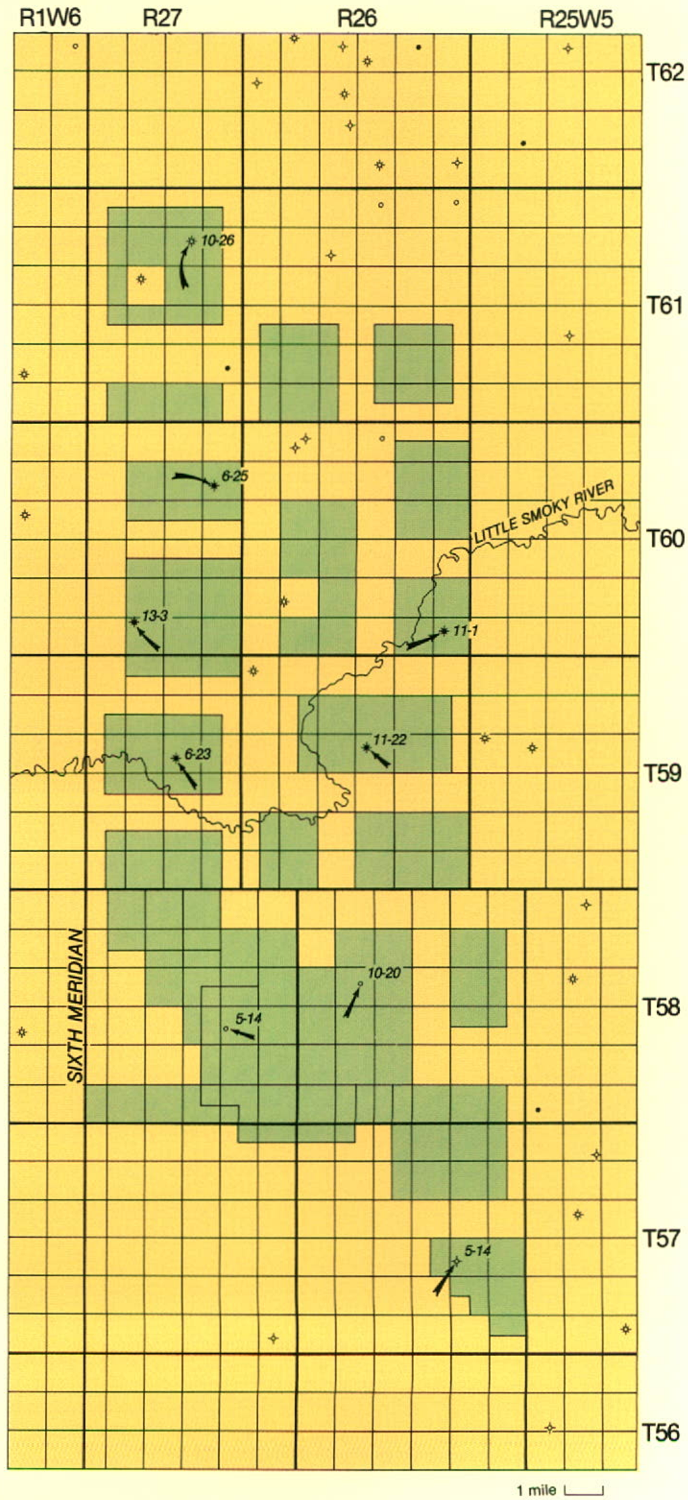
Berland River ➤

The Berland River project represents your Company's most ambitious undertaking to date. In this remote area of west central Alberta Westgrowth committed to a nine well farmout program from Amoco Canada Ltd. on 73,120 acres (29,591 hectares) of land which expires in January of 1982 unless proven productive. Drilling commenced last fall with five rigs operating simultaneously on the initial round of exploration. The estimated cost of the nine wells total between $14,000,000 and $18,000,000 with the potential for finding major reserves of Cardium oil and Lower Cretaceous gas analagous to the "Deep Basin" Elmsworth area on trend to the northwest. Westgrowth and its investors have retained a 20% working interest in this play before payout reverting to 10% after payout. Although the results to date have been encouraging, specific details cannot be released until the extent of the expiring acreage has been determined and offsetting Crown lands disposed of at forthcoming competitive land sales.



