WESTGROWTH PETROLEUMS LTD.

Annual Report 1983

Directors

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

J. Keith Farries
Chairman and 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

John M.S. Lecky
Chairman and President

Mark J. Feldman
Secretary

Ernest G. Sapieha
Chief Financial Officer

John Chan Wong
Controller

Corporation Office
Suite 1400, 144 - 4th Avenue S.W.
Calgary, Alberta
T2P 3N4

Registered Office
Suite 3200, 425 - 1st Street S.W.
Calgary, Alberta
T2P 3L8

Auditors

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Solicitors

Burnet, Duckworth & Palmer
Calgary, Alberta

Principal Banker

The Bank of Montreal

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 11, 1984

Delta Bow Valley Hotel—2:00 p.m.
Salon A
Calgary, Alberta

WESTGROWTH PETROLEUMS LTD.

Westgrowth Petroleums Ltd. is an Alberta based, Canadian owned public corporation actively engaged in the exploration, development and production of petroleum and natural gas. The principal areas of activity are centered in Alberta and British Columbia with minor operations in the United States conducted by the Company's wholly-owned subsidiary Westgrowth Petroleums, Inc.

The Company's shares are traded on The Toronto Stock Exchange under the symbol WGP.

Financial Highlights

	1983	1982
Petroleum and Natural Gas Revenues	**$4,859,000**	$6,830,000
Net Income (Loss)	**$ 167,000**	$ (280,000)
Per Share (Loss)	**($0.12)**	($0.11)
Cash Flow from Operations	**$1,385,000**	$1,870,000
Per Share	**$0.16**	$0.24
Capital Expenditures	**$8,388,000**	$5,506,000
Working Capital Deficit	**$1,357,000**	$4,751,000

Contents

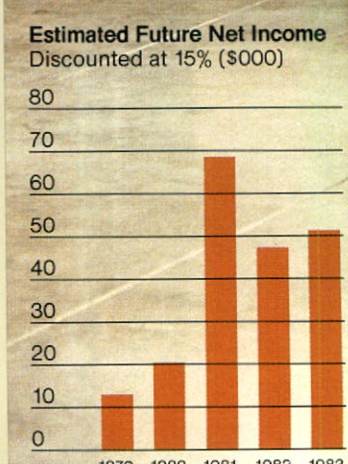
Directors' Report to Shareholders

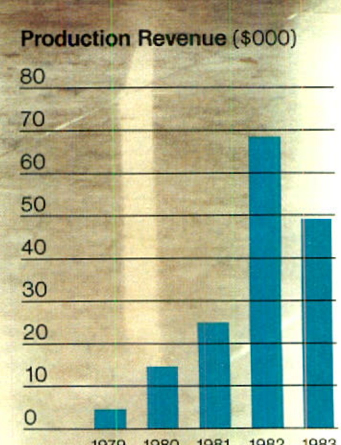
Reference to shareholder statistics in this report will give a profile of the company's performance over the past five years. These should be read in context with the tables compiled to demonstrate reserve figures in relation to annual exploration and drilling expenditures. Westgrowth, which began the period as a manager of drilling funds and joint ventures, is now preoccupied with the problems of producing its reserves on a profitable basis. Intervening market developments in the domestic industry have pushed farther away the recoverability of the company's reserves, and as a consequence, present values have fallen.

In addition, forecasts for oil and gas prices, in periods when it is hoped that these reserves can be produced, have also moderated. Every year the company's reserves, adjusted for that year's additions and depletions, are estimated by independent engineers, and have been reported to shareholders in the annual report. Engineering estimates of future price and demand conditions, are influenced by many factors amongst which are changes in taxes, prices, and world trends in consumption.

The degree by which the assumptions used by these engineers can vary from year to year has been quite considerable. The resulting changes in the present value of Westgrowth's aggregate reserves in recent years were as much affected by this process as by additions through discovery and deletions through sale or production.

During 1983, a period of continued contraction for many juniors, Westgrowth concentrated on maximizing cash flow, reducing overhead, and eliminating debt.





How Engineers Changed Their Oil Price Forecast

January '80 through January '84

Projection report dated January		'80	'81	'82	'83	'84
Forecasted Year	'80	$13.94	–	–	–	–
	'81	15.94	$17.94	–	–	–
	'82	17.94	19.94	$47.57	–	–
	'83	19.94	21.94	55.06	$43.40	–
	'84	21.94	25.81	61.83	46.90	$37.00
	'85	23.94	30.32	68.53	50.60	39.00
	'86	25.94	36.69	75.78	54.70	42.00
	'87	27.94	43.69	84.12	59.00	45.00
	'88	29.94	50.69	93.36	63.80	49.00
	'89	32.04	57.69	103.64	68.90	53.00
	'90	34.28	64.69	115.04	74.40	58.00
	'91+	7%	7%	11%	5%	5%
Future Net Income @ 15% ($M)		**12,875**	**20,052**	**68,346**	**47,133**	**51,339**

Notes:- pricing was deregulated after 1981

Revenue growth was inhibited by gas/oil ratio penalties curtailing production in the Retlaw area, as well as by lower demand for gas under industrial sales contracts. We expect to be able to reverse the former situation later this year when the Mannville 'V' pool at Retlaw has been sufficiently repressurized. Additional volumes of CO_2 have been contracted for this purpose.

