WESTGROWTH PETROLEUMS LTD.

Annual Report 1981

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

Mark J. Feldman
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

Mark J. Feldman
Secretary

Ernest G. Sapieha
Controller, Chief Financial Officer

Rick A. Bonnett
Treasurer

Magdalena E. Robutka
Asst. Secretary

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Auditors
Peat Marwick, Mitchell & Co.,
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
June 1, 1982
Westin Hotel – 3:00 p.m.
Lakeview Room
Calgary, Alberta

Despite the devastating effects of the Federal Government's National Energy Program and high interest rates, Westgrowth maintained a respectable level of activity during 1981. The Company concentrated on development drilling and optimizing its potential cash flow, resulting in a record high success ratio of 84% and a 78% increase in production revenue over 1980.

In Canada, Westgrowth participated in a total of 40 wells of which 22 were cased as gaswells, 15 as oilwells and 3 were abandoned. In the United States, 6 wells were cased as gaswells, 8 as oilwells and 7 were unsuccessful, for a total of 21 wells. The Company's gross acreage position expanded to include 417,682 acres (169,034 hectares) in Canada and 38,453 acres (15,562 hectares) in the United States. The equivalent net land position in each country was 85,827 acres (34,734 hectares) and 18,274 acres (7,395 hectares), respectively.

The past year saw a dramatic rise in Corporate gas and oil reserves primarily due to the highly successful development of the Company's main property at Retlaw, Alberta, as well as the exchange of common shares for assets of two former drilling funds and a joint venture exploration program. Both gas and oil reserves more than doubled from 1981 levels to 23.9 billion cubic feet (674 million cubic meters) and 1,119,705 barrels (178,034 cubic meters) in 1982. Estimated future net income attributable to these reserves totals some $447,000,000, and has a present worth of approximately $68,000,000 and $50,000,000 using discount factors of 15% and 20%, respectively. Daily production averaged 88 barrels (14 cubic meters) of oil and 2.6 million cubic feet (73,260 cubic meters) of gas, and for 1982 is forecast to rise to approximately 300 barrels (48 cubic meters) and 6.0 million cubic feet (169,000 cubic meters).

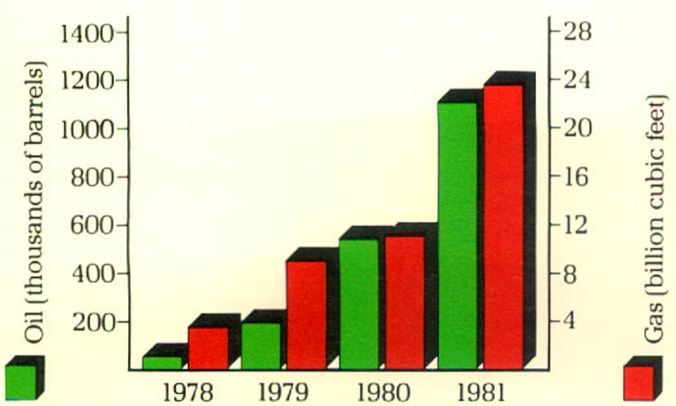
Financial results for 1981 reflect a significant increase in production revenue to $2,329,000, compared to $1,350,841 the year before. This increase was offset, however, by a sharp decline in management fees associated with the inability to raise significant new drilling fund and joint venture exploration capital in the negative financial climate precipitated by the National Energy Program. Nevertheless, total revenues showed a modest overall rise of 27% to $2,876,000. Interest charges on accelerated capital expenditures and undrilled land inventory, plus higher production expenses were significant factors in causing a threefold increase in total expenses over the previous year and resulted in a net loss in earnings of $1,783,000. Cash flow paralleled the decline in earnings, dropping from $919,000 in 1980 to a deficiency of $486,000 in 1981.

Notwithstanding a reasonable level of technical success in the U.S.A., financial results and fund raising efforts to date have been disappointing. Therefore, at this time Westgrowth does not plan to expand its existing operation in Dallas, Texas. During 1982, Management intends to concentrate the majority of its effort improving and generating cash flow from its Canadian properties by accelerating gas sales through various industrial contracts and developing those projects which qualify for the New Oil Reference Price determined by the National Energy Program. This effort, which is forecast to triple oil and gas revenue to over $7,500,000 in Canada, coupled with a proposed $10,000,000 private equity placement and subsequent rights offering to existing shareholders, will afford your Company sufficient funds to continue exploration and development of new oil and gas reserves.

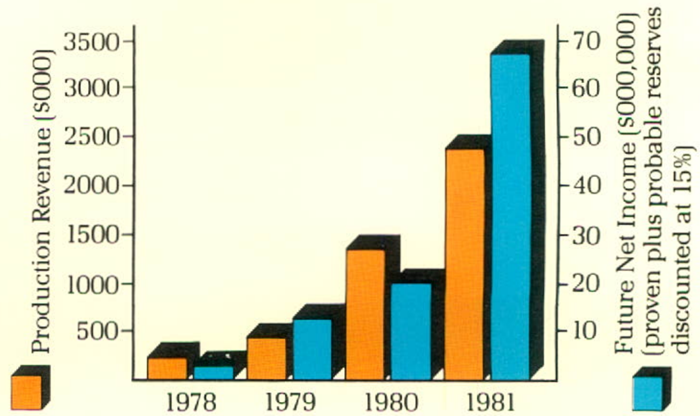
In conclusion, 1981 was a year of tremendous frustration and anxiety for not only Westgrowth, but the industry at large. The financial hardships experienced by your Company have befallen virtually everyone in the business, and they are the direct result of the uninformed interference by two levels of government into an otherwise vibrant and nationally beneficial industry. Your Management and Board of Directors feel that Westgrowth has taken the necessary adaptive measures which, together with the continued Shareholder support and dedicated efforts of our Staff, will ensure the Company's future.