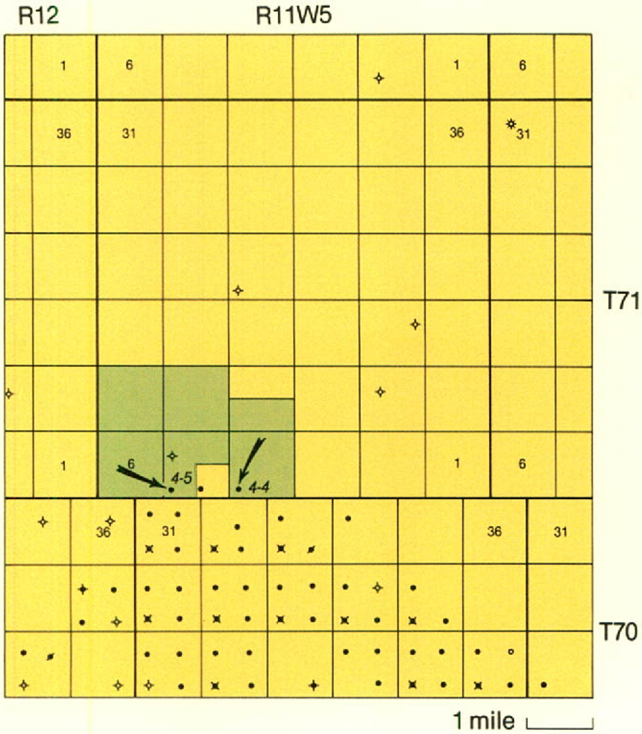
Craigmyle ▲

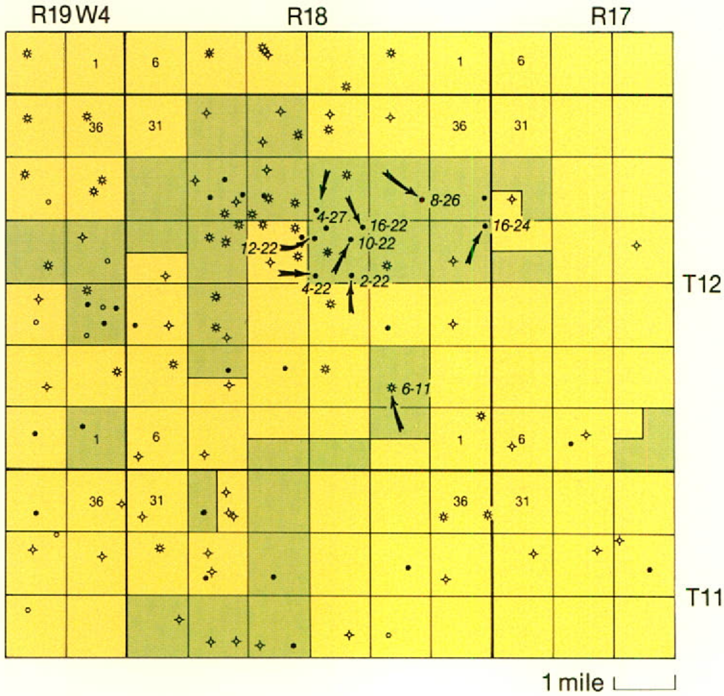
In the Craigmyle area Westgrowth and its investors have acquired or earned approximately a 15% working interest in 7,040 acres (2,849 hectares) of land. Five shutin gaswells were drilled resulting in substantial reserves in the Cretaceous Belly River and Glauconite formations. Two of the better wells include 5-7 and 10-16-32-17 W4M which drillstem tested gas at rates of 1.3 mmcf (36,630 cubic meters) per day and 1.9 mmcf (53,296 cubic meters) per day, respectively, from 7 feet (2.2 meters) to 16 feet (5 meters) of net pay. In addition the 5-7 well gave gas at 4.6 mmcf (129,614 cubic meters) per day from 17 feet (5.3 meters) of Glauconite pay.



Legend

- ✲ Gas well
- • Oil well
- ✧ Dry hole
- ∘ Well location
- Acreage in which Westgrowth has an interest





Swan Hills North

The Swan Hills Beaverhill Lake "C" Pool, a major Devonian reef oil field, was discovered and developed during the late fifties. Westgrowth's successful completions in 4-4 and 4-5-71-11 W5M are an example of the potential which still remains in and around long established major oil and gas fields. The wells have an average net pay of 38 feet (11.6 meters) and are anticipated to have an initial producing rate of approximately 30 barrels (4.8 cubic meters) of oil per day following completion and stimulation. By virtue of drilling these two wells, Westgrowth and its drilling fund partners have earned a 41.7% working interest before payout of the wells and a 22.9% interest thereafter in 3,360 acres (1,360 hectares).

Retlaw/Turin

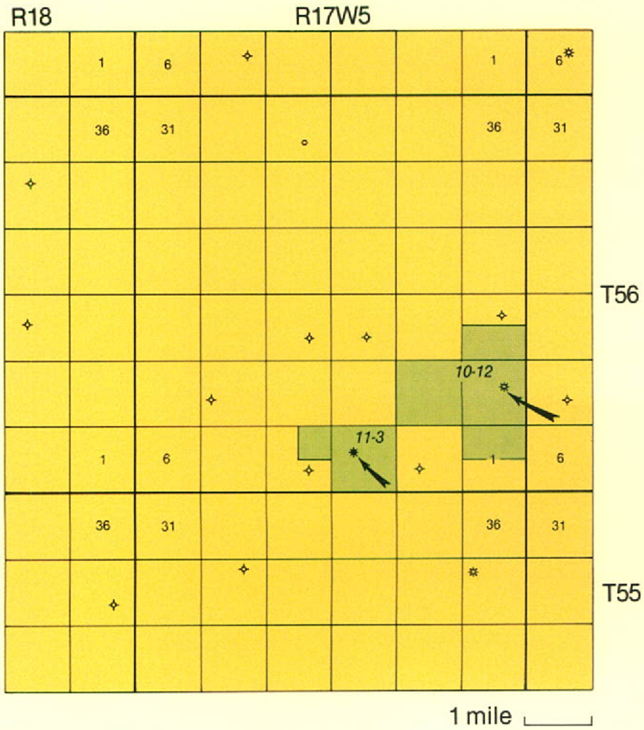
Westgrowth continued to be active in the Retlaw area during 1980 having participated in nine successful wells. In section 22-12-18 W4M five Glauconite oilwells were drilled at 2-22, 4-22, 10-22, 12-22 and 16-22 in which the Company has a 34.6% corporate interest. Initial producing rates ranged from 70 barrels (11.1 cubic meters) to 185 barrels (29.4 cubic meters) of oil per day from net pays varying between 7 feet (2.2 meters) and 59 feet (18 meters). In section 27 the 4-27 well was also completed as a Glauconite oilwell with an initial producing rate of approximately 35 barrels (5.6 cubic meters) of oil per day. Westgrowth has a 37.9% corporate working interest in this well.

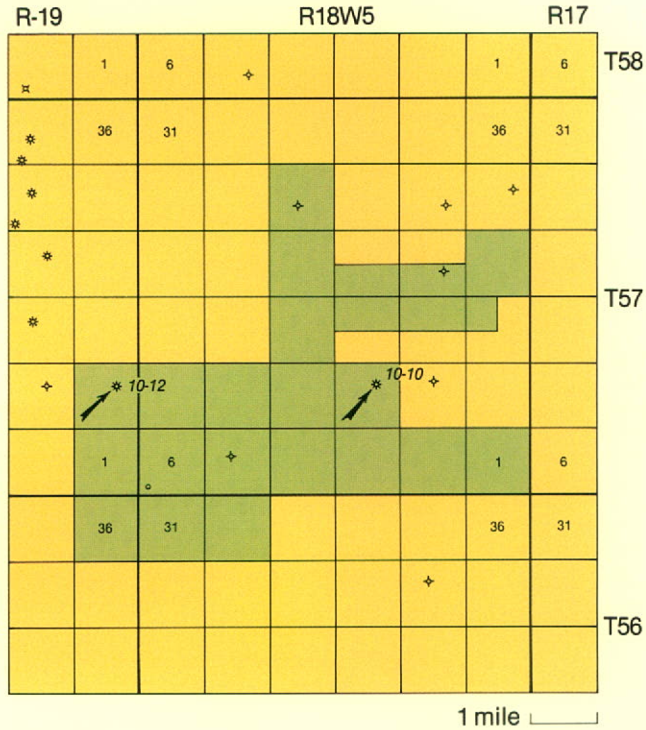
Westgrowth and its investors also participated in successful Glauconite zone oilwells in 16-24 and 8-26 as well as a Glauconite gaswell in 6-11. The 16-24 well in which the group has a 30.5% working interest before payout reverting to 15.2% after payout, is currently averaging 40 barrels (6.4 cubic meters) of oil per day. At 8-26 the well had an initial pumping rate of 46 barrels (7.3 cubic meters) per day which is expected to significantly improve following a fracture stimulation. Westgrowth and its drilling fund/joint venture partners have a 60.9% working interest before payout and 30.5% after payout in this well.

At 6-11-12-18 W4M the Company and its investors participated as to a 61.2% interest before payout of the well, and 30.6% interest after payout. The well was drilled on lands with an associated gas deliverability contract and the well is currently producing at a rate of 2.0 mmcf (56,354 cubic meters) of gas per day.

Westgrowth has continued to expand its acreage position in the Retlaw area to the extent that it now owns various interests in 13,920 acres (5,633 hectares).