In November, shareholders were advised of a successful offer for all of the outstanding shares of British Canadian Resources Ltd. This transaction had the effect of eliminating our company's bank debt, and brought with it several valuable land holdings in the Carrot Creek, Paddle River, Hayter, and Helmet/Desan areas. In 1984 drilling will be undertaken on most of these properties.

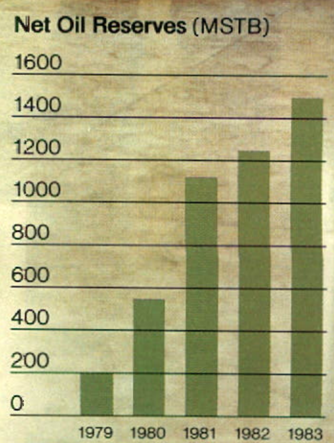
Westgrowth can be seen to have come through a harrowing period in relatively good financial condition. We are a smaller team without the services of Messrs. Gronberg and Watson, whose exploratory efforts in past years helped develop the company's present reserve base. The emphasis of the company must now remain on projects of a developmental nature, and upon realization of investments in Retlaw and other smaller properties. There are also opportunities to introduce oil and gas assets through acquisition, and we are pursuing some of these.

On behalf of the directors I wish to thank employees for their efforts and shareholders for their encouragement.

J. M. S. Lecky

J. M. S. Lecky
Chairman

April 5, 1984



OPERATIONS

Westgrowth starts first Canadian immiscible CO_2 flood

reprinted from Enhanced Recovery Week December 5, 1983

Westgrowth Petroleum Ltd. hopes an immiscible CO_2 flood, the first in Canada, will double production from its Retlaw field, 80 miles southeast of Calgary.

Injection began Nov. 1 at the project, which a spokesman described as a cross between an immiscible flood and pressure maintenance. The company chose CO_2, which is costing $3 a thousand cf, because it was readily available from a nearby plant and because the company believes CO_2 will work well in the low reservoir temperature of 96°F, the spokesman said. The CO_2 will swell the crude, reduce its viscosity and will serve as a displacing fluid.

Primary production at the field was 200-300 b/d, but, with the CO_2, production is expected to reach 600 b/d. The company is injecting 1.5 million - 2.5 million cf/d of 98% pure CO_2.

Westgrowth has built a pipeline to supply the gas from the Turin natural gas plant, which is three miles from the field.

There were 8 million barrels of original oil in place, 5% of which could be recovered through primary production. The CO_2 is expected to increase recovery to 35%.

The 1,600-acre project has 18 producers and three injectors on modified seven-spot patterns.

Westgrowth's project is the second CO_2 "first" to be announced in a month. Vikor Resources Ltd. recently said it will start injection soon on Canada's first tertiary CO_2 miscible flood *(ERW 10/31)*. Vikor is conducting its flood in a watered-out reservoir.

Westgrowth bypassed a waterflood because of the area's shortage of fresh water and because the Mannville "V" formation contains hydrophilic clays that swell on contact with water and reduce injectivity *(ERW 11/1/82)*. The company estimated that a waterflood would recover only 18% of the original oil.

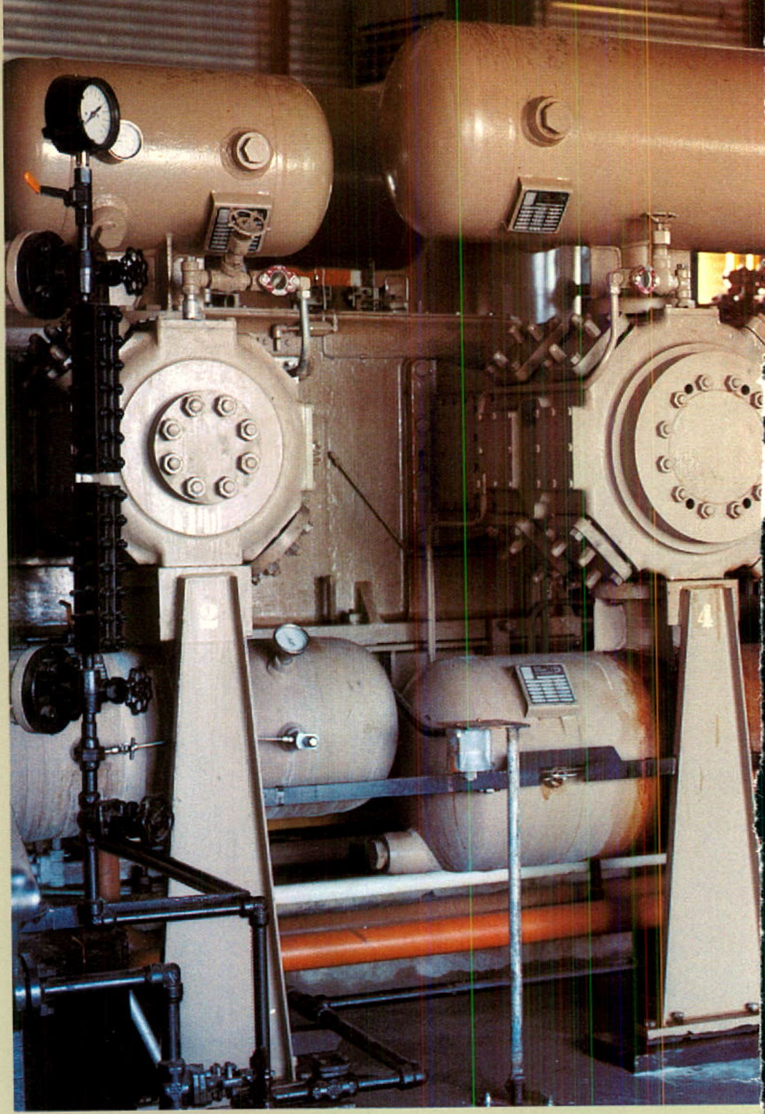
However, the spokesman said the project might end with a water-alternating-gas scheme using salt water from a nearby formation, which the company thinks would avoid clay-swelling problems. If a straight CO_2 slug is used, gas injection could last four to five years. The company expects to see incremental oil in a year.