Eric C. Gronberg
President, and Chief Executive Officer

Proven Plus Probable Oil & Gas Reserves 1978-1981 (net of royalties)



Production Revenue & Estimated Future Net Income 1978-1981

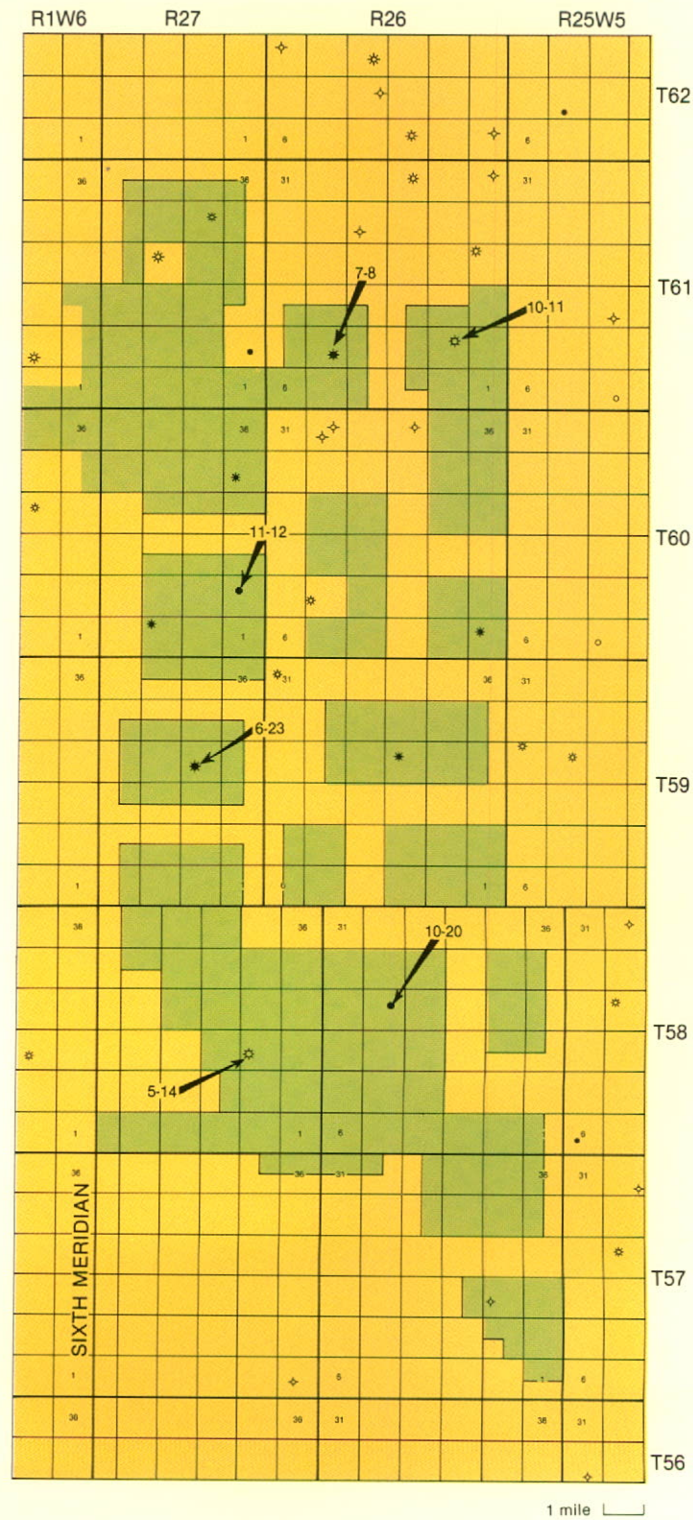


CANADA – Areas of Exploration Activity - 1981

Berland River

During 1981, Westgrowth participated in six wells in the area, bringing to twelve the total number of wells drilled in the past two years on this 73,120 acre (29,591 hectare) farmout from Amoco Canada Ltd. Although the farmout obligations have been satisfied by Westgrowth and its partners, it is important to note that many townships still carry only one or two wells, and the area is at best only sparsely explored. In Westgrowth's program to date, 5 wells have been cased as gaswells, 2 as oilwells, 4 as dual oil and gaswells and 1 hole was abandoned. Two oil zones have been established in the Cardium and Gething formations. Of these, the Cardium appears to be the more significant and widespread, and in four of the wells with indicated Cardium oil potential, net pays range up to 29 feet (9 meters). Daily production varies from 20-50 barrels (3.2-7.9 cubic meters) which qualifies for the five year Provincial royalty-free holiday and/or the New Oil Reference Price of approximately $45.00 per barrel ($283 per cubic meter).

Six different gas zones have been identified in the Dunvegan, Peace River, Spirit River, Gething, Cadomin and Nikanassin formations. Net pay in some of these sandstone reservoirs reaches 36 feet (11 meters) and Westgrowth feels that, in spite of the sparse well control, lateral continuity and significant gas reserves can be demonstrated over large portions of the undrilled acreage. The Company and its investors carry a 20% working interest in this project before payout and 10% thereafter.