Alberta





Shining Bank

Westgrowth and its investors have earned an average 20.0% working interest in 2,720 acres (1,101 hectares) by drilling two successful wells in this area. The 10-12-56-17 W5M well has been cased as a Bluesky/Gething gaswell with 36 feet (11 meters) of net pay which gave gas to surface at 2.6 mmcf/d (74,097 cubic meters/day) on drillstem test. The second well, 11-3, has been completed as a dual zone oil and gaswell; however, specific results are being held confidential pending the disposition of contiguous lands.

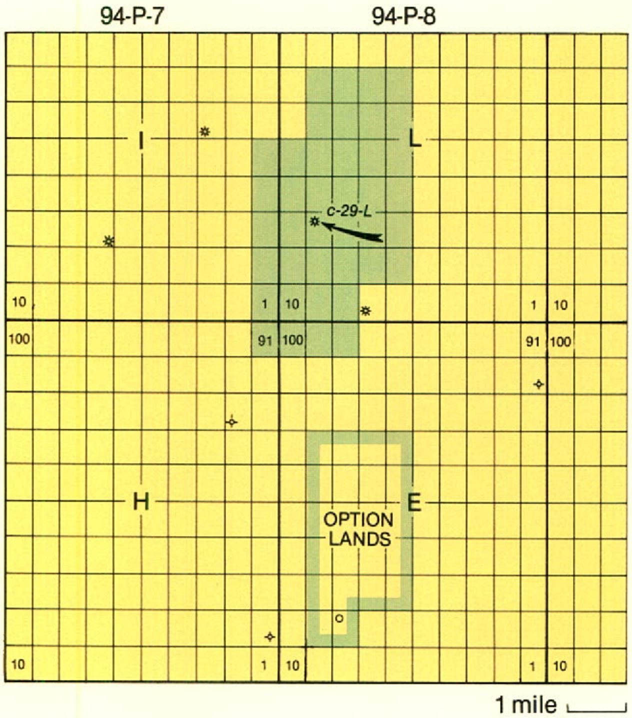
Pine/Mayberne

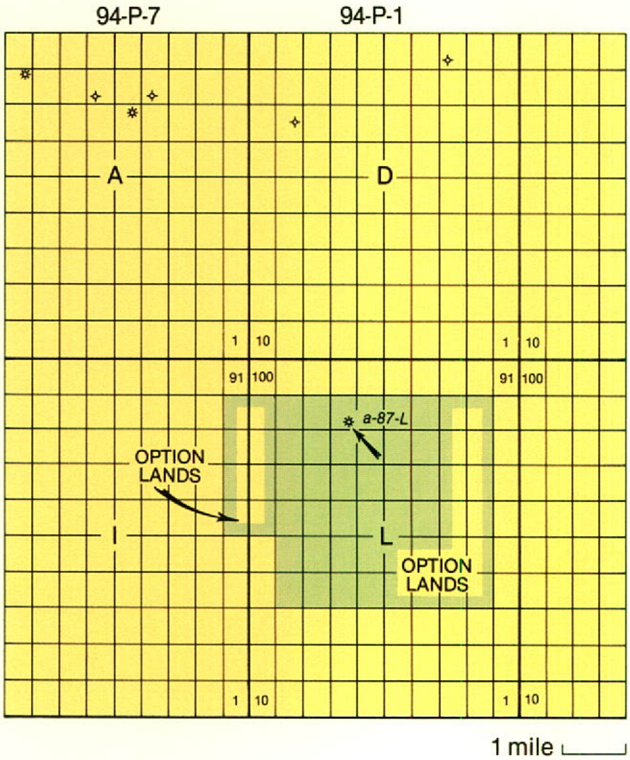
In the Pine/Mayberne area of west central Alberta, Westgrowth and its joint venture partners have earned or acquired an average 9.8% working interest in 13,600 acres (5,504 hectares). Two wells were drilled during 1980 in 10-10-57-18 W5M and 10-12-57-19 W5M and cased as potential gaswells. The 10-12 well drillstem tested 657 mcf (18,500 cubic meters) of gas per day from the Lower Cretaceous Bluesky zone as well as 142 mcf (4,000 cubic meters) per day through perforations from the Jurassic Nordegg formation. Both zones should flow at significantly higher rates following fracture stimulations. The well has been assigned a total net gas pay of 55 feet (16.9 meters) including the Lower Cretaceous Gething zone which has not been tested at this time.

The 10-10 well was also cased for its Gething gas potential and is presently being completed and evaluated.

Westgrowth operated drilling rig on location at 13-3-60-27 W5M, Berland River area of West Central Alberta.

British Columbia



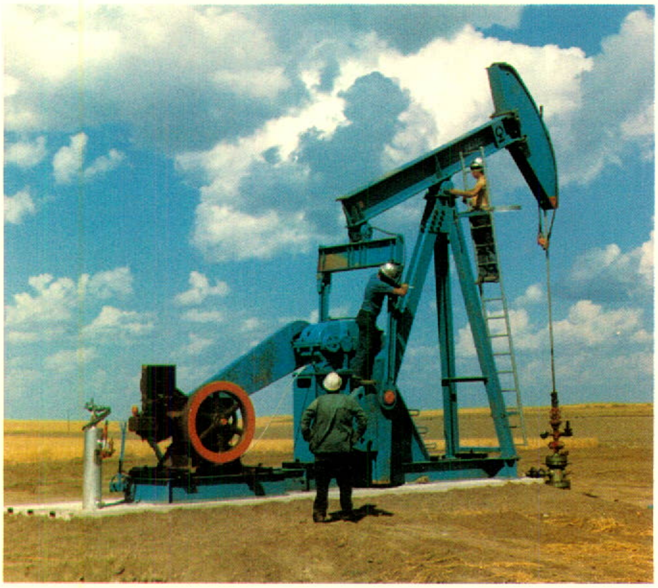


Peggo

In the Peggo area the c-29-L-94-P-8 well was drilled by Westgrowth and its investors as to a 33.3% working interest reverting to 16.7% after payout of the well. The hole was cased as a potential Devonian Jean Marie gaswell and is currently being completed and evaluated. The Company and its partners presently have earned an interest in 5,710 acres (2,311 hectares) and by drilling a second Jean Marie test on the indicated option lands can increase their acreage position to include an additional 3,581 acres (1,449 hectares).

