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HOWARD ROSS LIBRARY
OF MANAGEMENT
JUL 21 1983
MCGILL UNIVERSITY

WESTGROWTH
PETROLEUMS
LTD.

Annual Report 1982

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
Chairman
Westgrowth Petroleums Ltd., Calgary

J. Keith Farries

President
Farries Engineering (1977) Ltd., Calgary

Harold M. Wright

Chairman
Wright Engineers Limited, Vancouver

Stephen M. Krasnow

Vice-President and Treasurer
The Resource Service Group Ltd., Calgary

Mark J. Feldman

Partner
Burnet, Duckworth & Palmer, Calgary

Officers

Eric C. Gronberg

President, Chief Executive Officer

J. Leslie Watson

Vice President, Exploration

Mark J. Feldman

Secretary

Ernest G. Sapiiha

Controller, Chief Financial Officer

Magdalena Robotka

Asst. Secretary

Head Office

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Calgary, Alberta
Telephone: (403) 265-2681

United States Division Office

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Dallas, Texas
Telephone: (214) 373-8055

Registered Office

555 Burrard Street
Vancouver, British Columbia

Auditors

Peat, Marwick, Mitchell & Co.,

Calgary, Alberta

Solicitors

Burnet, Duckworth & Palmer

Calgary, Alberta

Registrar and Transfer Agent

National Trust Company, Limited

Vancouver, British Columbia,
Calgary, Alberta and Toronto, Ontario

Stock Listing

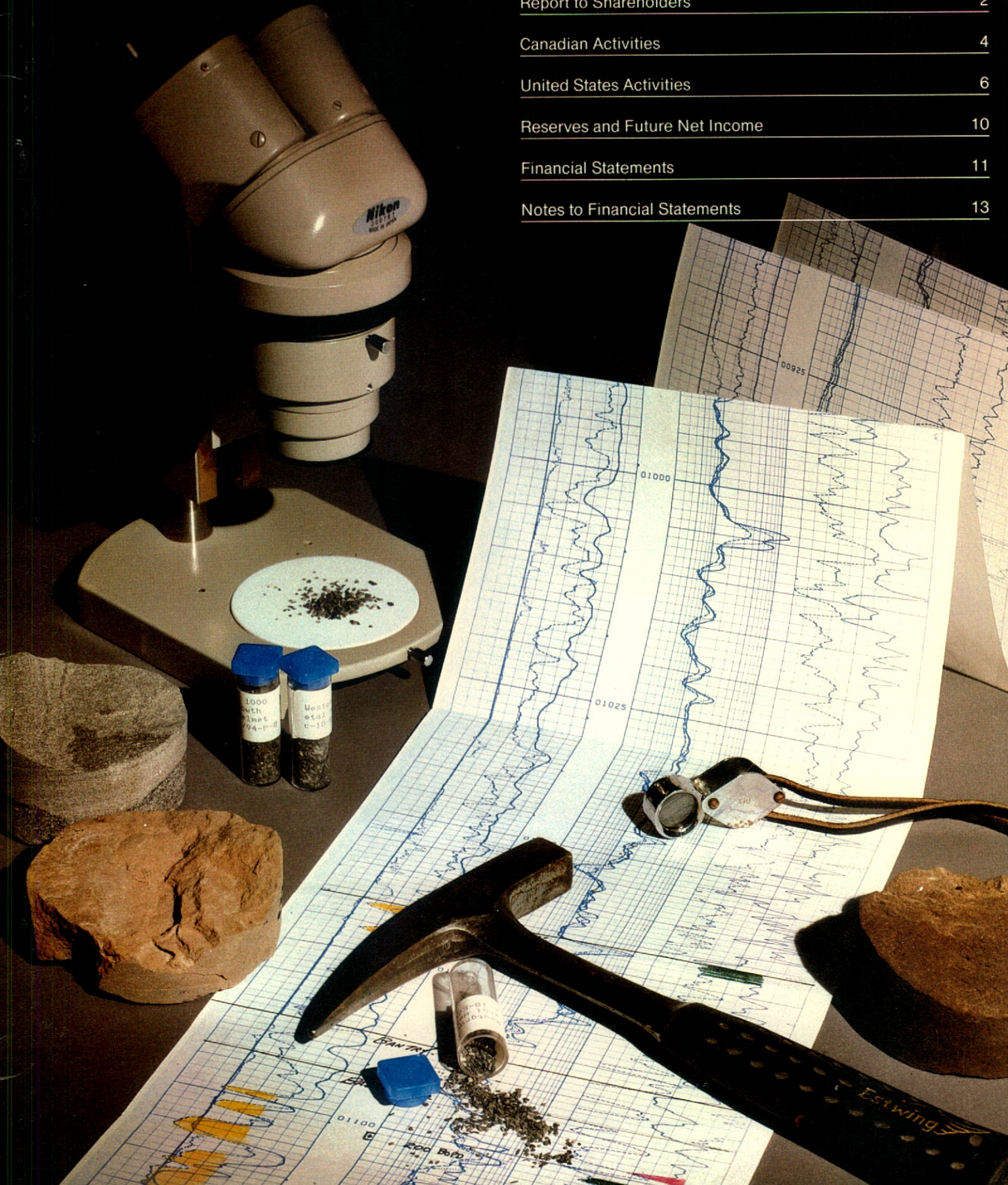
Toronto Stock Exchange

Trading Symbol: WGP

Annual Meeting

May 2, 1983
Delta Bow Valley Hotel — 2:30 p.m.
Clear Water Room
Calgary, Alberta

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Report to the Shareholders:



Eric C. Gronberg
President, Chief Executive Officer

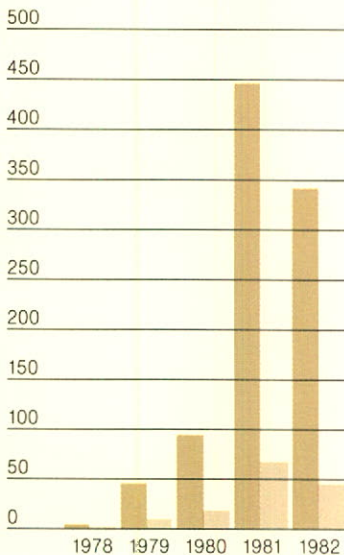
Extensive efforts by your Company to improve revenues and reduce bank debt produced positive results in each of these areas during 1982. Although overall drilling was down 70% compared to the previous year, production revenues more than doubled to almost \$7 million, and bank debt was reduced to \$3 million as at year end.

Due to the lack of available public exploration funds and a restrained budget, Westgrowth participated in only 18 wells during 1982. Of these, 13 were drilled in Canada where 4 were completed as gaswells, 5 as oilwells, 1 as a dual zone oil and gaswell, and 3 were abandoned. Our U.S. subsidiary participated in 5 wells resulting in 3 gaswells and 2 abandonments, for an overall consolidated success ratio of 72%.

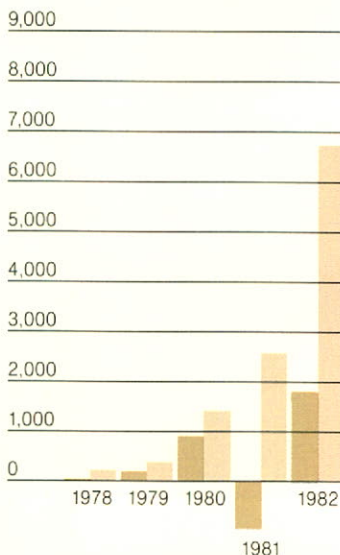
The Company's gross acreage holdings declined slightly in both Canada and the U.S.A. during 1982 and presently stand at 148,663 hectares and 13,696 hectares, respectively, in a total of 84 different prospect areas. The net land position in Canada includes 33,091 hectares and in the U.S.A. the Company holds 6,014 net hectares.