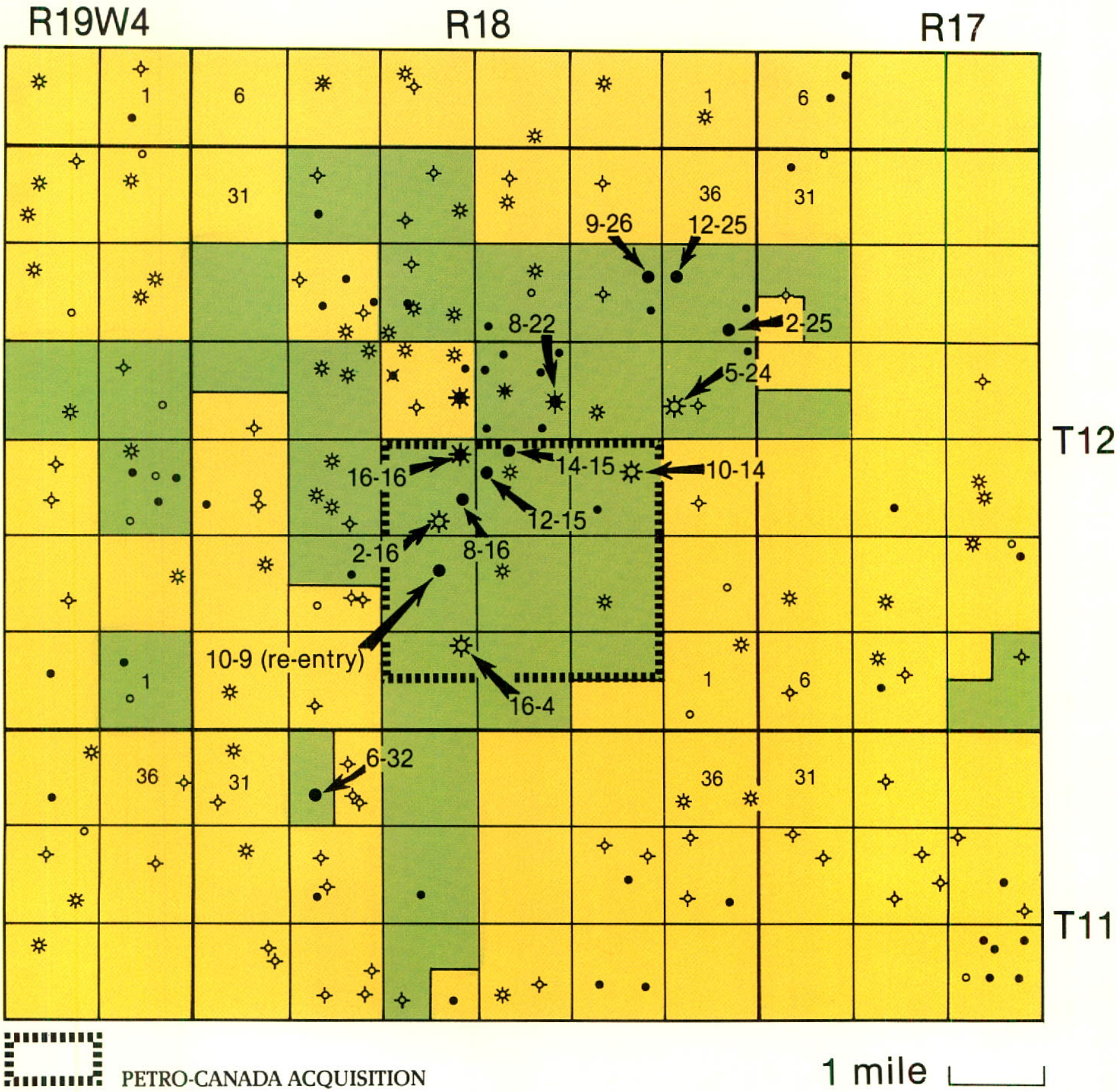


Metric Conversions and Abbreviations

1 meter	= 3.281 feet
1 cubic meter	= 6.29 barrels (oil)
	= 35.49 cubic feet (gas)
1 hectare	= 2.471 acres
m^3	= cubic meter
$10^6 m^3$	= million cubic meters
bbls.	= barrels
mmcf	= million cubic feet

Legend

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



PETRO-CANADA ACQUISITION

Retlaw

The Retlaw property continued to be the Company's single most active and successful project area. During 1981, Westgrowth participated in 14 completions and no dry holes. Eight of these were oilwells in the Glauconite formation, 4 were multizone gaswells and 2 were multizone gas and oil wells with as many as four productive zones per well.

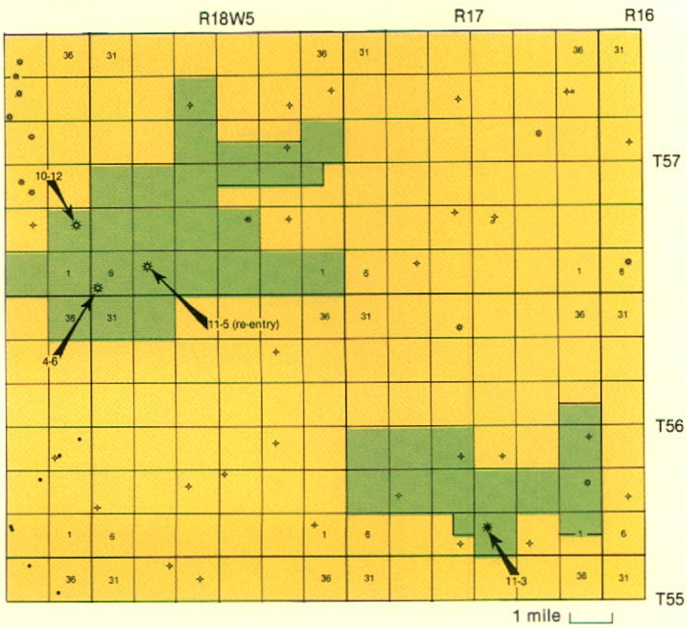
Drilling commenced on the 7.5 sections of land acquired from Petro-Canada in 1981, resulting in 2 oilwells and 6 multizone oil and/or gaswells. The oil production qualifies for the New Oil Reference Price established by the National Energy Program and the gaswells have been placed onstream by virtue of an associated TransCanada PipeLine contract or one of Westgrowth's industrial contracts. The 10-14-12-18 W4M dual zone gaswell was perforated and flowed 4,118,000 cubic feet (116,000 cubic meters) per day from 54 feet (16.5 meters) of Glauconite net pay. The deeper Basal Quartz formation gave 3,469,000 cubic feet (97,746 cubic meters) of gas per day on drillstem test from an additional 5 feet (1.5 meters) of net pay.