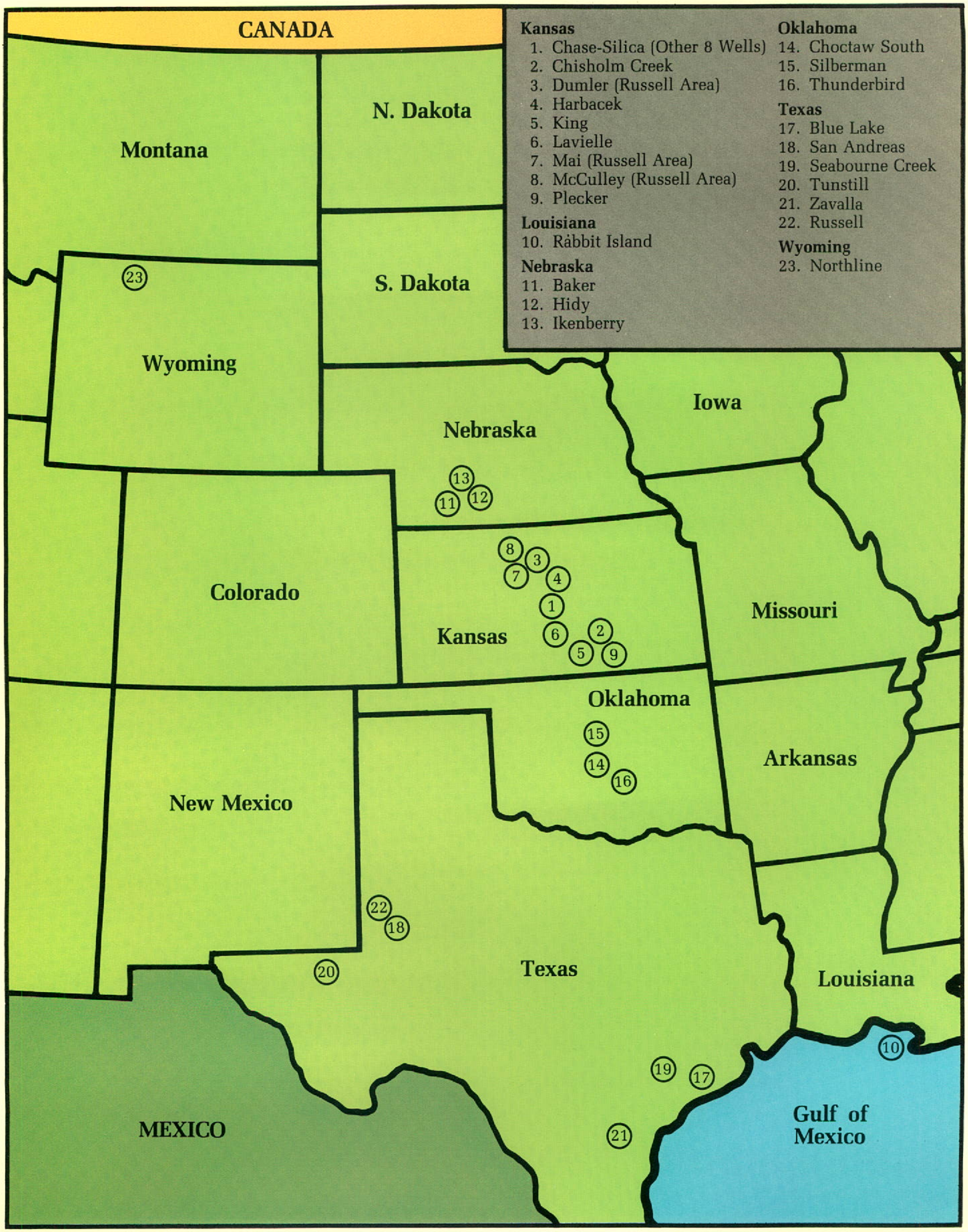
Hipper

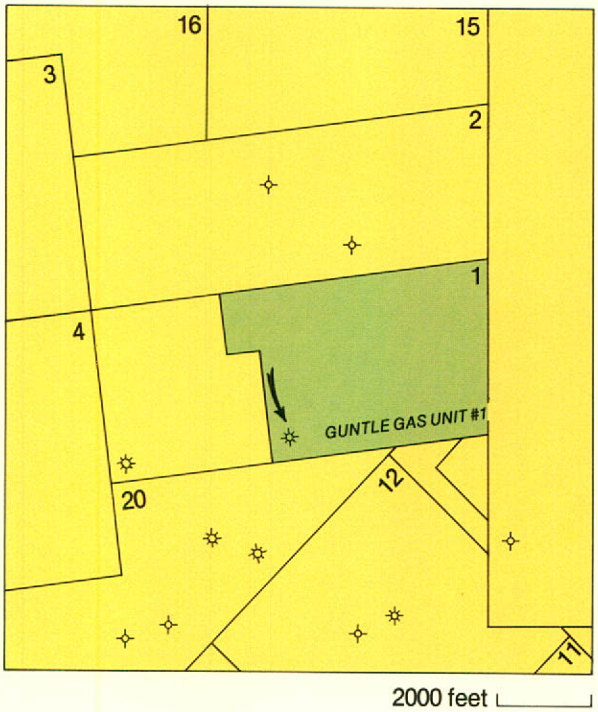
Westgrowth and its joint venture partners have earned and acquired working interest ranging from 16.7% to 33.3% in 5,240 acres (2,121 hectares) and have an option to earn similar interests in an additional contiguous 3,930 acres (1,590 hectares). The initial earning well drilled in a-87-L-94-P-1 has been completed as a dual zone Mississippian and Devonian Jean Marie formation gaswell. During production tests the Jean Marie zone flowed at a rate of 423 mcf (11,909 cubic meters) per day and the Mississippian zone at rates of approximately 1.65 mmcf (46,492 cubic meters) per day. Additional drilling is planned for the 1981-82 winter drilling season on the aforementioned option lands.

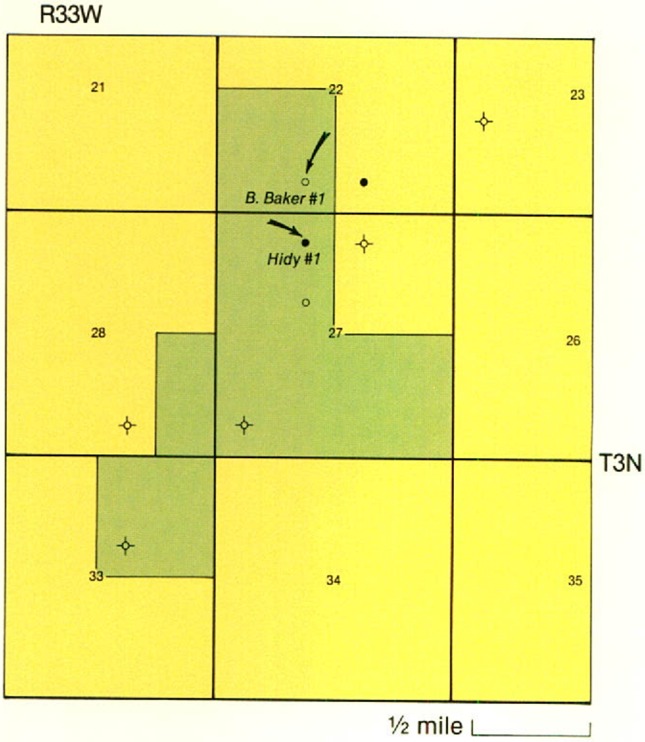


Pumpjack installation on a Westgrowth etal oil well at Retlaw 8-26-12-18 W4M in Southern Alberta.