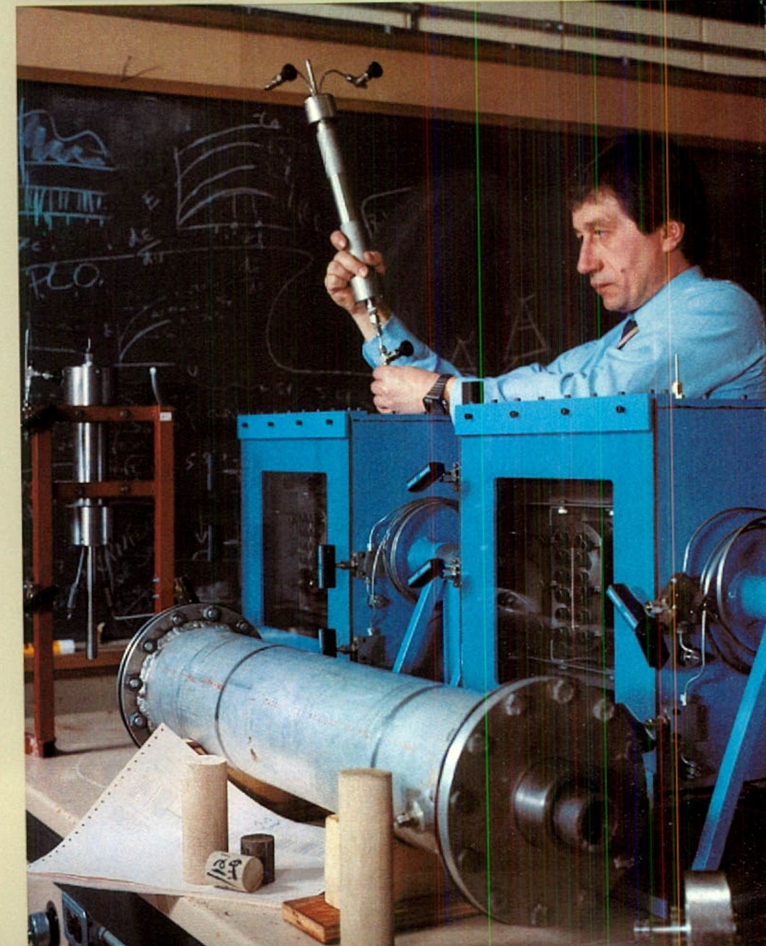
Westgrowth is getting an economic break from the Alberta government. Because it is using CO_2 in an unconventional way, the project has been classified as experimental and pays only 5% royalties, compared with 30% for typical commercial projects. The experimental status applies for five years. The oil will get the New Oil Reference Price of about $38 a barrel.

The Retlaw field was discovered in 1978 and was developed two years later. Westgrowth is the operator and majority owner with 10 other co-owners.

The Retlaw formation is a Glauconite sandstone. Porosity is 18% and permeability averages 50 md. It is 3,500' deep and has 6' - 8' of net pay. Oil gravity is 23° API and viscosity is 8 - 10 cp. Original reservoir pressure was 1,650 psi.

Westgrowth Petroleums Ltd., as operator of the Retlaw Upper Mannville 'V' Pool Unit, initiated Canada's first immiscible CO_2 flood in October, 1983. The CO_2 project is the culmination of over two years of effort which included conducting technical studies, obtaining regulatory approvals, Unitization of the project area and construction of the CO_2 facilities.