During 1982 Westgrowth experienced a major reduction in the value of its oil and gas reserves primarily due to a downward revision of approximately 20% in pricing forecasts. This accounted for some \$13,000,000 of an overall \$21,000,000 decline in future net income (using a 15% discount rate) attributable to corporate oil and gas assets. A further \$8,800,000 reduction resulted from the profitable disposition of a portion of the Retlaw property as well as the direct production and sale of 50,000,000 cubic meters of gas and 13,000 cubic meters of oil reserves. Total hydrocarbon assets as of December 31, 1982 stood at 198,000 cubic meters of oil and 542,000,000 cubic meters of

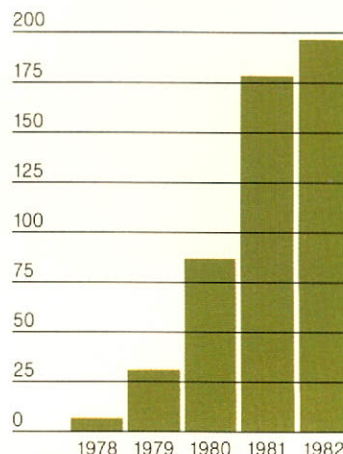
Estimated Future Net Income
(Proven plus probable reserves)
■ Undiscounted (\$'000,000)
■ Discounted at 15% (\$'000,000)



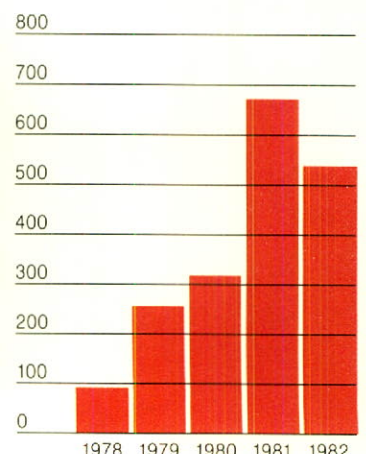
Cash Flow and Production Revenue
■ Cash Flow (\$'000)
■ Production Revenue (\$'000)



Net Oil Reserves
Thousands of Cubic Meters



Net Gas Reserves
Millions of Cubic Meters



gas which have estimated future net income valued at \$47,000,000 discounted at 15%, and \$342,000,000 undiscounted. Net daily oil production rose sharply over 1981 from an average of 14 cubic meters to 36 cubic meters per day, while gas production climbed from 73,000 cubic meters to 135,000 cubic meters per day.

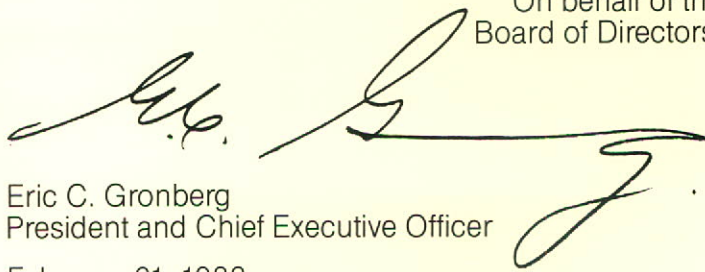
Financial results for 1982 improved dramatically over the previous year, largely due to the increased production stemming from the accelerated and successful development of the Company's Retlaw property. Oil and gas revenues of \$6,830,000 were 174% higher than in 1981 and contributed substantially to the overall increase in total revenues from \$3,042,000 to \$7,734,000. Expenses increased 51% over 1981 from \$5,262,000 to \$7,954,000, mainly in response to a twofold increase in costs resulting from higher production plus depreciation and depletion. This resulted in a net loss of \$280,000 (\$0.11 per share) compared to the much larger loss of \$1,783,000 (\$0.40 per share) reported last year. Cash flow from operations on the other hand showed a marked improvement, increasing from a deficiency of \$923,000 in 1981 to a positive \$1,870,000 (\$0.24 per share outstanding) for the current reporting period.

Westgrowth clearly made significant progress to enhance its production revenue and cash flow this past year. Furthermore, bank debt was reduced from \$13,100,000 to \$3,100,000 primarily through the sale of convertible preferred shares by way of a combined private placement and rights offering. This added to the overall improved financial condition of the Company, as evidenced by the decrease in the total debt to equity ratio from 2.5/1 to 0.6/1.

Subject to the variables of world oil prices and the export gas market, Westgrowth expects the positive trends reflected in the accompanying production and financial graphs to continue into 1983 and 1984. This forecast is based on the strength of NORP oil production from the Retlaw area, and the associated impact of our recently government-approved, carbon dioxide (CO₂) enhanced recovery project. In addition, the Company has been fortunate in having approximately half of its total proven gas reserves on production through various TransCanada PipeLine and Alberta industrial contracts.

To conclude, 1982 was a year of financial consolidation and restraint for Westgrowth as the necessary adaptive changes, precipitated by the National Energy Program and high interest rates, were put into effect. Although these are certainly difficult times for both individuals and corporations, Westgrowth, through continued shareholder support and dedicated employee effort, has managed to move forward. For that continuing support and effort, I wish to convey the gratitude of the Board of Directors and Management.

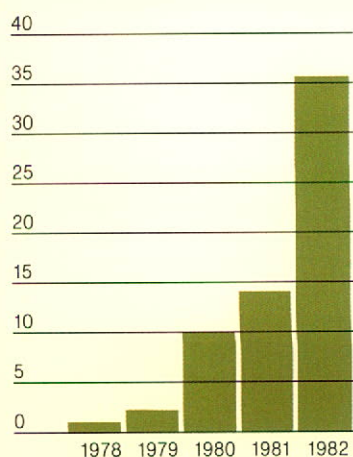
On behalf of the Board of Directors,



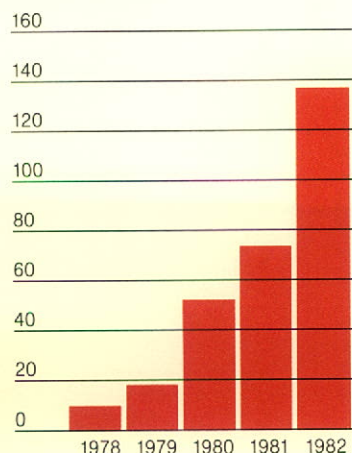
Eric C. Gronberg
President and Chief Executive Officer

February 21, 1983

Net Daily Production, Oil
Cubic Meters



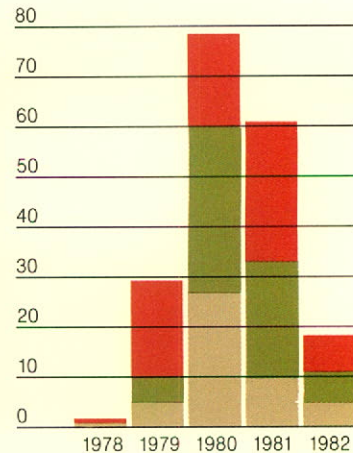
Net Daily Production, Gas
Thousands of Cubic Meters