Other prolific wells drilled on these lands include the 12-15-12-18 W4M and 8-16-12-18 W4M wells, each of which have indicated pay in three zones. Although both wells are capable of producing in excess of 200 barrels (32 cubic meters) of oil per day from the Basal Quartz interval, they are government regulated as to allowable producing rates and presently average only 78 barrels (12.4 cubic meters) per day from net pays in the 6 foot (1.8 meters) to 13 foot (4.0 meters) range. Significant development drilling potential remains on this acreage in which Westgrowth presently owns an average 66.1% working interest.

Furthermore, enhanced recovery engineering studies of the Glauconite formation suggest that a minimum of 30% of the oil reserves in place can be recovered by injecting carbon dioxide (CO_2) into the reservoir. Incremental oil produced through such a tertiary recovery scheme (beyond the cumulative primary and secondary recovery estimates of 18%) also qualifies for the New Oil Reference Price and significantly improves the economics of developing this oil pool.

Additional wells of special interest drilled during 1981 include 5-24-12-18 W4M and 9-26-12-18 W4M. The 5-24 well flowed 3,656,000 cubic feet (103,000 cubic meters) of gas per day through perforations in 37 feet (11.3 meters) of Glauconite net pay. The well also carries 3.3 feet (1.0 meter) of Bow Island net pay which gave gas to surface at a rate of 4,419,000 cubic feet (124,514 cubic meters) per day on drillstem test. Westgrowth corporately owns a 21.4% share of this well. The 9-26 oilwell, in which the Company has the same working interest, also produces from the Glauconite formation and was production tested at 222 barrels (35.3 cubic meters) per day from 14 feet (4.3 meters) of net pay.

In the general Retlaw area, Westgrowth's land position has expanded to a total of 22,880 gross acres (9,259 hectares) or 10,006 net acres (4,049 hectares).

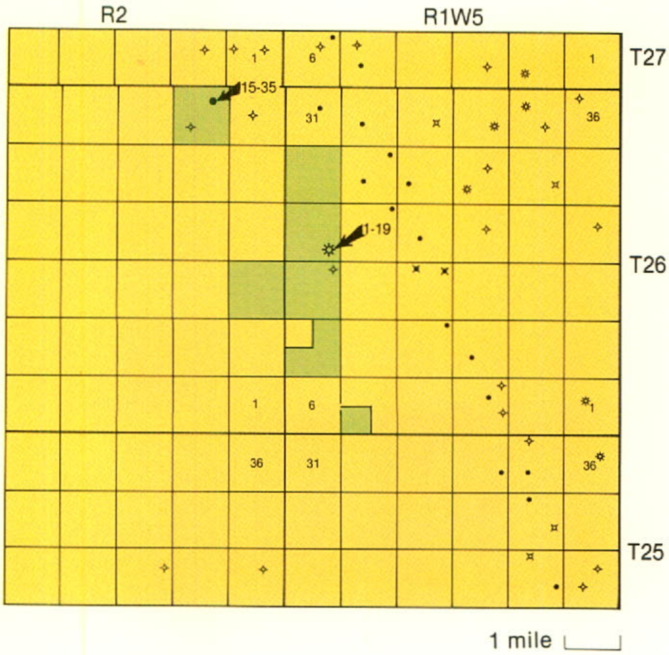


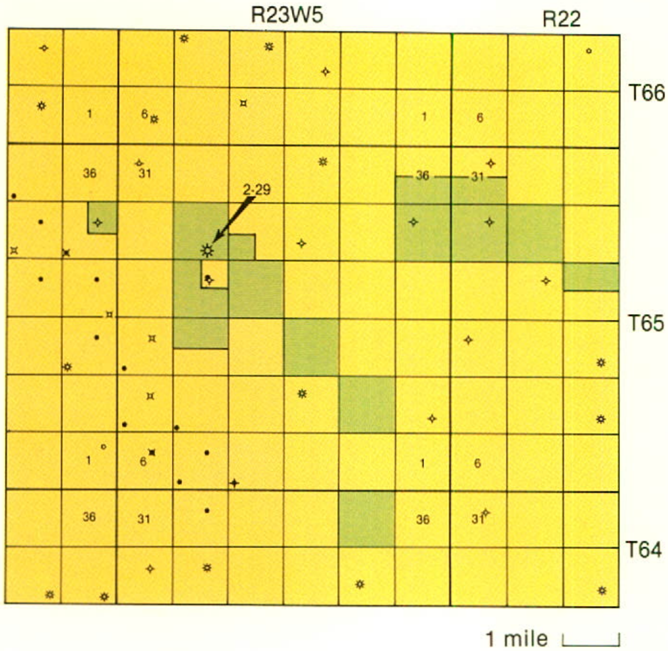
Pine/Shining Bank

In the Pine/Shining Bank area of west central Alberta Westgrowth continued to expand its acreage position to the extent that the Company presently has various working interests ranging from 4.8% to 40% in 36.5 sections of land (4.8 net sections). During 1981 a well in 11-3-56-17 W5M was completed as a Second Specks formation oilwell and Gething formation gaswell. The Second Specks zone is presently pumping oil at an average rate of approximately 40 barrels (6.4 cubic meters) per day, which qualifies for the New Oil Reference Price of approximately $45.00 per barrel. The Gething zone carries 31 feet (9.5 meters) of net gas pay which gave gas to surface at a rate of 644,000 cubic feet (18,146 cubic meters) per day on drillstem test.

The 4-6-57-18 W5M well was completed as a potential Gething gaswell with a total of 18 feet (5.5 meters) of net pay in two zones. During flow tests the lower zone flowed 95,500 cubic feet (2,691 cubic meters) of gas per day, which is anticipated to substantially improve following fracture stimulation.