United States - Areas of Exploration Activity - 1980







Seabourne Creek - Fort Bend County, Texas

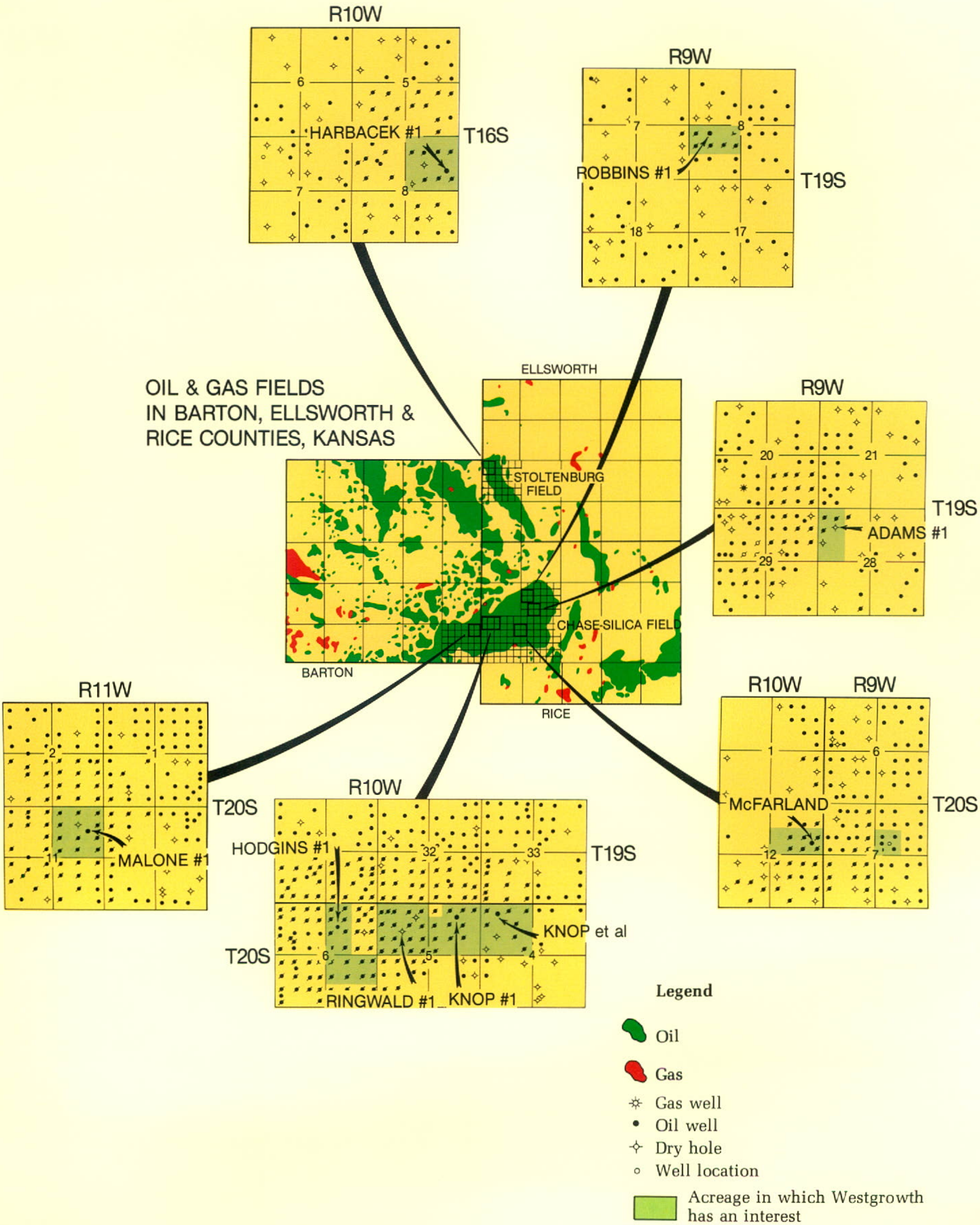
The Guntle Gas Unit #1 well in which Westgrowth has earned a 7.5% corporate working interest was drilled to 8,716 feet (2,656 meters). An independent engineering evaluation has identified six potentially productive zones in the well including four Frio sands plus the Cockfield and Yegua formations. To date only two Frio sands have been completed as gas zones, with one being placed onstream in September. The calculated absolute open flow potential from each zone perforated at 5024-5027 feet (1531.2-1532.1 meters) and 5220-5225 feet (1591.0-1592.5 meters) was 27.2 mmcf (766,413 cubic meters) and 20.5 mmcf (577,628 cubic meters) of gas per day, respectively. During December, 1980 the well was averaging 1.66 mmcf/d (46,774 cubic meters per day) and has at least one potential offset location.