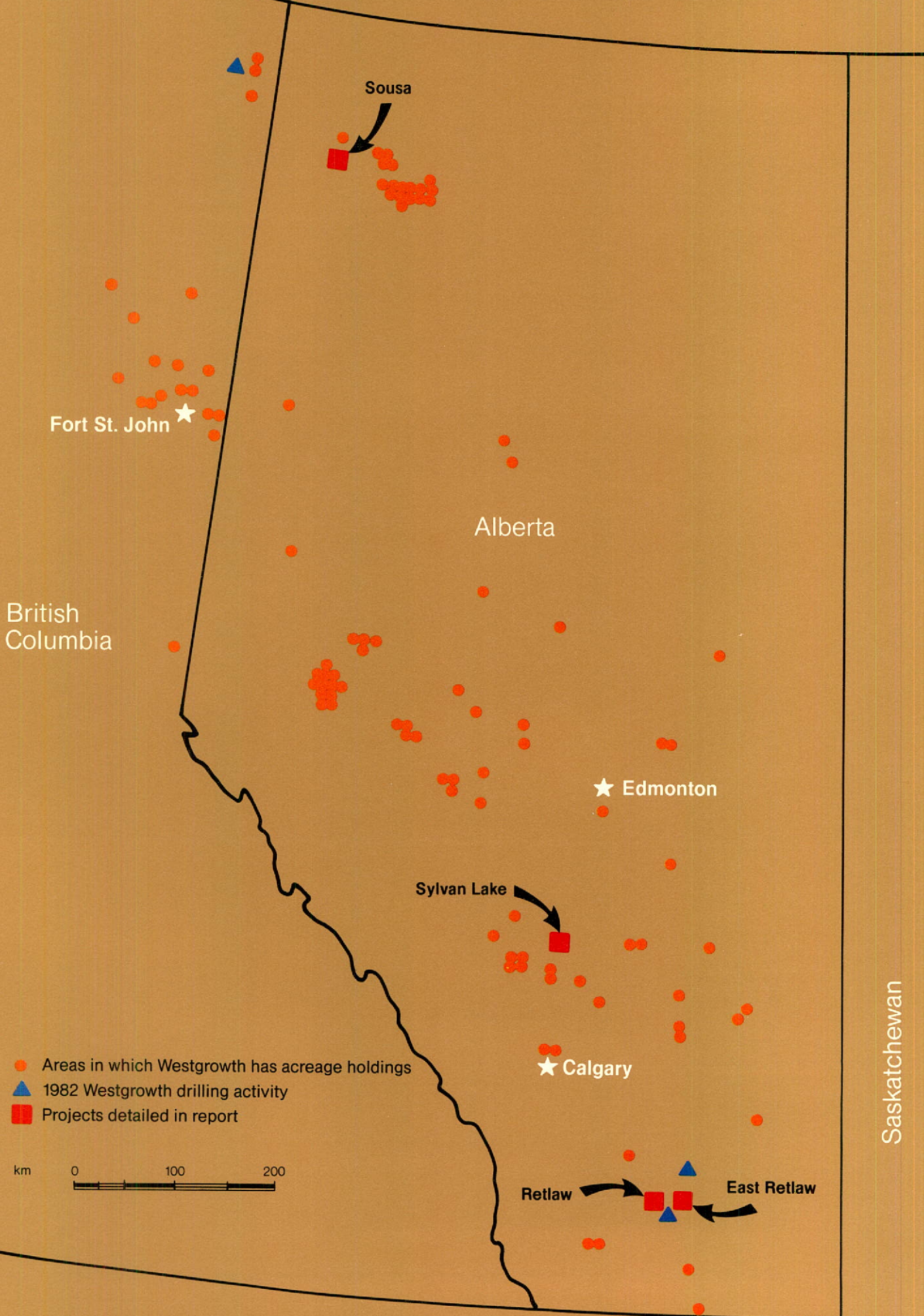


Net Acreage Held
Thousands of Hectares



Gross Number of Wells Drilled
Gas ■ Oil ■ Dry ■





Canada—Areas of Exploratory Activity

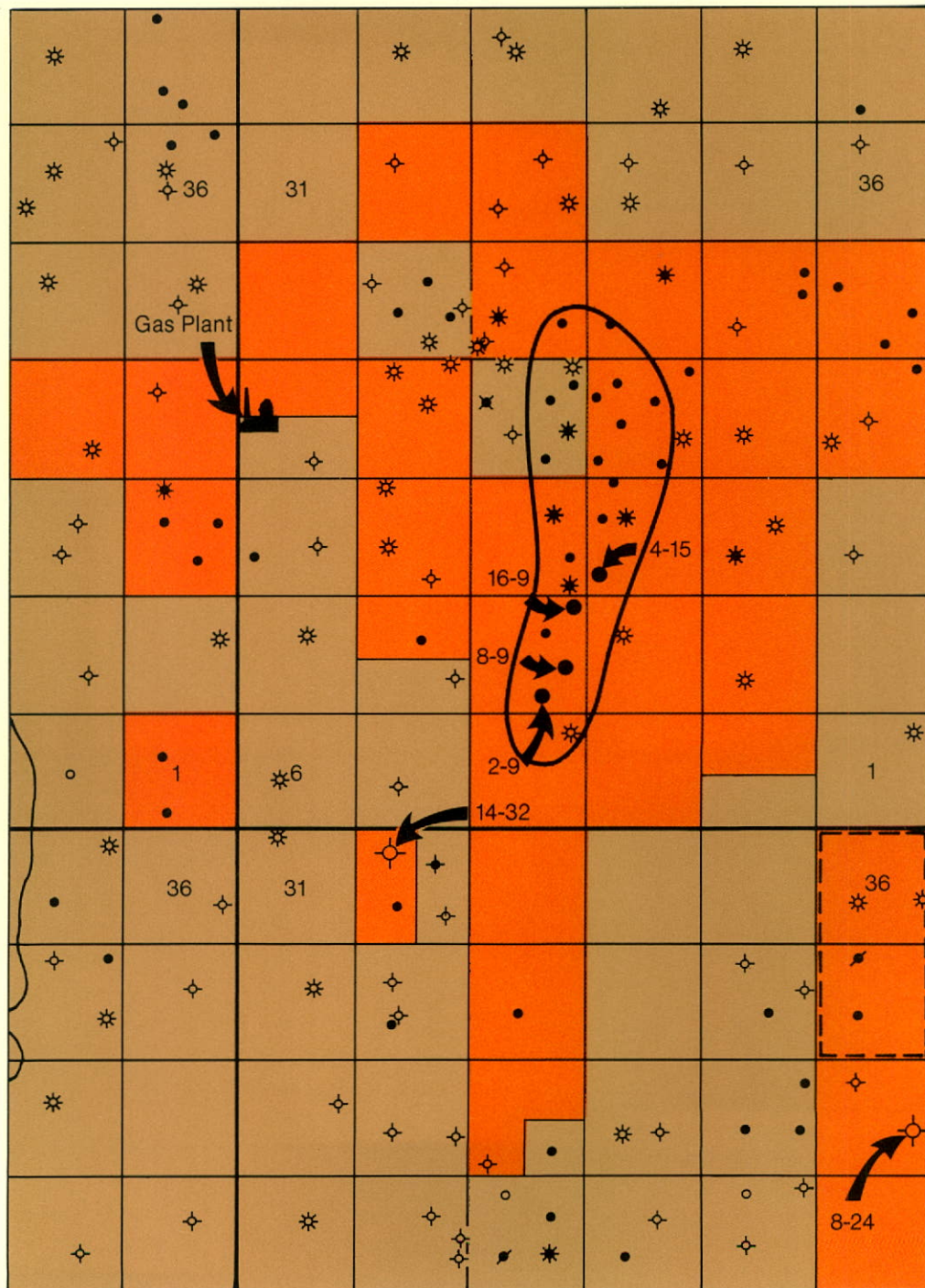
RETLAW

R 18 W4M

Westgrowth remained active on its main producing property, having participated in 6 wells in this area during 1982. Four of these were completed as Glauconite oilwells in 2-9, 8-9, 16-9 and 4-15-12-18 W4M as part of the ongoing development of the Company-operated Upper Mannville "V" Pool. Two wells were abandoned in which Westgrowth had less than a 5% working interest.

Development and unitization of the Upper Mannville "V" Pool is in its final stages of completion. Carbon dioxide (CO₂) injection, pursuant to the recent approval of the Company's application for a tertiary recovery scheme, is expected to commence in the summer of 1983. This Glauconite Sandstone reservoir, in which Westgrowth has an average 34% working interest, is estimated to contain 1,272,000 cubic meters of oil in place, and presently has 22 wells capable of production. Independent engineering research has predicted that the ultimate recovery factor for the pool will increase from 8% under primary production to over 40% using CO₂ flooding, thereby almost doubling the Company's total present oil reserves. Under full production at an estimated 95 cubic meters of oil per day, a 5% Crown Royalty and the New Oil Reference Price of approximately \$250.00 per cubic meter, this project is expected to provide a substantial portion of Westgrowth's future cash flow.

In addition to the aforementioned activity, the Company purchased a 50% interest in 2 sections of petroleum and natural gas rights in Township 11, Range 18 W4M, four kilometers southeast of the Mannville "V" Pool. The property has a producing Basal Quartz oilwell in 6-25-11-18 W4M which averages 5.0 cubic meters of oil per day as well as two shut-in gaswells, and a suspended oilwell. One or two development oilwells, which would also qualify for the New Oil Reference Price



are planned for this acreage in 1983.