To date, the 10-12-57-19 W5M well drilled in 1980 remains the best gaswell in which Westgrowth has participated, with an indicated 25 billion cubic feet (704 million cubic meters) of proven plus probable sales gas from 55 feet (16.8 meters) of net pay.





Crossfield

In the Crossfield area Westgrowth and its investors have various working interests ranging from 16.7% to 33.3% in 6 sections of land. Two wells have been drilled on this property in the past two years resulting in a Second Specks zone oilwell in 15-35-26-2 W5M and a Viking formation gaswell in 1-19-26-1 W5M. The 15-35 well was completed for an initial producing rate of over 400 barrels (63.6 cubic meters) per day but is presently restricted to 36.5 barrels (5.8 cubic meters) per day by government allowable regulations. Westgrowth and its investment partners have a 25% working interest in this well.

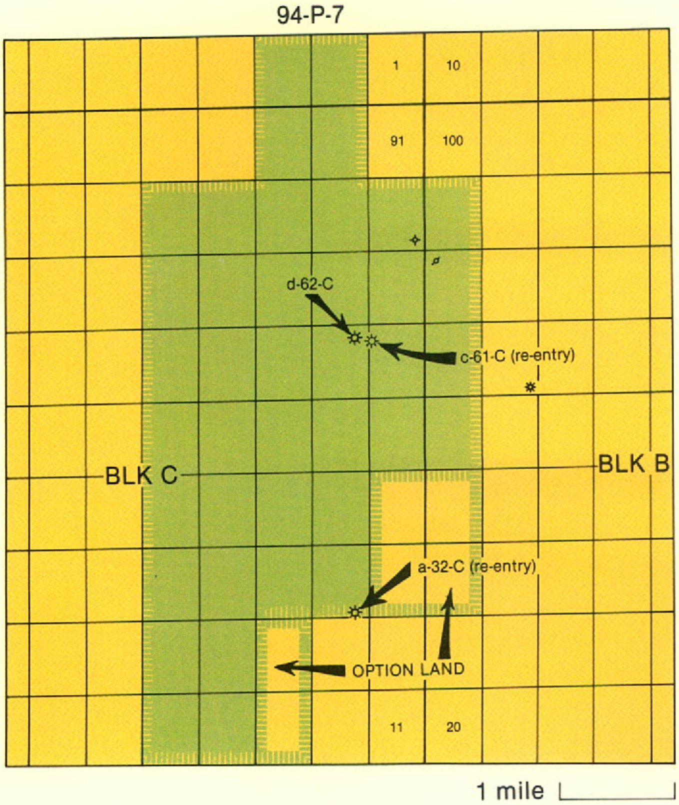
The 1-19 Viking gaswell has been assigned 21 feet (6.4 meters) of net pay which flowed gas at a rate of 1,209,000 cubic feet (34,066 cubic meters) per day. Two potential development locations to this discovery exist on Westgrowth's acreage. The Company and its investors have a 33.3% working interest in this well before payout and 16.7% thereafter.

Ante Creek

In the Ante Creek area of west central Alberta, Westgrowth and its investors have acquired an average 25% working interest in 7,200 acres (2,914 hectares) during the past three years. In 1981, the Company participated in a successful Dunvegan formation gaswell in 2-29-65-23 W5M which drillstem tested gas at a rate of 1,071,000 cubic feet (30,178 cubic meters) per day from 8 feet (2.4 meters) of net pay. This well appears to be in a gas cap to an oil pool indicated by the older shutin well in 10-21-65-23 W5M, one half mile to the south, which had an initial producing rate of 200 barrels (31.8 cubic meters) of oil per day.

Subsurface mapping suggests the potential for significant oil reserves underlying Westgrowth et al's acreage which would qualify for the New Oil Reference Price as determined by the National Energy Program.

British Columbia



Helmet

In the Helmet area of northeastern British Columbia, Westgrowth and its investors have earned or acquired an average 61.5% working interest in 6,528 acres (2,642 hectares) of land. During 1981, three wells were completed as Jean Marie formation gaswells, at least two of which are expected to be onstream in 1983.

The a-32-C/94-P-7 well, in which Westgrowth and its investors have an 80% working interest before payout and 40% after payout, has 43 feet (13 meters) of net gas pay which was production tested at a rate of 556,000 cubic feet (15,666 cubic meters) per day. At d-62-C/94-P-7, 30 feet (9 meters) of net pay gave 640,000 cubic feet (18,033 cubic meters) of gas per day on production test. Westgrowth et al have a 52.5% working interest in this well before payout and 26.25% thereafter. Flow rates on both wells are expected to improve substantially following acid stimulation treatments.

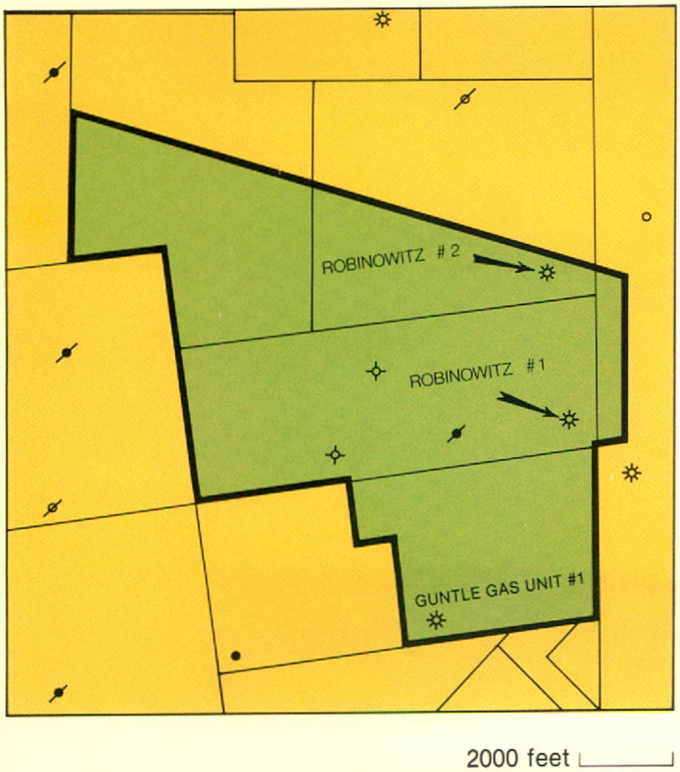
Although the c-61-C well was not production tested, it has been assigned 44 feet (13.4 meters) of net pay based upon analagous electric log characteristics to the aforementioned gaswells. Westgrowth and its investment partners will retain a 45.9% working interest in this well after payout.