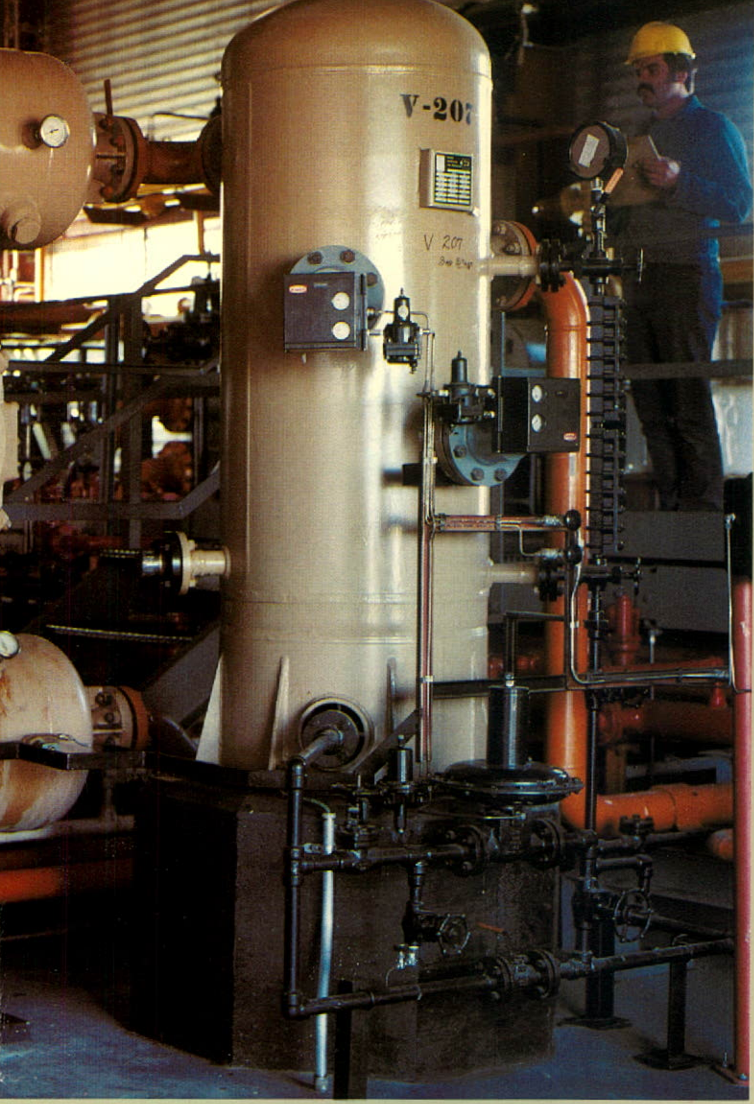


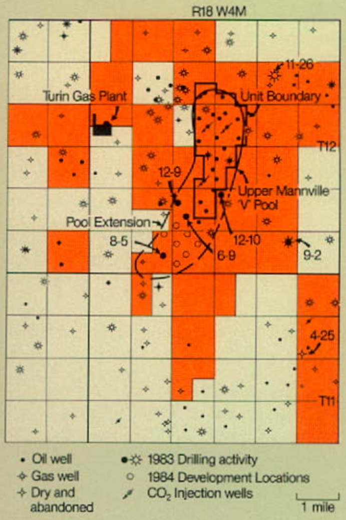


Above, operator checking readings on the CO_2 Compressor facility.

Right, interstage coolers for the CO_2 compressor.

Left, Dr. P.M. Sigmund of BRTR Petroleum Consultants Ltd. laboratory testing our CO_2 project.