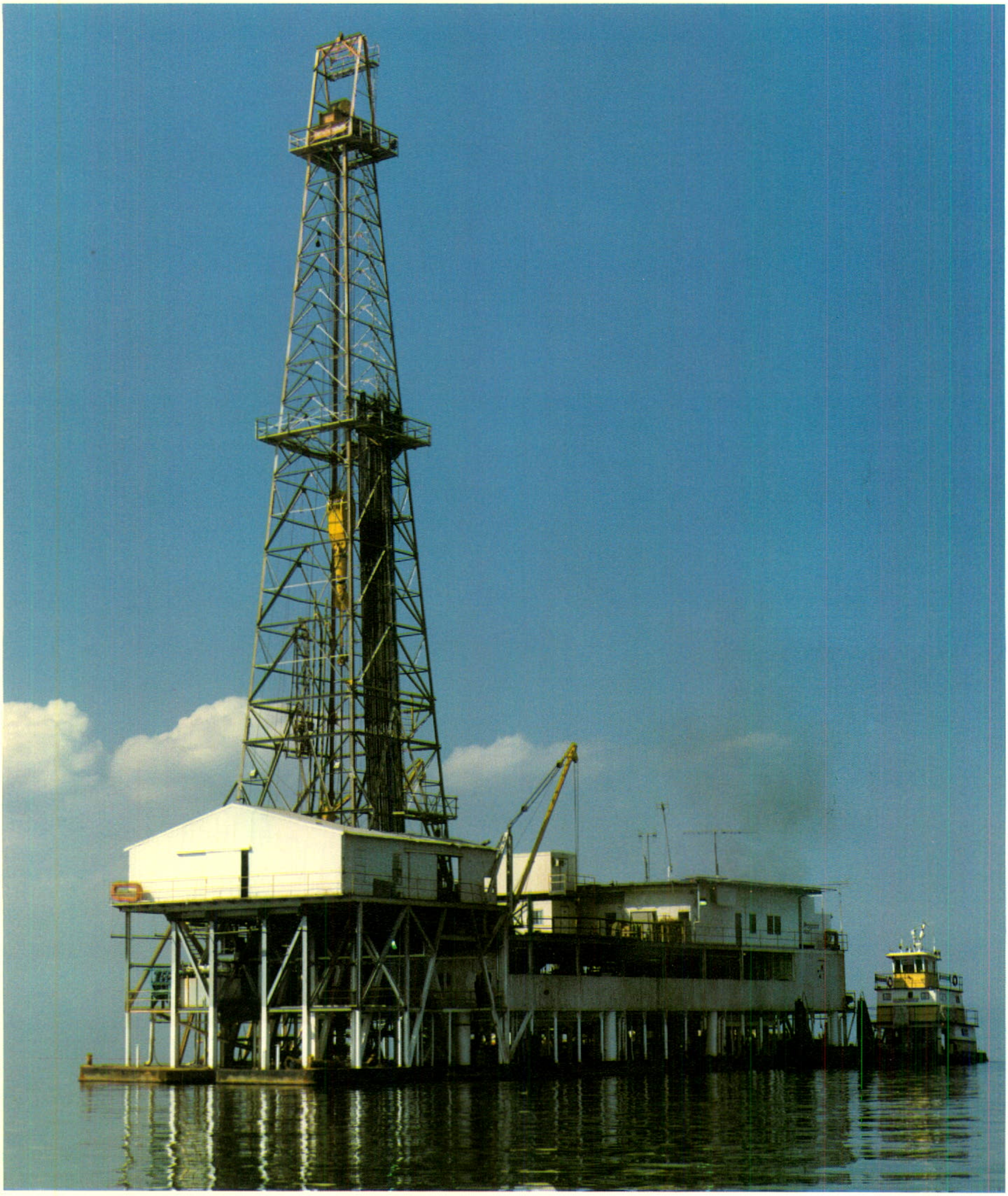
Hidy - Hitchcock County, Nebraska

During 1980 Westgrowth earned a 32.5% corporate working interest in 880 acres (356 hectares) on this prospect by participating in a 4,340 foot (1,323 meter) multizone Lansing/Kansas City oil discovery. The well had an initial producing rate from the "G" zone alone of approximately 85 barrels (13.5 cubic meters) of oil per day and is expected to stabilize at an average daily pumping rate of 30 barrels (4.8 cubic meters). Several potential offset locations exist to the discovery well and development drilling will commence early in 1981.

Nine Well Program - Barton, Ellsworth and Rice Counties, Kansas ➤

A number of large and prolific oilfields were developed in the Arbuckle Dolomite of central Kansas during the 1930's and 1940's. Characteristically these fields have an active water drive and later in the producing life of each well disposal of water produced with the oil became an economic problem since oil was selling for only $3.00 per barrel. Today, however, with oil averaging $40.00 per barrel and recent advances in high volume pumping technology, many of these fields and their residual oil reserves are being redrilled and the oil plus associated water produced economically. Westgrowth and its investors participated in a nine well infill drilling program of which seven wells were cased as potential Arbuckle producers, and two were abandoned. Several of the cased wells also carry uphole Lansing/Kansas City potential which was not considered attractive during the early development of these fields due to the lower productivity compared to the Arbuckle zone. Initial production from the Arbuckle is expected to average approximately 10 barrels (1.6 cubic meters) of oil per day and potentially double with the installation of high volume lift facilities. Westgrowth and its joint venture partners have earned a 32.5% working interest in 1,240 acres (502 hectares) on this project which has the possibility for at least twenty development locations.


R10W
T16S
HARBACEK #1
R9W
T19S
ROBBINS #1
OIL & GAS FIELDS
IN BARTON, ELLSWORTH &
RICE COUNTIES, KANSAS
ELLSWORTH
STOLTENBURG
FIELD
CHASE-SILICA FIELD
BARTON
RICE
R9W
T19S
ADAMS #1
R11W
T20S
MALONE #1
R10W
T19S
T20S
HODGINS #1
KNOP et al
RINGWALD #1
KNOP #1
R10W
R9W
T20S
McFARLAND
Legend
Oil
Gas
Gas well
Oil well
Dry hole
Well location
Acreage in which Westgrowth has an interest



Rig and barge moving to location on State lease 7724 #1 Rabbit Island prospect, Iberia Parrish, Louisiana.

Consolidated Balance Sheet

December 31, 1980
Westgrowth Petroleums Ltd.

Assets	**1980**	1979 (Restated)
Current assets:		
Accounts receivable (Note 6)	**$ 6,767,671**	$ 2,112,889
Due from limited partnerships	**1,620,807**	303,754
Note receivable	**—**	513,271
Prepaid expenses	**19,099**	13,732
	8,407,577	2,943,646
Property, plant and equipment (Note 5):		
Petroleum and natural gas properties and production equipment	**7,253,834**	2,379,099
Accumulated depletion and depreciation	**757,903**	347,072
	6,495,931	2,032,027
Other assets (Note 4)	**279,591**	156,422
	$15,183,099	$ 5,132,095

Liabilities and Shareholders' Equity		
Current liabilities:		
Outstanding cheques less cash in bank	**$ 509,733**	$ 613,511
Bank demand loan (Note 6)	**1,432,080**	—
Accounts payable	**6,989,176**	2,271,945
Due to limited partnerships	**666,476**	—
Deferred management fee revenue	**184,500**	—
	9,781,965	2,885,456
Advances on natural gas sales contracts (Note 7)	**235,486**	60,882
10% Subordinate Convertible Debentures	**2,000,000**	—
Shareholders' equity:		
Share capital (Note 9):		
Preferred shares	**782,500**	1,112,500
Common shares	**2,861,902**	1,975,222
	3,644,402	3,087,722
Deficit	**478,754**	901,965
	3,165,648	2,185,757
Commitment (Note 14)		
On behalf of the Board — Director		
Director		
	$15,183,099	$ 5,132,095

See accompanying notes.

Consolidated Statement of Earnings
Year ended December 31, 1980
Westgrowth Petroleums Ltd.

	1980	1979 (Restated)
Revenue:		
Sale of petroleum and natural gas, net of royalties	**$1,350,841**	$ 439,477
Management fees based upon capital contributions of joint interest participants	**894,708**	157,660
Interest	**15,147**	46,373
	2,260,696	643,510
Expenses:		
Production	**397,981**	156,917
General and administrative	**538,175**	123,320
Commissions	**164,368**	35,000
Interest on debentures	**83,333**	—
Depletion	**247,346**	39,500
Depreciation	**163,484**	30,612
Other interest	**263,135**	4,534
Reorganization costs	—	29,500
	1,857,822	419,383
Earnings before income taxes and extraordinary items	**402,874**	224,127
Income taxes, net of provincial royalty tax credit (Note 10)	**68,190**	55,066
Earnings before extraordinary items	**334,684**	169,061
Extraordinary items:		
Gain on disposition of investment in Westgrowth Investments Ltd.	—	36,015
Tax benefits of prior years' losses	**172,852**	84,247
	172,852	120,262
Net earnings (Note 11)	**$ 507,536**	$ 289,323

Consolidated Statement of Deficit
Year ended December 31, 1980
Westgrowth Petroleums Ltd.