Westgrowth continued to add to its acreage holdings in the Retlaw area, and presently has various working interests in a total of 9,408 gross hectares or 3,424 net hectares.



1982 Acquisition



Upper Mannville "V" Pool

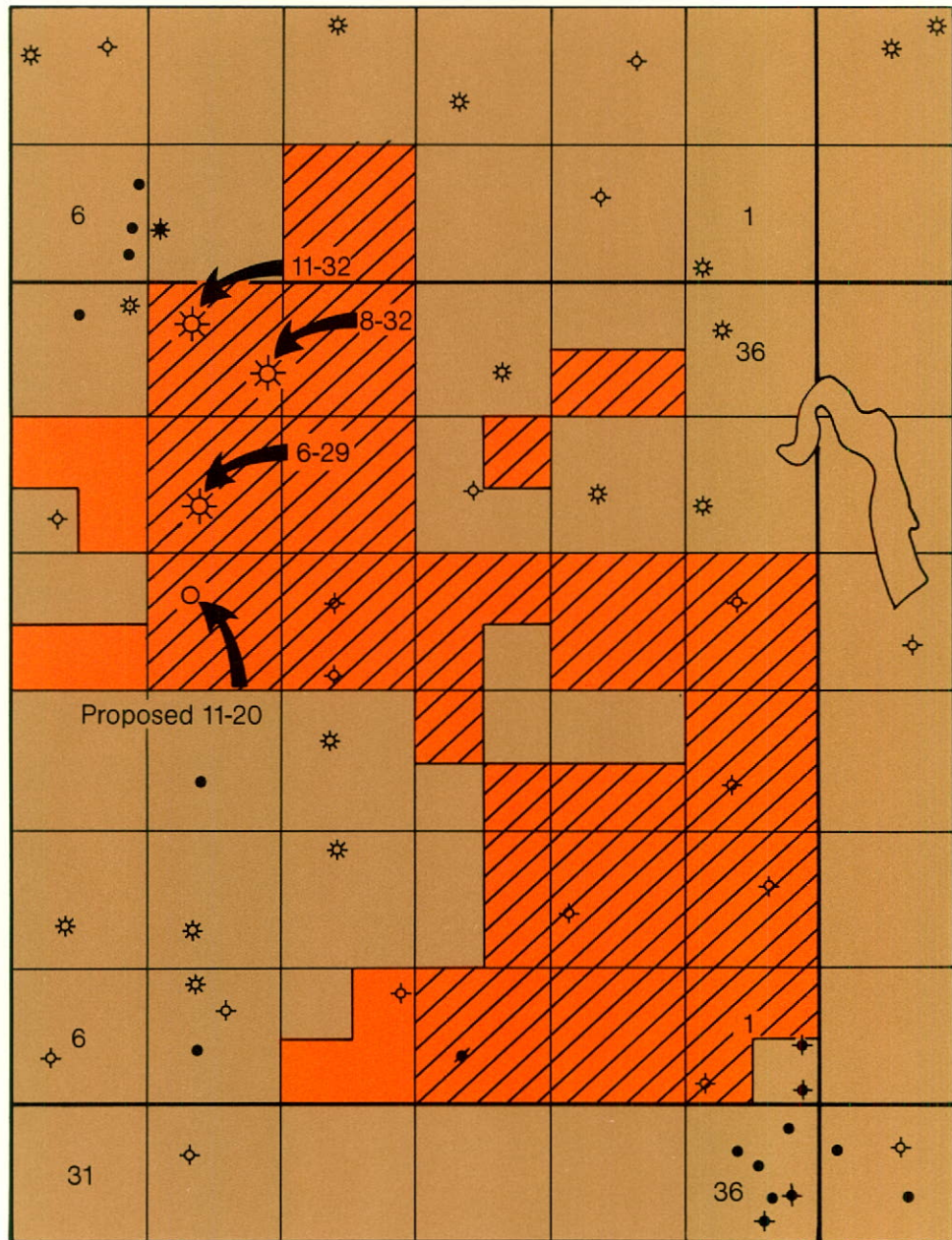
EAST RETLAW

R 11 W4M

Contiguous to the main producing property, Westgrowth presently owns an interest in two sections of land and is in the process of increasing its holdings by participating in a four well commitment on an additional 17.75 sections. The provisions of the farmin agreement provide for the Company to earn a 19.7% working interest after payout, in 16.75 sections (4,288 hectares) by paying 39.4% of the costs of the first three wells drilled in 6-29, 8-32 and 11-32-12-17 W4M. In the fourth well, scheduled for early 1983, Westgrowth will pay 29.6% for a 14.8% working interest after payout in 256 hectares, thereby leaving the Company with an interest in a total of 5,056 gross hectares (1,116 net hectares) in this general area.

The 11-32-12-17 W4M well, drilled to 1,100 meters as one of the first three wells in the above described farmin, was completed as a Glauconite gaswell with 8 meters of net pay. The zone drillstem tested 21,650 cubic meters of gas per day, and along with shallower, low deliverability gas zones discovered in the 6-29 and 8-32-12-17 W4M wells, could go onstream during 1983 into one of Westgrowth's discount gas contracts.

By comparison to the main Retlaw property, a significant amount of untested and potential acreage will remain to be drilled before these lands can be considered fully evaluated.



Legend (Canada)

- ⊛ Gas Well
- ⊛ Suspended Gas Well
- Oil Well
- ⊛ Abandoned Oil Well
- ⊛ Dry Hole
- Location
- ⊛ Service Well
- ⊛ Suspended Oil Well
- ⊛ Oil & Gas Well

1982 Farmin Acreage

Acreage in which Westgrowth has an interest.



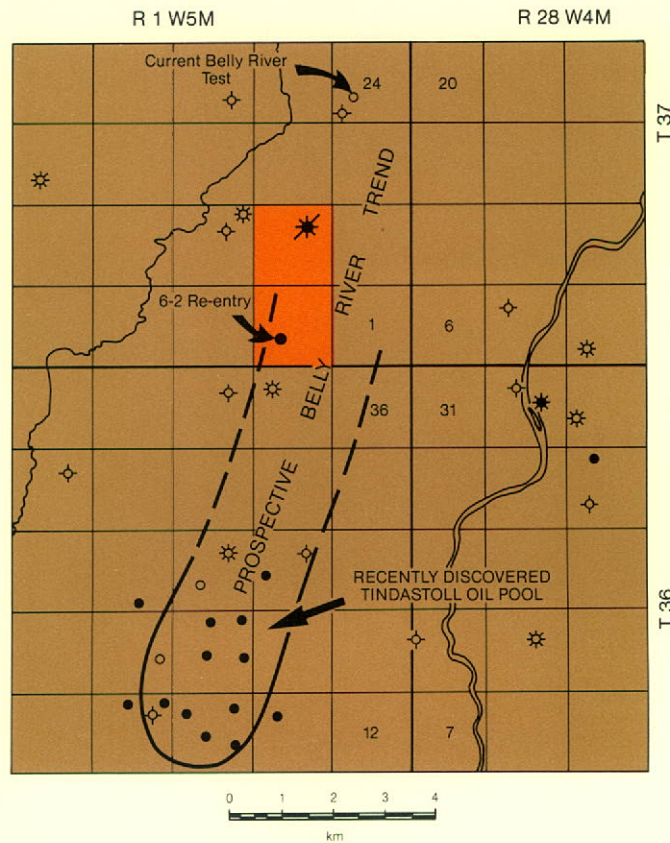
Metric Conversions

- 1 meter = 3.281 feet
- 1 cubic meter (m³) = 6.29 barrels of oil
= 35.49 cubic feet of gas
- 1 kilometer (km) = 0.6 miles
- 1 hectare = 2.5 acres

SYLVAN LAKE

In the Sylvan Lake area, 120 kilometers north of Calgary, Westgrowth has various working interests ranging from 16.25% to 75% in two sections (261 net hectares) which are prospective for Pekisko and Belly River production. The 6-2-37-1 W5M well, which was a re-entry of a 1970 abandonment, was recompleted as a Pekisko oilwell with an initial producing rate of 8 cubic meters per day from 15.2 meters of net pay at a depth of 2,040 meters. The 10-11 well, 1.6 kilometers to the north, is a suspended non-commercial oil and gaswell.