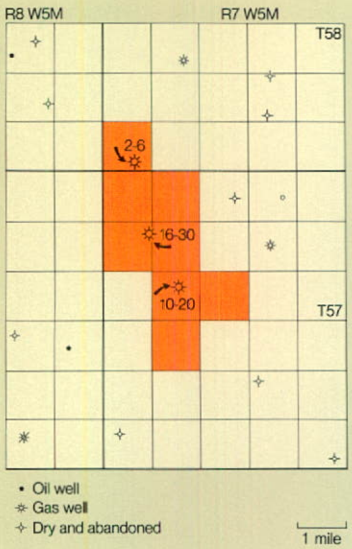


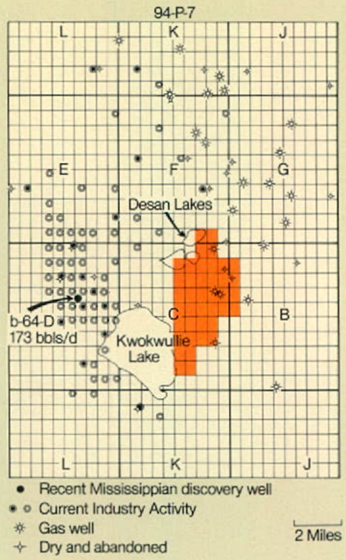
Retlaw

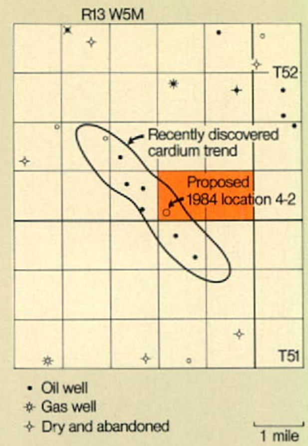
Westgrowth continued its trend of exploration and development activity in its prime producing area, participating in 7 wells during 1983, 6 of which are completed as oil or gas producers. The well 4-25-11-18 W4M was drilled at no cost to the Company and was subsequently abandoned. In addition the Company added 1760 gross acres to its land holdings in the area by various poolings and acquisitions. By virtue of the above activity Westgrowth booked estimated proven plus probable additional gross reserves of 512,000 barrels of oil plus 2 BCF of gross proven gas reserves from the Retlaw properties during 1983.

Of most significance to Westgrowth's future revenues was the unitization of the Upper Mannville 'V' Pool, completed after eighteen months of negotiations with working interest owners, enabling our CO_2 (carbon dioxide) injection and enhanced oil recovery project to commence in October. Westgrowth is a pioneer in Canada in initiating this project which culminates 2.5 years of intensive technical research and experimental work. The Company owns a 34% working interest in the Unit which currently contains 22 oilwells capable of production from the Glauconite 'A' sandstone. Carbon dioxide, derived as a byproduct from the Turin gas plant, is compressed at our new $3 million facility and then injected into 3 patterns of injector-producer wells in the Mannville 'V' Pool. After an initial period of "voidage replacement", expected to take about 1 year, it is expected that ultimate recovery from the pool will increase from 8% to over 35% of the oil in place. The Company estimates a production rate of 450 barrels of oil per day could be established by the fourth quarter of 1984, providing the Company with a substantial portion of its future revenues.

Of direct bearing on the latter project was the successful drilling in 1983 of the step-out wells 6-9, 12-9, and 12-10 Twp. 12, Range 18 W4M, all presently completed and pumping oil from the Glauconite 'A' sandstone. In addition the well 8-5-12-18 W4 in which Westgrowth has a 25% W.I., was drilled on a pooling and farmin arrangement negotiated with Dome Petroleum and Ladd Exploration and successfully proved an extention of over 1 mile to the Mannville 'V' Pool. The intervening acreage is owned by Westgrowth and partners and contains 6 or more potential development locations which could add 384,000 barrels of net reserves (primary and enhanced recovery) to our inventory. The development program, in which Westgrowth has a 50% working interest will be commenced in the first quarter of 1984. Immediately after this delineation work is completed, application will be made to the Unit for inclusion of all non-unitized oilwells thereby utilizing at the earliest possible time the production and royalty benefits of carbon dioxide flooding techniques.







Paddle River

Westgrowth acquired a 12 to 16% interest in this property by its 1983 acquisition of British Canadian Resources. At the time of that acquisition, three wells had been drilled on the property to exploit the area's potential for Nordegg gas reserves. The well 2-6-58-7 W5M, as yet uncompleted, yielded a drillstem test rate of 1.35 MMcf/d from the Nordegg formation; the well 16-30-57-7 W5M was completed in the Nordegg formation and tested with an absolute open flow potential of 18.3 MMcf/d. The well 10-20-57-7 W5M drillstem tested at a rate of 3.4 MMcf/d from the Nordegg zone but could not be successfully completed due to a thin pay zone over water. The reserves assigned to these lands, approximately 14.5 billion cubic feet gross, are as yet uncontracted, but the Company is hopeful that efforts to establish industrial contracts for this gas will be successful.

Helmet/Desan

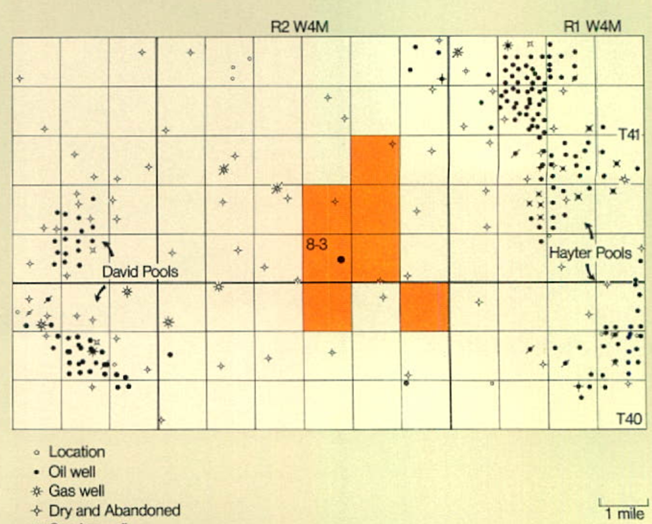
An exciting new play is developing in northeastern British Columbia 80 miles northeast of Fort Nelson and 75 miles west of the Rainbow Lake field in Alberta. Gulf Canada Resources Inc. and Alberta Energy Co. Ltd. are currently drilling over 60 new wells in this most logistically difficult area following their oil discovery b-64-D/94-P-7, drilled in January of 1983. Gulf recently announced the well produced 173 barrels of oil per day during an extended test period from a 58 foot pay zone in the Mississippian formation. Several older wells in the region appear to have potential in the Mississippian, untested as the operator drilled for the deeper, gas-prone prospects in the area. Westgrowth owns working interest ranging from 26% to 80% in 6,538 prospective acres in the immediate vicinity of the Gulf activity and intends to evaluate the potential of its property by the most attractive means possible during 1984.