	1980	1979
Deficit, beginning of year, as previously reported	**$1,021,726**	$1,151,441
Deduct:		
Change of accounting policy (Note 2)	**64,000**	—
Prior period adjustment (Note 3)	**55,761**	92,886
Deficit, beginning of year, as restated	**901,965**	1,058,555
Add:		
Issue expense of preferred shares less related income tax of $23,500	—	26,500
Dividends on preferred shares	**84,325**	110,233
	986,290	1,195,288
Deduct:		
Proceeds from warrants issued	—	4,000
Net earnings	**507,536**	289,323
Deficit, end of year	**$ 478,754**	$ 901,965

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1980
Westgrowth Petroleums Ltd.

	1980	1979 (Restated)
Funds provided:		
From operations	**$ 919,622**	$ 338,230
Proceeds on issue of debentures	**2,000,000**	—
Proceeds on issue of share capital:		
Preferred shares	—	1,265,000
Common shares	**556,680**	58,000
Disposition of investment in Westgrowth Investments Ltd.	—	513,271
Advances on natural gas sales contracts	**174,604**	52,186
Property, plant and equipment transferred to limited partnerships	**547,646**	—
Other	—	10,000
	4,198,552	2,236,687
Funds applied:		
Property, plant and equipment	**5,422,381**	1,792,471
Investment in Westgrowth Investments Ltd.	—	466,199
Preferred shares:		
Issue expenses	—	50,000
Dividends	**84,325**	110,233
Advances to officers and directors	—	72,990
Increase in other assets	—	27,682
Reclassification of account receivable	**124,424**	—
	5,631,130	2,519,575
Working capital deficiency:		
Increase in year	**1,432,578**	282,888
Beginning of year	**(58,190)**	(341,078)
End of year	**$1,374,388**	$ (58,190)

Notes to Consolidated Financial Statements

Year ended December 31, 1980
Westgrowth Petroleums Ltd.

1. **Significant accounting policies:**

a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

b) Property, plant and equipment:

The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenditures, under which all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized recognizing separate Canadian and United States costs centres. Such costs include those related to lease acquisitions, geological and geophysical activities, carrying charges of non-producing properties, drilling of productive and non-productive wells and overhead related to exploration and development.

Depletion of petroleum and natural gas properties is calculated on the unit-of-production method based upon estimated proven reserves as determined by independent engineers. Depreciation is calculated on a declining balance basis at a rate of 10% for production equipment and 20% for other equipment.

c) Foreign currency translation:

The foreign currency accounts of the Company and its United States subsidiary are translated to Canadian dollars as follows:

Current assets and current liabilities at the rate of exchange prevailing at the end of the year;

Other assets and liabilities at the rate of exchange in effect on the dates the assets were acquired or the obligations were incurred;

Revenue and expenses at the average rate of exchange in effect during the year with the exception of depletion and depreciation, which reflect the rate in effect when the related assets were acquired.

All gains and losses arising from foreign currency translation are included in the determination of net earnings.

d) Joint interest operations:

Substantially all of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

2. Change of accounting policy:

Effective January 1, 1980 the Company retroactively adopted a policy whereby overhead expenses relating to the exploration for and development of petroleum and natural gas reserves are capitalized and included in costs to be depleted by the unit-of-production method. The effect of the application of this policy for the years ended December 31, 1980 and 1979 is as follows:

	1980	1979
Decrease in general and administrative expenses	$177,000	$ 64,000
Increase in depletion	9,100	—
Increase in earnings before income taxes and extraordinary items	167,900	64,000
Increases in income taxes - deferred	45,256	16,920
Increase in earnings before extraordinary item	122,644	47,080
Increases in extraordinary item - tax benefit of prior years' losses......................	45,256	16,920
Increase in net earnings and decrease in deficit	$167,900	$ 64,000

The effect of the change prior to 1979 is not material

3. Prior period adjustment:

An error in 1976 resulted in the exclusion of petroleum and natural gas revenue from earnings for the years ended December 31, 1976 through December 31, 1979. The correction of this error has resulted in an increase of $148,647 in accounts receivable at December 31, 1979 and an increase in net earnings for the year then ended as follows:

Increase in sale of petroleum and natural gas, net of royalties	$62,692
Increase in production expense	13,347
Increase in net earnings before income taxes and extraordinary items	49,345
Increase in income taxes, net of provincial royalty tax credit	12,654
Increase in net earnings before extraordinary items	36,691
Increase in extraordinary item — tax benefit of prior years' losses	19,070
Increase in net earnings and decrease in deficit ..	$55,761

The deficit at January 1, 1979 has been reduced by $92,886 in order to reflect the effect of this adjustment on the years ended December 31, 1976 through December 31, 1978.

4. Other assets:

Other assets consist of the following:	1980	1979
Accounts receivable	$124,424	—
Promissory notes	71,735	$ 72,990
Marketable securities, at cost (quoted market value $325,000)	55,750	55,750
Drilling deposits	27,682	27,682
	$279,591	$156,422

The promissory notes, which bear interest at 10% per annum, are due in June, 1984 and represent funds advanced to officers and directors for the purpose of acquiring shares of the Company.

5. Property, plant and equipment:

	December 31, 1980			1979
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
				(notes 2&3)
Canada				
Petroleum and natural gas properties	$4.335.924	$ 444.011	$3.891.913	$1.741.467
Production equipment, gas plants and other equipment	1.288.535	232.877	1.055.658	290.560
	5.624.459	676.888	4.947.571	2.032.027
United States				
Petroleum and natural gas properties......	1.246.571	42.735	1.203.836	—
Production equipment, gas plants and other equipment	382.804	38.280	344.524	—
	1.629.375	81.015	1.548.360	—
Total	$7.253.834	$ 757.903	6.495.931	$2.032.027

The Company has pledged certain Canadian petroleum and natural gas properties as security for bank indebtedness.

6. Bank demand loan

The bank demand loan represents drawings on an operating line of credit of $4,700,000 and bears interest at ¼% over the prime lending rate of the Company's banker.

The loan is additionally secured by a general assignment of accounts receivable.

7. Advances on natural gas sales contracts

This is an amount received in respect of annual contracted gas volumes not taken by purchaser and which will be reported as revenue upon subsequent delivery of gas.

8. 10% Subordinate Convertible Debentures

The Company has issued debentures bearing interest at 10% per annum maturing July 31, 1985 in the principal amount of $2,000,000, of which $1,000,000 was issued to a major corporate shareholder. The debentures are convertible into common shares at the rate of $5.00 per share to July 29, 1982 and $6.00 per share for the duration of the term.