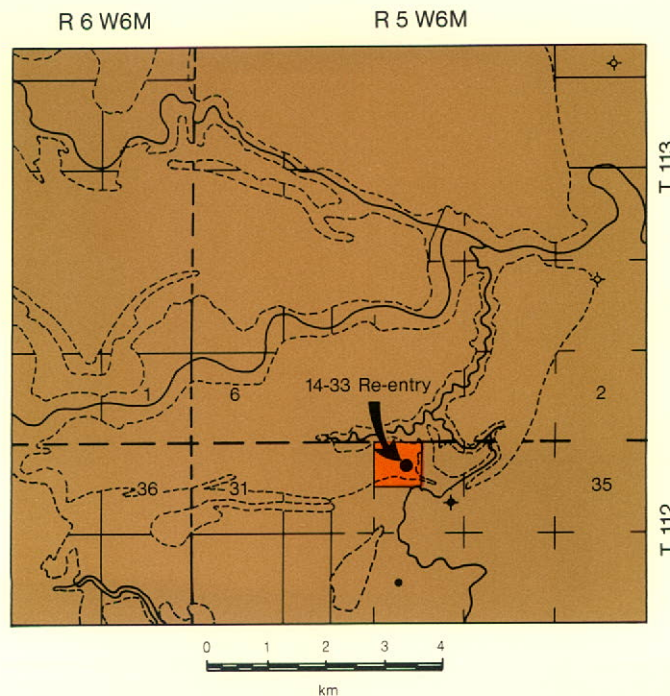
Of special interest is a recently discovered Belly River oil pool in the Tindastoll area, 3.5 kilometers south of Westgrowth's land. The geological trend of this prospective oil zone appears to pass through a portion of the Company's acreage and, contingent upon the outcome of nearby industry activity, may warrant a test on our acreage.



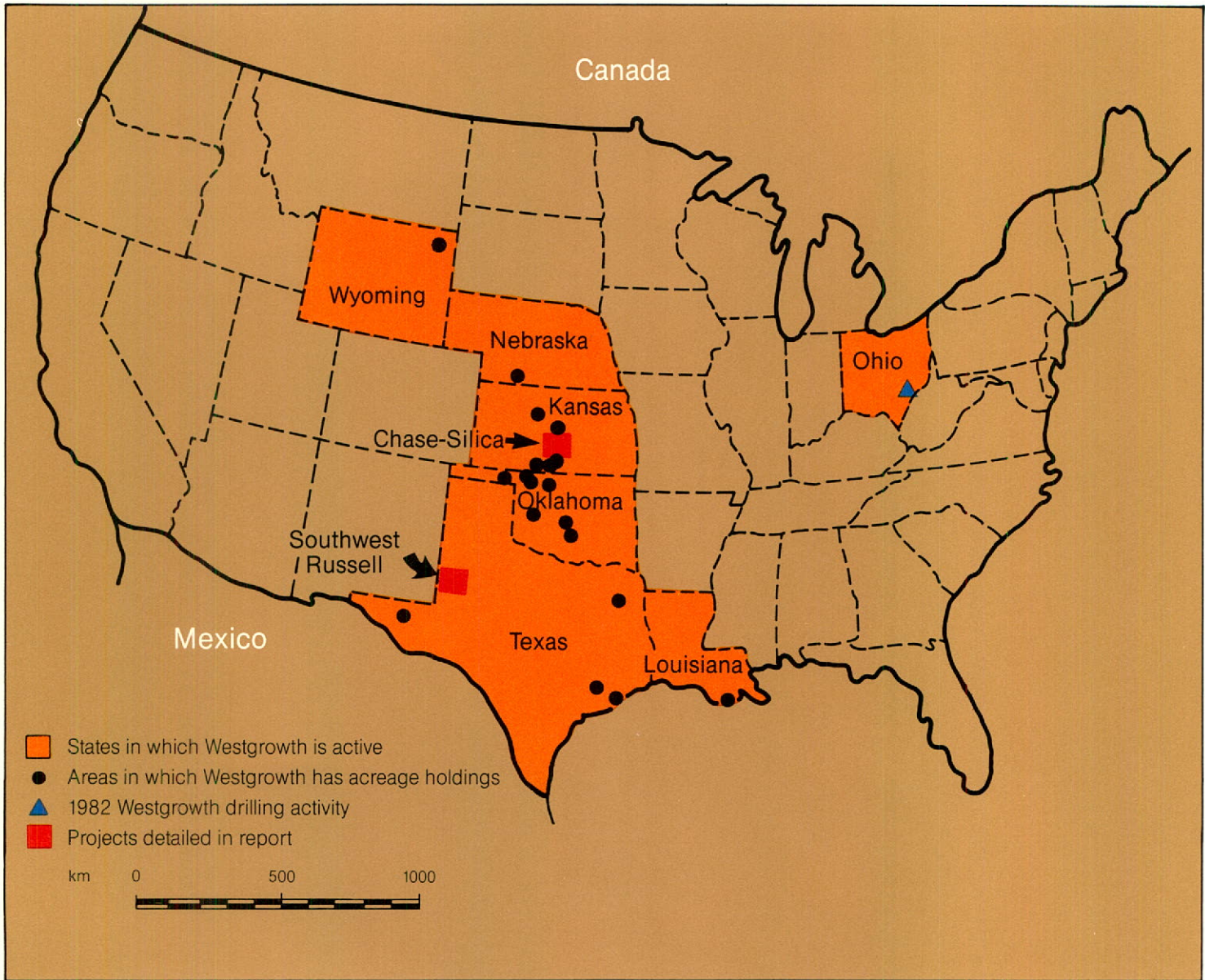
SOUSA

In the northwest corner of Alberta at Sousa and Virgo, the Company has been successful in acquiring acreage on abandoned Keg River Reef oilwells, which were re-entered and recompleted for commercial oil production. At Sousa for example, the 14-33-112-5 W6M well, abandoned since 1971, was recompleted for an initial producing rate of 32 cubic meters per day from some 13 meters of net pay at a depth of 1,500 meters. The well, which qualifies for the New Oil Reference Price of approximately \$250.00 per cubic meter, will have a stabilized allowable rate of 20-24 cubic meters per day.

Westgrowth elected to promote the majority of the risk costs of this re-entry to industry partners. As a result, the Company will retain a 45% working interest after payout in the prospect which, like the Sylvan Lake play, exemplifies the significant potential still remaining in Western Canada as bypassed production alone.



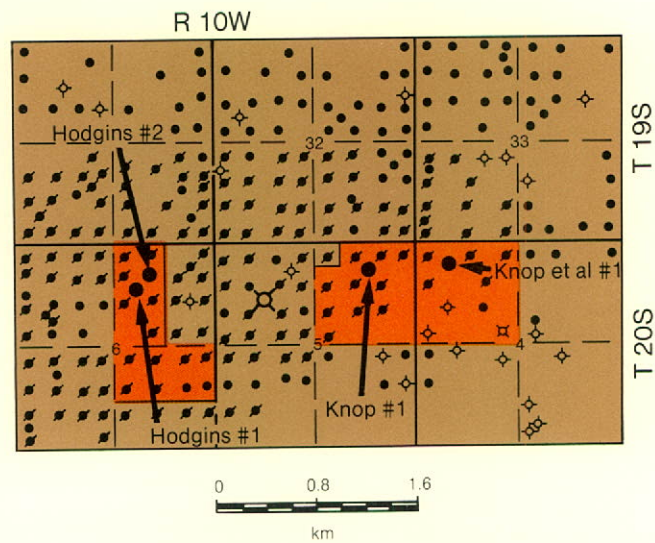
United States—Areas of Exploratory Activity



**CHASE/SILICA FIELD—
RICE COUNTY, KANSAS**

In 1980 Westgrowth participated in a central Kansas multiwell program which involved infill drilling in previously abandoned Arbuckle oilfields at 1,020 meters. During the fifties and sixties many of these fields had been abandoned due to the unfavorable economics of high water production associated with declining oil rates and poor prices. Recently however, with advances in high volume pump technology and improved oil prices, infill drilling programs of this type have become economic, whereby 150-300 cubic meters of total fluid are produced daily and yield commercial quantities of oil.