Carrot Creek

The Carrot Creek area was one of intense industry activity in 1983, with much of the activity concentrating on the Cretaceous Cardium formation. Texaco Canada Inc. discovered a Cardium sand bar and drilled six oilwells adjacent to two sections of land in which Westgrowth owns a 13% working interest. The wells exhibit up to 25 feet of net pay from which the operator has reported after-fracture production rates as high as 1134 barrels of oil per day. Westgrowth has mapped the geological trend across its acreage and has drilled a successful development well in 4-2-52-13 W5M in the first quarter of 1984.

Hayter

Westgrowth acquired a 37.5% working interest in this attractive oil property through its acquisition of British Canadian Resources in 1983. The lands are located between the prolific Hayter oil pool to the east and the David pool to the west, both producing from various abundant Lower Cretaceous sandstones. At the time of our acquisition of the property, Cherokee Resources Limited and partners had drilled a McLaren zone oil discovery in 8-3-41-2 W4M and after 3 months a stable production rate of 80 barrels of oil per day appears to have been established. Seismic data indicates the McLaren discovery has significant follow-up potential on our Hayter property and the Company plans a development well for the first half of 1984.



Left to right:

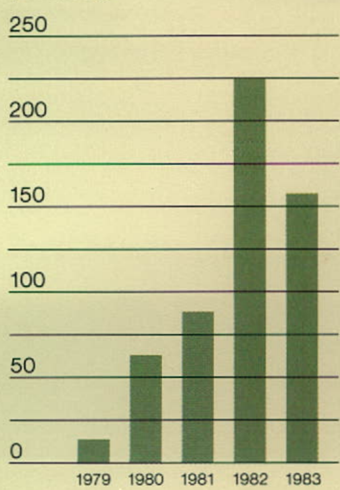
E.G. Sapieha
Chief Financial Officer
L.A. Sanche
Exploration Manager
W.G. Cukr
Corporate Accountant
J. Chan Wong
Controller
W.E. Kerr
Chief Engineer

Investor Analysis: 1978 - 1984

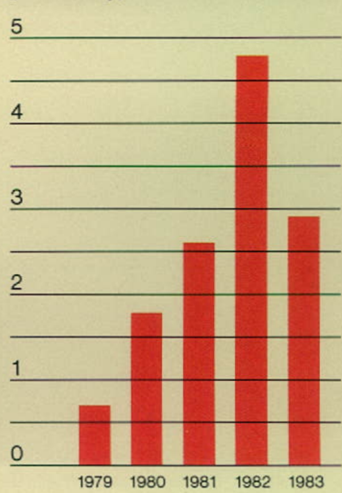
	Net Investment $M	Net Proven & Probable Gas (BCF)	Net Proven & Probable Oil (MstB)	Land $M	Present Worth (iv) $M	**ROI** @ 15% DCF (v)
Westgrowth Petroleums Ltd.	35,479	30.0	1,714.6	6,577	68,747	1.94
Other joint ventures and partnerships (i)	10,715 (ii)	8.4	168.2	1,678	13,514 (iii)	1.26
Total	46,194	38.4	1,882.8	8,255	82,261	1.78

Note: (i) - other joint ventures and partnerships include both Canadian and U.S. operations
(ii) - investments for J.V.'s includes original contributions and overruns (net of PIP grants) but does not include reinvested income
(iii) - the reserves and related values were those established at the conclusion of each joint venture
(iv) - present worth is the value of proven and probable reserves (discounted at 15%) including land values
(v) - (ROI) is the present worth over net investment

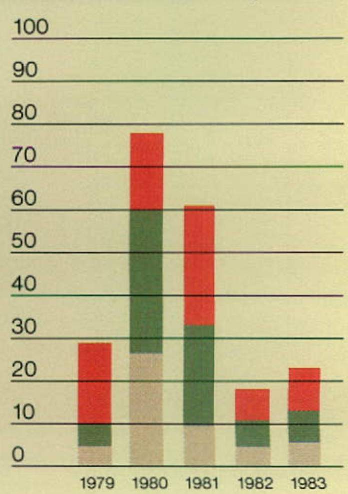
Net Daily Oil Production
(bbls/day)



Net Daily Gas Production
(mmcf/day)



Gross Number of Wells Drilled
Gas Oil Dry



Board of Directors
from left to right:
Stephen M. Krasnow
J. Keith Farries
Mark J. Feldman
John M.S. Lecky
Harold M. Wright

Reserves and Future Net Income Evaluations at January 1, 1984

	Oil	Gas	Estimated Future Net Income ($000's) (4)		
	MSTB	BCF	Undiscounted	15%	20%
Proven:					
Canada	720.7	17.3	$160,600	$34,300	$25,700
U.S.A.	12.9	.1	630	475	345
Probable:					
Canada	764.3	7.4	117,800	16,500	11,200
U.S.A.	.3	—	201	64	46
	1,498.2	24.8	279,231	51,339	37,291

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 $6,577,000. United States acreage was not evaluated.
4. Expressed in Canadian dollars and employing a 20% exchange rate on U.S. values.