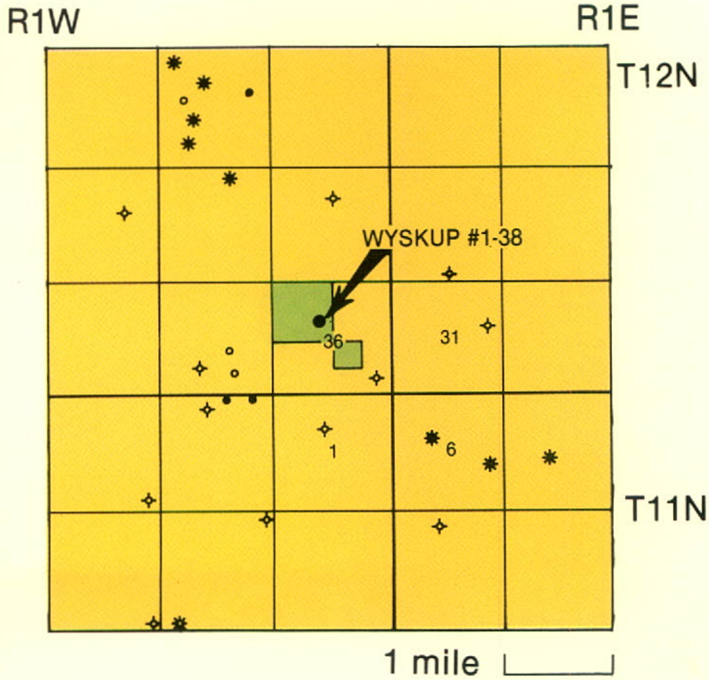
Reserves and Future Net Income Evaluation to January 1, 1982 (1, 2, 3)

	Oil bbls. (m^3)	Gas mmcf (10^6m^3)	Estimated Future Net Income ($000's) (4)			
			Undiscounted	12%	15%	20%
Proven:						
Canada	553,800 (88,055)	18,696 (527)	$267,946	$63,208	$51,415	$38,948
U.S.A.	17,090 (2,717)	314 (9)	1,282	907	846	762
Probable:						
Canada	545,300 (86,703)	4,914 (138)	178,071	21,852	15,932	10,198
U.S.A.	3,515 (559)	Nil	129	96	91	83
TOTAL	1,119,705 (178,034)	23,924 (674)	$447,428	$86,063	$68,284	$49,991

1. Canadian properties evaluated by Kloepfer, Coles, Nikiforuk, Pennel Associates Ltd. and M & D Petroleum Consultants Ltd. United States properties evaluated by Calhoun Engineering Inc.
2. Reserve values are net of all royalties and windfall profit tax.
3. Westgrowth carries non reserve acreage independently valued at $6,963,710. United States non reserve acreage was not evaluated.
4. Expressed in Canadian dollars and employing a 17% exchange rate on U.S. values.

UNITED STATES – Areas of Exploration Activity - 1981





Seabourne Creek – Fort Bend County, Texas

Westgrowth participated in three development wells on this property during 1981, two of which were completed as gaswells and one was abandoned. The Robinowitz #1 was completed as a triple zone Frio gaswell with a total of 13 feet (4 meters) of net pay, and gas flows ranging from 195,000 to 405,000 cubic feet (5,495 to 11,412 cubic meters) per day. The Robinowitz #2 was production tested at 1,033,000 cubic feet (29,107 cubic meters) per day from a single Frio sand with 16 feet (5 meters) of net pay. Both wells are expected to be onstream by mid 1982. This property, in which Westgrowth has a 7.5% corporate interest, now includes a total of 1,765 acres (715 hectares) and three productive wells.

Choctaw – Oklahoma County, Oklahoma

Westgrowth and its investors participated as to a 50% working interest in a successful Misener oilwell drilled on this prospect. The Wyskup #1-38 is currently pumping 40 barrels (6.4 cubic meters) per day from approximately 8 feet (2 meters) of net pay and, subject to obtaining satisfactory producing history, several offset locations could be drilled.

Operations meeting with Canadian Managers. Left to right: Eric C. Gronberg, (President), Ernest G. Sapieha, (Finance), Louis A. Sanche, (Exploration), James N. McIndoe, (Land), and John W. Stephure, (Production).

Reviewing United States properties with Dallas division staff. Left to right: Richard D. Hoffman, (Land Manager, Dallas), J. Leslie Watson, (Vice President, Exploration, Calgary), James L. Pardee, (Chief Engineer, Dallas), and Richard A. Bonnett, (Treasurer, Calgary).

Consolidated Balance Sheet

December 31, 1981
Westgrowth Petroleums Ltd.