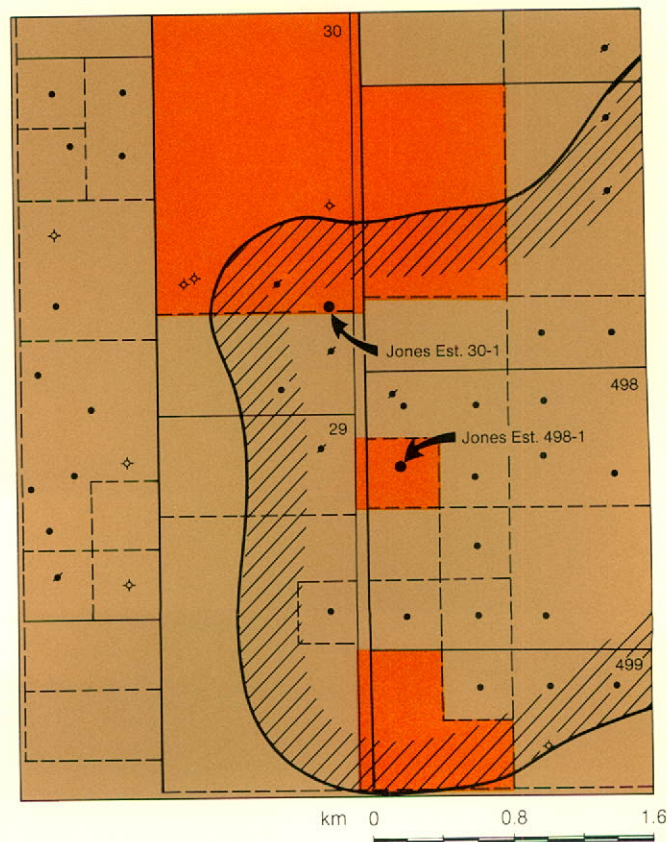
In the Chase/Silica field Westgrowth and its joint venture partners participated as to a 32.5% working interest in five wells, one of which was abandoned and four of which are currently producing. The Hodgins #2, in which a submersible pump was recently installed, had a threefold improvement in oil production from 1.5 to 4.8 cubic meters per day. Similar results are expected from the other wells, which are presently averaging 0.5 to 1.0 cubic meters per day. Several potential locations remain to be drilled on this project contingent upon production history.



**SOUTHWEST RUSSELL—
GAINES COUNTY, TEXAS**


Westgrowth and its joint venture partners have a 25% working interest in 450 hectares and two producing Clearfork oilwells. The Jones Estate 498-1, drilled in 1981, was plugged back from a non-commercial deeper zone and completed in the Clearfork at 2,315 meters with approximately 12 meters of net pay. In June, 1982 the well, which had only been averaging 2.2 cubic meters of oil per day, was fracture stimulated and production increased to a stabilized rate of 16 cubic meters per day.

The Jones Estate 30-1 is presently averaging 3.2 cubic meters per day from approximately 10 meters of net pay, and is scheduled for a similar stimulation. Given continued success, a total of six development wells could be drilled on this 450 hectare tract.



Legend (U.S.A.)

- Oil Well
- Abandoned Oil Well
- ◇ Dry Hole
- ⊗ Service Well

 Russell Field
(Clearfork FM.)

 Acreage in which
Westgrowth has an
interest

Westgrowth Petroleum Ltd.

Board of Directors

from left to right:

John M.S. Lecky
 J. Keith Farries
 Harold M. Wright
 Eric C. Gronberg
 Mark J. Feldman
 Stephen M. Krasnow



Reserves and Future Net Income Evaluations to January 1, 1983 (1,2,3)

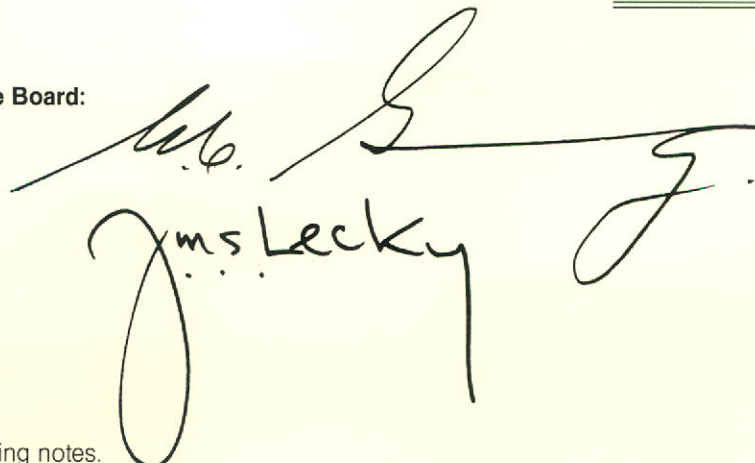
	Oil M ³	Gas 10 ³ M ³	Estimated Future Net Income (\$000's) (4)		
			Undiscounted	15%	20%
Proven:					
Canada	88,100	393,000	\$179,637	\$32,115	\$24,673
U.S.A.	3,216	7,000	1,292	974	902
Probable:					
Canada	107,000	140,000	160,933	13,930	9,011
U.S.A.	101	2,000	413	132	97
	<u>198,417</u>	<u>542,000</u>	<u>\$342,275</u>	<u>\$47,151</u>	<u>\$34,683</u>

1. Canadian properties evaluated by Coles, Nikiforuk, Pennell Associates Ltd., and M&D Petroleum Consultants Ltd. United States properties evaluated by P.R.O. Management Inc.
2. Reserve values are net of all royalties and windfall profit tax.
3. Westgrowth carries non reserve acreage independently valued at **\$5,495,300**. United States acreage was not evaluated.
4. Expressed in Canadian dollars and employing a 19% exchange rate on U.S. values.

Westgrowth Petroleum Ltd.
Consolidated Balance Sheet
December 31, 1982

	1982	1981
Assets		
Current Assets:		
Accounts receivable	\$ 1,952,000	\$ 2,694,000
Petroleum incentive payments receivable	433,000	460,000
Due from limited partnerships	—	403,000
Note receivable	—	250,000
Inventory	211,000	112,000
Prepaid expenses	13,000	69,000
	<u>2,609,000</u>	<u>3,988,000</u>
Cash Held For Investment (Note 10)	715,000	—
Property, Plant and Equipment (Note 2)	24,119,000	24,190,000
Other Assets (Note 13)	137,000	90,000
	<u>\$27,580,000</u>	<u>\$28,268,000</u>
Liabilities		
Current Liabilities:		
Outstanding cheques less cash in bank	\$ 546,000	\$ 2,186,000
Bank demand loan (Note 4)	3,100,000	13,121,000
Accounts payable	3,714,000	2,379,000
Due to limited partnerships	—	70,000
	<u>7,360,000</u>	<u>17,756,000</u>
Advances on Natural Gas Sales Contracts (Note 6)	1,035,000	379,000
Advance on Leasehold Improvements (Note 5)	145,000	—
10% Subordinate Convertible Debentures (Note 7)	2,000,000	2,000,000
Preferred Share Subscriptions (Note 10)	877,000	—
Less: Subscriptions receivable	62,000	—
	<u>815,000</u>	<u>—</u>
Shareholders' Equity		
Share Capital (Note 9)	19,576,000	10,470,000
Deficit	3,351,000	2,337,000
	<u>16,225,000</u>	<u>8,133,000</u>
Commitment and Contingencies (Note 4 and Note 14)		
	<u>\$27,580,000</u>	<u>\$28,268,000</u>

On behalf of the Board:



The image shows a handwritten signature in black ink. The signature is written in a cursive style and appears to read 'J. S. Lecky'. The signature is positioned above the name 'J. S. Lecky' which is printed in a serif font. The signature is written over a horizontal line that spans across the page.