The debentures are redeemable at the sole option of the Company after July 31, 1981 if the average closing stock exchange price of the common shares of the Company during thirty consecutive trading days subsequent to that date was not less than one dollar above the conversion rate applicable during that period.

9. Share capital:

a) Authorized:

i) Preferred — 126,500 cumulative redeemable, convertible shares of $10 par value each, having an annual dividend rate of $1 per share.
ii) Common — 10,000,000 shares of no par value.

b) Issued:

i) Prefered shares:

	Shares	Consideration
Balance, December 31, 1979	111,250	$1,112,500
On conversion to common shares	33,000	330,000
Balance, December 31, 1980	78,250	$ 782,500

The preferred shares are convertible to twenty common shares for each preferred share outstanding.

The Company has the sole option to redeem the preferred shares at par value plus accrued and unpaid dividends at any time subsequent to December 31, 1981.

ii) Common shares:

	Shares	Consideration
Balance, December 31, 1979	3,025,008	$1,975,222
On exercise of warrants	319,200	554,850
On exercise of options	1,000	1,830
On conversion of preferred shares	660,000	330,000
Balance, December 31, 1980	4,005,208	$2,861,902

At December 31, the Company has reserved common shares for issue as follows:

	1980	1979
On the conversion of debentures	400,000	—
On the conversion of preferred shares	1,565,000	2,225,000
Under share purchase warrants:		
Issued to company controlled by director, exercisable at $.60 per share (1979 - $.50) and escalating by $.10 per share each year to date of expiration, December 31, 1983	200,000	200,000
Issued to senior officers, exercisable at $.50 per share, expiring December 31, 1981	172,000	175,000
Issued to major shareholder, exercisable at $1.75 per share, expiring June 1, 1981	80,000	160,000
Issued to partners of limited partnership, exercisable at $1.75 per share	—	234,400
Under options granted to officers and employees of the Company:		
Exercisable at prices between $1.83 and $3.06 per share expiring in 1983	98,000	99,000
Exercisable at prices between $3.40 and $4.04 per share expiring in 1984	137,000	—
No more than one third of options granted may vest in a particular year. The price of certain options, principally those expiring in 1983, escalates at $.25 per year.	2,652,000	3,093,400

10. Income taxes:

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of 48.8% (1979 - 47%) to the earnings before income taxes. The difference results from the following items:

	1980	1979
Computed expected tax	$196,602	$105,340
Increase (decrease) in taxes resulting from:		
Royalties and other payments to provincial governments	205,451	78,621
Provincial rebate	(25,124)	(8,295)
Federal resource allowance	(158,718)	(51,755)
Tax depletion of Canadian production income	(59,413)	(34,154)
Other non-deductible items	14,054	6,933
Income taxes — deferred	172,852	96,690
Alberta royalty tax credit	(104,662)	(41,624)
Income taxes, net of Alberta royalty tax credit	$ 68,190	$ 55,066
Percentage of earnings before income taxes	16.9%	24.6%

11. Earnings per share:

	Basic 1980	Basic 1979 (Restated)	Fully Diluted 1980
Before extraordinary items	$ .07	$ .02	$ .06
Extraordinary items	$ .04	$ .04	$ .04
	$ .11	$ .06	$ .10

Earnings per share are calculated on the weighted daily average number of shares outstanding during the year.

12. Segmented information:

The following information relates to the Company's operations in Canada and the United States:

	Canada	U.S.A.	Total
Revenue	$ 2,073,292	$187,404	$ 2,260,696
Segment operating profit (loss)	$ 1,008,434	$ (22,978)	$ 985,456
General and administrative			499,249
Interest on debentures			83,333
			582,582
Earnings before income taxes and extraordinary item			402,874
Income taxes, net of provincial royalty tax credit			68,190
Earnings before extraordinary item			334,684
Extraordinary item — tax benefit of prior years' losses			172,852
Net earnings			$ 507,536
Identifiable assets	$13,021,003	$2,162,096	$15,183,099

13. Related party transactions:

During the year, the company carried out transactions with certain related parties.

The Company has paid amounts of $20,000 and $132,864 in commissions for the issuance of debentures and the raising of capital through joint ventures, respectively, to a company whose chairman is a director of the Company.

Subsidiaries of a major shareholder have participated on a joint venture basis in the Company's exploration and development programs. The terms of the joint venture are considered comparable to similar transactions with non-related parties.

During the year these companies paid $134,430 in management fees to the Company and contributed approximately 14% of the total capital expenditures of the Company's programs. The companies' share of revenue from the programs was not significant.

14. Commitment:

The Company has entered into a ten year lease agreement for office space effective December 1, 1981. The minimum aggregate payments are $4,205,050. The minimum payments required in the next five years are as follows:

1981	$ 30,307
1982	363,680
1983	363,680
1984	363,680
1985	363,680
	$1,485,027

15. Reclassification of comparative figures:

Certain 1979 figures have been reclassified to conform with the current year presentation.

Auditors' Report

We have examined the consolidated balance sheet of Westgrowth Petroleums Ltd. as at December 31, 1980 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.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 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, after giving retroactive effect to the capitalization of overhead expenses as explained in Note 2 to these financial statements, on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Calgary, Canada
March 13, 1981

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Reserves and Future Net Income Evaluation to December 31, 1980 [1 2 3]

	Oil barrels (m³)	Gas mmcf (10⁶m³)	Estimated Future Net Income[4] Undiscounted	12%	15%	20%
Proven:						
Canada	305,600 (48,585)	8,758 (246.7)	$61,197,400	$18,092,600	$15,000,700	$11,583,100
U.S.A.	50,458 (8,022)	273 (7.7)	3,712,745	1,557,167	1,328,226	1,056,043
Probable:						
Canada	163,300 (25,962)	2,130 (60.0)	30,680,600	4,783,800	3,424,400	2,079,100
U.S.A.	24,998 (3,974)	30 (0.8)	673,375	344,072	298,653	239,501
TOTAL	544,356 (86,543)	11,191 (315.2)	$95,264,120	$24,777,639	$20,051,979	$14,957,744

1. Canadian properties evaluated by Kloepfer, Coles, Nikiforuk Pennell Associates Ltd. and M & D Petroleum Consultants Ltd. United States properties evaluated by Ryder Scott Company.
2. Reserve values are net of all royalties and windfall profit tax.
3. Westgrowth carries non reserve acreage independently valued at **$5,986,062.**
4. Expressed in Canadian dollars and employing a 17% exchange rate on U.S. values.

Abbreviations and Metric Conversions

BCF — billion cubic feet
MMCF — million cubic feet
MCF — thousand cubic feet
m^3 — cubic meters
1 cubic meter = 6.29 barrels
1 cubic meter = 35.49 cubic feet
1 hectare = 2.471 acres