Assets	1981	1980
Current assets:		
Accounts receivable (Note 6)	$ 2,694,000	$ 6,768,000
Petroleum incentive payments receivable	460,000	–
Due from limited partnerships	403,000	1,621,000
Note receivable (Note 3)	250,000	–
Inventory	112,000	19,000
Prepaid expenses	69,000	–
	3,988,000	8,408,000
Property, plant and equipment (Note 5)	24,190,000	6,496,000
Other assets (Note 4)	90,000	279,000
	$28,268,000	$15,183,000

Liabilities	1981	1980
Current liabilities:		
Outstanding cheques less cash in bank	$ 2,186,000	$ 510,000
Bank demand loan	13,121,000	1,432,000
Accounts payable	2,379,000	6,989,000
Due to limited partnerships	70,000	666,000
Deferred management fee revenue	–	185,000
	17,756,000	9,782,000
Advances on natural gas sales contracts (Note 7)	379,000	235,000
10% Subordinate Convertible Debentures (Note 8)	2,000,000	2,000,000
Shareholders' equity:		
Share Capital (Note 9)		
Preferred shares	669,000	783,000
Common shares	9,801,000	2,862,000
	10,470,000	3,645,000
Deficit	2,337,000	479,000
	8,133,000	3,166,000
	$28,268,000	$15,183,000

Commitment (Note 14)

On behalf of the Board: Director

Director

See accompanying notes.

Consolidated Statement of Earnings
Year ended December 31, 1981
Westgrowth Petroleums Ltd.

	1981	1980
Revenue:		
Sale of petroleum and natural gas, net of royalties	$ 2,329,000	$1,351,000
Management fees based upon capital contributions of joint interest participants	346,000	895,000
Interest	201,000	15,000
	2,876,000	2,261,000
Expenses:		
Production	1,035,000	398,000
Petroleum and natural gas revenue tax	119,000	–
General and administrative	980,000	539,000
Commissions	74,000	164,000
Interest on debentures	200,000	83,000
Interest on bank loans	1,557,000	263,000
Depletion	804,000	164,000
Depreciation	493,000	247,000
	5,262,000	1,858,000
(Loss) earnings before income taxes and extraordinary items	(2,386,000)	403,000
Income taxes (recovery), net of provincial royalty tax credit (Note 10)	(272,000)	68,000
(Loss) earnings before extraordinary items	(2,114,000)	335,000
Extraordinary items:		
Gain on sale of marketable securities (net of deferred income taxes of $106,000)	331,000	–
Tax benefits of prior years' losses	–	173,000
Net (loss) earnings (Note 11)	$(1,783,000)	$ 508,000

See accompanying notes.

Consolidated Statement of Deficit
Year ended December 31, 1981
Westgrowth Petroleums Ltd.

	1981	1980
Deficit, beginning of year	$ 479,000	$ 902,000
Add:		
Dividends on preferred shares	75,000	85,000
	554,000	987,000
Add (deduct):		
Net loss (earnings)	1,783,000	(508,000)
Deficit, end of year	$2,337,000	$ 479,000

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981
Westgrowth Petroleums Ltd.

	1981	1980
Funds provided:		
From operations	–	919,000
Proceeds on sale of marketable securities	493,000	–
Proceeds on issue of debentures	–	2,000,000
Proceeds on issue of common shares	144,000	557,000
Advance on natural gas sales contracts	144,000	175,000
Property, plant and equipment transferred to limited partnerships	–	548,000
Other assets	9,000	–
	790,000	4,199,000
Funds applied:		
To operations	$ 923,000	–
Property, plant and equipment	18,991,000	5,422,000
Less issue of common shares for property, plant and equipment	(6,681,000)	–
	12,310,000	5,422,000
Preferred share dividends	75,000	85,000
Reclassification of account receivable	(124,000)	124,000
	13,184,000	5,631,000
Working capital deficiency:		
Increase in year	12,322,000	1,432,000
Beginning of year	1,374,000	(58,000)
End of year	$13,768,000	$1,374,000

See accompanying notes.

Notes to Consolidated Financial Statements

Year ended December 31, 1981
Westgrowth Petroleums Ltd.

1. **Summary of significant accounting policies:**

a) Principles of consolidation:

The consolidated financial statements include the accounts of Westgrowth Petroleums Ltd. (the Company) and its wholly owned subsidiary, Westgrowth Petroleums, Inc.

b) Inventory:

The Company's inventory is valued at lower of the cost and net realizable value.

c) Full cost method of accounting:

The Company follows the full cost method of accounting for exploration and development expenditures, whereby all costs relating to the exploration for and the development of petroleum and natural gas reserves in North America are capitalized in one cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, costs of drilling productive and non-productive wells and overhead charges related to exploration activites.

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.

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.

e) 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.

2. Change of accounting policy:

Effective January 1, 1981 the Company retroactively adopted a North American cost center policy regarding capitalization and depletion. The effect of the application of this policy for the year ended December 31, 1981 was to reduce depletion by $2,159,000 and to reduce the loss before extraordinary items and the net loss for the year by the same amount. The effect of the change of accounting policy prior to 1981 is not material.

3. Note receivable:

The note receivable due May 14, 1982 from a related party is without interest and collaterally secured.

4. Other assets:

Other assets consist of the following:

	1981	1980
Promissory notes	$70,000	$ 72,000
Drilling deposits	20,000	28,000
Account receivables	–	124,000
Marketable securities, at cost	–	55,000
	$90,000	$279,000

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. The shares are pledged as collateral security for the notes.

5. Property, plant and equipment:

	Cost	Accumulated Depletion and Depreciation	Net Book Value	1980 Net Book Value
Petroleum and natural gas properties	$21,328,000	$1,263,000	$20,065,000	$5,096,000
Plant and equipment	4,987,000	862,000	4,125,000	1,400,000
	$26,315,000	$2,125,000	$24,190,000	$6,496,000

Petroleum and natural gas properties include $300,000 (1980 – $177,000) of capitalized general and administration expenses relating to 1981 exploration activities.

6. Bank demand loan:

The bank demand loan represents an operating line of credit which bears interest at ¼% above the Canadian bank's prime lending rate.

The loan is secured by certain Canadian petroleum and natural gas properties and by a general assignment of accounts receivable.

7. Advances on natural gas sales contracts:

The deferred production revenue represents prepayment of annual contracted gas volumes not taken by the purchaser. The prepayment will be reported as revenue upon subsequent future delivery of the gas volumes.