Director

Director

See accompanying notes.

Consolidated Statement of Earnings

Year ended December 31, 1982

	1982	1981
Revenue:		
Sale of petroleum and natural gas (Note 12)	\$6,830,000	\$2,495,000
Gain on sale of property, plant and equipment	715,000	—
Management fees based upon capital contributions of joint venture participants	26,000	346,000
Interest	163,000	201,000
	<u>7,734,000</u>	<u>3,042,000</u>
Expenses:		
Production	2,375,000	1,035,000
Petroleum and natural gas revenue tax	249,000	119,000
Incremental oil revenue tax	14,000	—
General and administrative	1,395,000	980,000
Commissions	40,000	74,000
Interest on debentures	200,000	200,000
Interest on bank loans	1,591,000	1,557,000
Depletion	1,768,000	804,000
Depreciation	322,000	493,000
	<u>7,954,000</u>	<u>5,262,000</u>
Loss before income taxes and extraordinary item	220,000	2,220,000
Deferred income taxes (recovery) (Note 8)	60,000	(106,000)
Loss before extraordinary item	280,000	2,114,000
Extraordinary item:		
Gain on sale of marketable securities (net of deferred income taxes of \$106,000)	—	331,000
Net loss	\$ 280,000	\$1,783,000

See accompanying notes.

Consolidated Statement of Deficit

Year ended December 31, 1982

	1982	1981
Deficit, beginning of year	\$2,337,000	\$ 479,000
Add:		
Dividends on preferred shares	560,000	75,000
Net loss	280,000	1,783,000
Expenses relating to issue of preferred shares (net of deferred income taxes of \$60,000)	174,000	—
Deficit, end of year	\$3,351,000	\$2,337,000

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1982

	1982	1981
Funds provided from:		
Operations	\$1,870,000	\$ —
Issue of preferred shares	9,106,000	—
Preferred share subscriptions	815,000	—
Issue of common shares	—	144,000
Sale of property, plant and equipment	2,382,000	—
Petroleum incentive program	1,105,000	460,000
Sale of marketable securities	—	493,000
Advance on natural gas sales contracts	656,000	144,000
Advance on leasehold improvements	166,000	—
Reclassification of account receivable	—	124,000
Other assets	—	9,000
	<u>16,100,000</u>	<u>1,374,000</u>
Funds applied to:		
Operations	—	923,000
Property, plant and equipment	5,506,000	19,451,000
Less issue of common shares for property, plant and equipment	—	(6,681,000)
	<u>5,506,000</u>	<u>12,770,000</u>
Preferred share issue expense	234,000	—
Preferred share subscriptions	715,000	—
Repayment of advance on leasehold improvements	21,000	—
Preferred share dividends	560,000	75,000
Other assets	47,000	—
	<u>7,083,000</u>	<u>13,768,000</u>
Decrease (increase) in working capital deficiency	9,017,000	(12,394,000)
Working capital deficiency:		
Beginning of year	13,768,000	1,374,000
End of year	<u>\$4,751,000</u>	<u>\$13,768,000</u>

See accompanying notes.

Notes to Consolidated Financial Statements

Year ended December 31, 1982

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) 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 center. 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 and development activities.

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 of production equipment, related facilities and other equipment is calculated on a declining balance basis at rates of 5% to 20%.

Gains or losses on significant property, plant and equipment sales are recognized in the consolidated statement of earnings.

c) Joint venture 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.

d) 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 balance sheet date;

Other assets and liabilities at the rate of exchange in effect at the time the original transactions took place;

Revenue and expenses at the average rate of exchange throughout 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.

e) Inventory:

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

f) Investment tax credit:

The Company uses the flow-through method to account for investment tax credit.

2 Property, plant and equipment:

	1982			1981
	Cost	Accumulated Depletion & Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$21,790,000	\$2,895,000	\$18,895,000	\$20,065,000
Plant & equipment	6,322,000	1,098,000	5,224,000	4,125,000
	<u>\$28,112,000</u>	<u>\$3,993,000</u>	<u>\$24,119,000</u>	<u>\$24,190,000</u>

Petroleum and natural gas properties include \$633,000 (1981 – \$390,000) of overhead expenses relating to 1982 exploration and development activities.

3 Disposal of oil and gas properties:

On May 26, 1982, the Company entered into an agreement for the sale of a 20% working interest in certain acreage and wells on the Company's Retlaw property, for a consideration in cash of \$2,750,000. The agreement also provided for the payment of an amount of \$1,000,000 upon achievement of certain production performance standards which is payable by the purchaser in five equal annual installments of \$200,000 each, subject to adjustment and interest, on each anniversary of the effective date of the sale. If and when received, such amounts will be credited to the consolidated statement of earnings.

4 Bank demand loan:

The bank demand loan represents an operating line of credit which bears interest at $\frac{1}{4}\%$ above a Canadian bank's prime lending rate.

The loan is secured by certain of the Company's Canadian and U.S. petroleum and natural gas properties and by a general assignment of accounts receivable.

The Company's Canadian banker has issued a letter of credit to a foreign bank in the amount of U.S. \$225,000. The letter of credit which expires in October 31, 1983 is drawn on Westgrowth Petroleum Ltd.'s existing line of credit and serves as security for loans made to a limited partnership of which the Company is the general partner.

The Company guaranteed a bank loan in the amount of \$80,000 made to a limited partnership of which the Company is the general partner. In the event that the limited partnership does not repay the loan within one year, the Company will pledge certain of its Canadian petroleum and natural gas properties as security for this loan.

Westgrowth storage tanks located at the Retlaw central battery facility. These tanks each have a capacity of 160 cubic meters and are used to store crude oil for shipment to a refinery.



5 Advances on leasehold improvements:

The amount represents a loan received under the office lease agreement for the purpose of completing leasehold improvements. The loan, which bears interest at 13% per annum, is repayable in equal monthly payments of \$4,500 commencing January, 1982 and expiring in April, 1987. Principal repayments in each of the next five years are:

1983	\$ 34,000
1984	39,000
1985	43,000
1986	49,000
1987	14,000
	<u>179,000</u>
Less current portion	34,000
	<u>\$145,000</u>

6 Advances on natural gas sales contracts:

The deferred gas production revenue represents payments received under take-or-pay gas contracts. These amounts will be included in revenue when the gas to which the payments relate is delivered at the option of the purchaser.

7 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 \$6.00 per share.

The debentures are redeemable at the sole option of the Company if the average closing stock exchange price of common shares of the Company during 30 consecutive trading days was not less than \$7.00 per share.

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

8 Income taxes:

The provision for deferred income taxes of \$60,000 differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to the earnings before income taxes. This difference results from the following items:

Computed expected tax recovery	\$(107,000)
Increase (decrease) in taxes resulting from:	
Non-deductible expenses	662,000
Loss of United States subsidiary	135,000
Government tax allowances and credits	(630,000)
	<u>\$ 60,000</u>

The Company has an operating loss carryforward which expires in 1986 of approximately \$273,000 available to reduce future years' Canadian taxable income.

Assets in the amount of \$5,787,000 are not available as deductions from future Canadian taxable income.

As at December 31, 1982, the Company's United States subsidiary has accumulated tax losses and excess of tax values over related net book values in the amount of approximately \$232,000. This amount will be available to reduce future years' income for United States tax purposes, the potential tax benefits of which have not been recognized in the financial statements.

9

Share capital:

a) Authorized:

The authorized capital of the Company consists of:

i) Preferred:

- 6,000,000 first convertible preferred shares with a par value of \$5.00 each.
- 126,500 cumulative, redeemable convertible shares having an annual dividend of \$1.00 per share with a par value of \$10.00 each. The shares are convertible to twenty common shares for each preferred share outstanding.
- 2,000,000 12% series A cumulative, redeemable convertible first preferred shares, with a par value of \$5.00 each.
- 1,107,504 12% series B cumulative, redeemable convertible first preferred shares, with a par value of \$5.00 each, issuable under the following two options:
 Option (1) – 12% series B cumulative, redeemable convertible first preferred shares.
 Option (2) – 12% series B cumulative, redeemable convertible first preferred shares (flow-through convertible preferred shares), entitling the subscriber to certain federal tax deductions (qualifying expenditures) for exploration and development expenses incurred.