Westgrowth Petroleums Ltd.

Consolidated Balance Sheet

December 31, 1983

	1983	1982
ASSETS		
Current Assets:		
Cash	$ 614,000	–
Accounts receivable	975,000	1,952,000
Petroleum incentive payments receivable	58,000	433,000
Inventory	158,000	211,000
Prepaid expenses	2,000	13,000
	1,807,000	2,609,000
Cash Held For Investment (Note 8)	–	715,000
Property, Plant and Equipment (Note 11)	31,805,000	24,119,000
Other Assets (Note 13)	79,000	137,000
	$33,691,000	27,580,000

	1983	1982
LIABILITIES		
Current Liabilities:		
Outstanding cheques less cash in bank	$ –	546,000
Bank demand loan (Note 3)	–	3,100,000
Accounts payable	3,164,000	3,714,000
	3,164,000	7,360,000
Advances on Natural Gas Sales Contracts (Note 5)	894,000	1,035,000
Advance on Leasehold Improvements (Note 4)	106,000	145,000
10% Subordinate Convertible Debentures (Note 6)	2,000,000	2,000,000
Preferred Share Subscriptions (Note 8)	–	815,000
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	31,937,000	19,576,000
Deficit	4,410,000	3,351,000
	27,527,000	16,225,000
Commitment and Contingencies (Notes 3 and 14)		
	$33,691,000	27,580,000

On behalf of the Board:

See accompanying notes.

Consolidated Statement of Earnings

Year ended December 31, 1983

	1983	1982
Revenue:		
Sale of petroleum and natural gas (Note 10)	**$4,859,000**	6,830,000
Gain on sale of property, plant and equipment	**—**	715,000
Interest and other income	**240,000**	189,000
	5,099,000	7,734,000
Expenses:		
Production	**1,770,000**	2,375,000
Petroleum and gas revenue tax	**—**	249,000
Incremental oil revenue tax	**—**	14,000
General and administrative	**1,216,000**	1,395,000
Commissions	**3,000**	40,000
Interest on debentures	**200,000**	200,000
Interest on bank loans	**525,000**	1,591,000
Depletion	**788,000**	1,768,000
Depreciation	**371,000**	322,000
	4,873,000	7,954,000
Earnings (loss) before income taxes	**226,000**	(220,000)
Deferred income taxes (Note 7)	**59,000**	60,000
Net earnings (loss)	**$ 167,000**	(280,000)

See accompanying notes.

Consolidated Statement of Deficit

Year ended December 31, 1983

	1983	1982
Deficit, beginning of year	**$3,351,000**	2,337,000
Add (deduct):		
Dividends on preferred shares	**1,226,000**	560,000
Net (earnings) loss	**(167,000)**	280,000
Expenses relating to the issue of shares	**—**	174,000
Deficit, end of year	**$4,410,000**	3,351,000

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1983

	1983	1982
Funds provided from:		
Operations	$ 1,385,000	1,870,000
Issue of common shares—net	3,792,000	—
Issue of preferred shares	7,838,000	9,106,000
Preferred share subscriptions	—	815,000
Sale of property, plant and equipment	—	2,382,000
Petroleum incentive program grants	115,000	1,105,000
Advance on natural gas sales contracts	60,000	656,000
Advance on leasehold improvements	—	166,000
Other assets	58,000	—
	13,248,000	16,100,000
Funds applied to:		
Property, plant and equipment	3,063,000	5,506,000
Acquisition of British Canadian Resources Ltd. net of working capital of $11,996,000	5,325,000	—
Share issue expenses	—	234,000
Preferred share subscriptions	—	715,000
Repayment of advance on leasehold improvements	39,000	21,000
Repayment of advance on natural gas sales contracts	201,000	—
Preferred share dividends	1,226,000	560,000
Other assets	—	47,000
	9,854,000	7,083,000
Decrease in working capital deficiency	3,394,000	9,017,000
Working capital deficiency:		
Beginning of year	4,751,000	13,768,000
End of year	$ 1,357,000	4,751,000

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 1983

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 subsidiaries, Westgrowth Petroleums, Inc. and British Canadian Resources Ltd.

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.

Costs related to the acquisition of undeveloped properties are excluded from capitalized costs to be depleted until it is determined whether or not proven reserves are attributable to properties or impairment in value has occurred.