8. 10% Subordinate Convertible Debentures:

The debentures bear interest of 10% per annum on the principal amount of $2,000,000 maturing July 31, 1985. The debentures are convertible into common shares at the rate of $5.00 per share to July 29, 1982 and $6.00 per share thereafter.

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 30 consecutive trading days subsequent to that date was not less than one dollar above the conversion rate applicable during that period.

$1,200,000 of the issued debentures are held by The Resource Service Group Ltd., a major corporate shareholder and related party.

9. Share capital:

a) Authorized:

i) Preferred:
- 6,000,000 first convertible preferred shares with a par value of $5.00 each.
- 126,500 cumulative redeemable convertible shares of $10.00 par value each, having an annual dividend rate of $1.00 per share.

ii) Common:
- 25,000,000 shares of no par value.

b) Issued:

i) Preferred shares:

	Shares	Consideration
Balance, December 31, 1980	78,250	$783,000
On conversion to common shares	11,375	114,000
Balance, December 31, 1981	66,875	$669,000

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

ii) Common shares:

	Shares	Consideration
Balance, December 31, 1980	4,005,208	$2,862,000
On exercise of warrants	8,100	4,000
On exercise of options	80,000	140,000
On conversion of preferred shares	227,500	114,000
For purchase of property, plant and equipment	2,226,288	6,681,000
Balance, December 31, 1981	6,547,096	$9,801,000

Based on an independent evaluation the directors of the Company placed a value of $6,681,000 on the property, plant and equipment acquired from a subsidiary company of the major shareholder and certain limited partnerships of which the company was general partner.

At December 31, 1981, the Company has reserved common shares for issue as follows:

	1981	1980
On the conversion of debentures	400,000	400,000
On the conversion of preferred shares	1,337,500	1,565,000
On the exercise of share purchase warrants:		
- issued to the directors of a company, one of whom is a director of the Company exercisable at $.70 per share (1980 - $.60) 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, 1982	163,900	172,000
- issued to the major shareholder, pursuant to joint venture agreement, exercisable at $1.75 per share	-	80,000
- On the exercise of options granted officers and employees:		
- exercisable at prices between $1.49 and $1.70 per share expiring in 1985. One-quarter of the options granted become exercisable in any one year	320,000	-
- exercisable at prices between $1.83 and $4.04 per share expiring in 1984	-	235,000
	2,421,400	2,652,000

Subsequent to year-end, the preferred shares were converted to common shares.

10. Income taxes:

Included in income tax is the Alberta Royalty Tax Credit of $166,000 (1980 - $105,000).

The Company has available an excess of tax values over related net book value of fixed assets in the amount of $286,000. This amount will be available to reduce future years' income for Canadian tax purposes, the tax effect of which has not been recognized in the financial statements.

Assets in the amount of $6,381,000 are not available as deductions from future Canadian taxable income.

11. Earnings per share:

	Basic 1981	Basic 1980	Fully diluted 1980
(Loss) earnings per share before extraordinary items	$(.47)	.07	.06
Net (loss) earnings per share	$(.40)	.11	.10

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

The conversion of debentures and preferred shares and the exercise of warrants and options would be anti-dilutive in 1981.

12. Segmented information:

The Company's principal activity is the exploration for and development of petroleum and natural gas reserves. The following information relates to the Company's operations in Canada and the United States.

1981	Canada	U.S.A.	Total
Revenue, net of royalties	$ 2,592,000	$ 284,000	$ 2,876,000
Segment operating earnings (loss) before the undernoted items	$ 517,000	$ (457,000)	$ 60,000
General and administrative			689,000
Interest on debentures			200,000
Interest on bank loans			1,557,000
Loss before income taxes and extraordinary items			2,386,000
Income taxes, net of provincial royalty tax credit			(272,000)
Loss before extraordinary items			2,114,000
Extraordinary items - Gain on sale of investment			331,000
Net loss			$ 1,783,000
Property, plant and equipment	$18,690,000	$5,500,000	$24,190,000
Other identifiable assets	3,722,000	428,000	4,150,000
	$22,412,000	$5,928,000	$28,340,000

1980	Canada	U.S.A.	Total
Revenue, net of royalties	$ 2,073,000	$ 188,000	$ 2,261,000
Segment operating earnings (loss) before the undernoted items	$ 1,008,000	$ (23,000)	$ 985,000
General and administrative			499,000
Interest on debentures			83,000
			583,000
Earnings before income taxes and extraordinary items			403,000
Income taxes, net of provincial royalty tax credit			68,000
Earnings before extraordinary items			335,000
Extraordinary items - tax benefit of prior years' losses			173,000
Net earnings			$ 508,000
Property, plant and equipment	$ 4,948,000	$1,548,000	$ 6,496,000
Other identifiable assets	8,073,000	614,000	8,687,000
	$13,021,000	$2,162,000	$15,183,000

13. Related party transactions:

During the year, the Company carried out transactions with certain related parties:

The Company paid commissions in the amount of $60,000 for professional services to a company, whose Chairman is a director of the Company.

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

During the year a company controlled by a director of the Company:

1) purchased from third parties 34% of the outstanding shares of Mid-Can Exploration Ltd. and on the same terms
2) purchased from the Company its 13% investment in Mid-Can Exploration Ltd.

14. **Commitment:**

The Company has entered into a ten year lease agreement for office space effective December 1, 1981. The Company's minimum share of the aggregate payments is $3,440,000 comprised of gross payments of $4,475,000 less amounts to be paid by sublessors of $1,035,000. The minimum payments required in the next five years are as follows:

1982	$ 147,000
1983	182,000
1984	182,000
1985	286,000
1986	256,000
TOTAL	$1,053,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Westgrowth Petroleums Ltd. as at December 31, 1981 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, 1981 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 change in accounting policy 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 23, 1982

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Construction of the central battery facility at Retlaw, Alberta which will improve oil production and reduce operating costs.