First preferred shares, series A and B have voting rights of one vote per share. The shares are convertible into common shares at a price of \$1.25 per common share to December 31, 1986. The shares are redeemable at the option of the Company in whole or in part under certain conditions. The redemption price is \$5.50 per share if the shares are redeemed in the 12 months ending December 31, 1987, and thereafter declining by \$0.10 per share annually to \$5.00 per share.

ii) Common:

- 25,000,000 shares of no par value.

	1982		1981	
	Shares	Amount	Shares	Amount
b) Issued:				
i) \$10.00 par value preferred shares	–	\$ –	66,875	\$ 669,000
First preferred shares:				
Series A	1,550,000	7,750,000	–	–
Series B	271,134	1,356,000	–	–
ii) Common shares	7,884,596	10,470,000	6,547,096	9,801,000
		\$19,576,000		\$10,470,000

The preferred shares were issued for cash while 66,875 \$10.00 par value preferred shares were converted to 1,337,500 common shares.

The following schedule summarizes the common shares reserved for issue at December 31, 1982, as follows:

	1982	1981
On the conversion of debentures	333,333	400,000
On the conversion of preferred shares	–	1,337,500
On the conversion of series A first preferred shares	6,200,000	–
On the conversion of series B first preferred shares	1,622,624	–
On the exercise of share purchase warrants:		
– issued to the directors of a company, (one of whom is a former director of the Company) and exercisable at \$0.80 per share (1981 – \$0.70) and escalating by \$0.10 per share each year to date of expiration, December 31, 1983	200,000	200,000
– issued to senior officers of the Company, exercisable at \$0.50 per share expiring December 31, 1983	163,900	163,900
On the exercise of options granted officers and employees:		
– exercisable at prices between \$1.49 and \$1.70 per share expiring in 1985	–	320,000
– exercisable at prices between \$0.98 and \$1.25 per share expiring in 1986	485,000	–
One-quarter of the options granted become exercisable in any one year		
	9,004,857	2,421,400

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Preferred share subscriptions:

134,522 12% series B convertible first preferred shares were subscribed for in December, 1982 under option (2) (flow through convertible preferred shares) for an aggregate amount of \$877,000 including interest.

The subscription agreement provides for the following:

- i) Until the funds are applied, they will be kept in interest bearing deposits of Canadian chartered banks or trust companies or invested in prime commercial paper. Interest earned thereon will be remitted to the subscribers;
- ii) The subscription funds will be expended in such a manner that the subscribers will be entitled to income tax deductions for qualifying exploration and development expenditures;
- iii) The Company as agent for the subscribers will apply for all PIP grants earned by the subscribers and shall return same to the subscribers on a quarterly basis;
- iv) The Company will issue one (1) convertible preferred share, series B for each \$6.50 of expenditures incurred by subscribers by December 31, 1983; and
- v) Any unexpended funds at December 31, 1983 shall be returned to the subscribers and the remaining subscriptions cancelled.

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Loss per common share:

	Basic	
	1982	1981
Loss per share before extraordinary items	\$.11	\$.47
Net loss per share	\$.11	\$.40

The loss per common share is calculated by dividing the weighted daily average number of common shares outstanding during the year into the loss attributable to the common shareholders after deduction of preferred share dividends.

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



Carbon dioxide extraction facilities under construction at the Turin natural gas plant, Retlaw area. The carbon dioxide will be injected into the Upper Mannville "V" Pool, three miles to the east, in order to improve production performance and oil recovery.

12

Segmented Information:

The Company and its subsidiary operate predominantly in one industry, that being 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.

	1982		
	Canada	U.S.A.	Total
Oil and gas revenue before the following:	\$ 6,775,000	\$ 381,000	\$ 7,156,000
Crown royalties	(1,484,000)	—	(1,484,000)
Alberta royalty tax credit	1,158,000	—	1,158,000
Net oil and gas revenue	6,449,000	381,000	6,830,000
Gain on sale of property, plant and equipment	715,000	—	715,000
Management fees	26,000	—	26,000
Interest	163,000	—	163,000
Net revenue	<u>\$ 7,353,000</u>	<u>\$ 381,000</u>	<u>\$ 7,734,000</u>
Segment operating earnings (loss) before the undernoted items	<u>\$ 2,803,000</u>	<u>\$ (245,000)</u>	<u>\$ 2,558,000</u>
General and administrative			987,000
Interest on debentures			200,000
Interest on bank loans			1,591,000
Loss before income taxes			220,000
Deferred income taxes			60,000
Net loss			<u>\$ 280,000</u>
Identifiable Assets:			
Property, plant and equipment	\$18,472,000	\$5,647,000	\$24,119,000
Other identifiable assets	3,276,000	185,000	3,461,000
	<u>\$21,748,000</u>	<u>\$5,832,000</u>	<u>\$27,580,000</u>
	1981		
	Canada	U.S.A.	Total
Oil and gas revenue before the following:	\$ 2,578,000	\$ 284,000	\$ 2,862,000
Crown royalties	(533,000)	—	(533,000)
Alberta royalty tax credit	166,000	—	166,000
Net oil and gas revenue	2,211,000	284,000	2,495,000
Management fees	293,000	53,000	346,000
Interest	189,000	12,000	201,000
Net revenue	<u>\$ 2,693,000</u>	<u>\$ 349,000</u>	<u>\$ 3,042,000</u>
Segment operating earnings (loss) before the undernoted items	<u>\$ 683,000</u>	<u>\$ (457,000)</u>	<u>\$ 226,000</u>
General and administrative			689,000
Interest on debentures			200,000
Interest on bank loans			1,557,000
Loss before income taxes and extraordinary item			2,220,000
Income taxes (recovery)			(106,000)
Loss before extraordinary item			2,114,000
Extraordinary item —			
Gain on sale of investment (net of deferred taxes)			331,000
Net loss			<u>\$ 1,783,000</u>
Identifiable Assets:			
Property, plant and equipment	\$18,690,000	\$5,500,000	\$24,190,000
Other identifiable assets	3,650,000	428,000	4,078,000
	<u>\$22,340,000</u>	<u>\$5,928,000</u>	<u>\$28,268,000</u>

13

Related party transactions:

Details of related party transactions are as follows:

- a) In May, 1982, a major shareholder of the Company (The Resource Service Group Ltd.) purchased 1,200,000 series A first preferred shares for an aggregate amount of \$6,000,000 representing 77.4% of the outstanding series A first preferred shares.
- b) Throughout the year, the Company's United States subsidiary participated on a joint venture basis with a subsidiary of The Resource Service Group Ltd. in oil and gas development programs. The terms of the joint venture agreement are considered similar to transactions with non-related parties.
- c) The Company paid commissions in the amount of \$40,000 (1981 — \$60,000) for professional services to a company, whose chairman is a former director of the Company.
- d) Included in other assets are unsecured promissory notes amounting to \$117,000 (1981 — \$70,000). The promissory notes, which bear interest at rates of 10% to 12% per annum, are due in 1984 and represent funds advanced to officers and a director.

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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 \$3,016,000 comprised of gross payments of \$3,901,000 less amounts to be paid by sublessors of \$885,000. The minimum payments required in the next five years are as follows:

1983	\$ 86,000
1984	108,000
1985	224,000
1986	224,000
1987	466,000
Total	<u>\$1,108,000</u>

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Remuneration of directors and officers:

The aggregate management fees and remuneration paid to directors and senior officers (which includes the five highest paid employees) for the year ended December 31, 1982 was approximately \$368,000 (1981 — \$325,000).

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Comparative figures:

Certain reclassifications have been made to the 1981 comparative figures to conform with the current year's presentation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Westgrowth Petroleum Ltd. as at December 31, 1982 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, 1982 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 basis consistent with that of the preceding year.

Paul, M. Marshall, Mitchell

Calgary, Canada
February 7, 1983

Chartered Accountants