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 the cost and net realizable value.

f) Investment Tax Credit:

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

2 Acquisition of British Canadian Resources Ltd.:

Effective November 10, 1983, the Company acquired British Canadian Resources Ltd. ("BCR") for a total consideration of $17,321,000. The acquisition has been accounted for by the purchase method. The results of operations have been included in the accounts of the Company from date of acquisition.

The excess of the purchase price over underlying book value of net assets acquired has been attributed to petroleum and natural gas properties.

Details of the transaction are as follows:

Book value of net assets acquired	$16,320,000
Excess of the purchase price over book value of net assets acquired	1,001,000
	$17,321,000

The net assets acquired at attributed values consist of:	
Working Capital	$11,996,000
Petroleum and natural gas properties	5,325,000
	$17,321,000

Consideration given:	
3,628,315 common shares of Westgrowth Petroleums Ltd.	$ 4,173,000
1,567,500 12% series C preferred shares	7,838,000
1,567,500 warrants of The Resource Service Group Ltd.	1,959,000
Cash	3,351,000
	$17,321,000

3 Line of Credit:

The Company had an unused line of credit with the Company's Canadian banker, providing for overdrafts and loans of approximately $7,900,000 at December 31, 1983. Borrowings under this line of credit bear interest at ¼% above the bank's prime lending rate.

The line of credit 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. $170,000. The letter of credit which expires on September 30, 1984 is drawn on Westgrowth Petroleums 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.

4 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 by year are as follows:

1984	$ 39,000
1985	43,000
1986	49,000
1987	14,000
	145,000
Less current portion	39,000
	$106,000

5 Advances on Natural Gas Sales Contracts:

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

6 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.

7 Income Taxes:

The provision for deferred income taxes of $59,000 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:

	1983	1982
Computed expected tax (recovery)	**$108,000**	(107,000)
Increase (decrease) in taxes resulting from:		
Non-deductible expenses	**184,000**	662,000
Loss of United States subsidiary	**31,000**	135,000
Government tax allowances and credits	**(264,000)**	(630,000)
	$ 59,000	60,000

The Company has an operating loss carryforward which expires in 1986 of approximately $761,000 available to reduce future years' Canadian taxable income. Utilization of the loss would result in a credit to deferred income taxes.

Assets in the amount of $6,064,000 are not available as deductions from future Canadian taxable income.

As at December 31, 1983, the Company's United States subsidiary has accumulated tax losses and an excess of tax values over related net book values in the amount of approximately $400,000. 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.

8 Share capital:

a) Authorized:

The authorized capital of the Company consists of:

(i) Preferred:

- 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.
- 6,000,000 first convertible preferred shares with a par value of $5.00 each designated as follows:
  - 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.
  - 1,567,500 12% series C cumulative, redeemable convertible first preferred shares.

First preferred shares, series A, B and C 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:

- 50,000,000 shares of no par value.

	1983		1982	
b) Issued:	Shares	Amount	Shares	Amount
(i) First preferred shares:				
Series A	1,550,000	$ 7,750,000	1,550,000	$ 7,750,000
Series B	405,656	2,028,000	271,134	1,356,000
Series C	1,567,500	7,838,000	–	–
(ii) Common shares	11,676,811	14,321,000	7,884,596	10,470,000
		$31,937,000		$19,576,000

During the year the Company issued 134,522 12% series B convertible first preferred flow-through shares, on the basis of one (1) share for each $6.50 of expenditures incurred on behalf of subscribers.

During the year 163,900 share purchase warrants were exercised by former officers of the Company at $0.50 per share.

Share issue expense of $462,000 net of deferred income taxes of $59,000 has been allocated against the proceeds of the issue of common shares.

The following schedule summarizes the common shares reserved for issue at December 31, 1983, as follows:

On the conversion of debentures	333,333
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 conversion of series C first preferred shares	6,270,000
On the exercise of share purchase warrants:	
– issued pursuant to the acquisition of British Canadian Resources Ltd., exercisable at $3.00 per share expiring December 31, 1985	660,000
On the exercise of options granted officers and employees:	
– exercisable at prices between $0.98 and $1.25 per share expiring in 1986 One-quarter of the options granted become exercisable in any one year	485,000
	15,570,957

9 Loss per common share:

	1983	1982
Net loss per share	$ .12	.11

The loss per common share is calculated by dividing the weighted 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.

10 Segmented Information:

The Company and its subsidiaries 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.

	1983		
	Canada	U.S.A.	Total
Oil and gas revenue before the following:	$ 5,060,000	250,000	5,310,000
Crown royalties	(1,037,000)	–	(1,037,000)
Alberta royalty tax credit	586,000	–	586,000
Net oil and gas revenue	4,609,000	250,000	4,859,000
Interest and other income	229,000	11,000	240,000
Net revenue	$ 4,838,000	261,000	5,099,000
Segment operating earnings before the undernoted items	$ 2,065,000	102,000	2,167,000
General and administrative			1,216,000
Interest on debentures			200,000
Interest on bank loans			525,000
Earnings before income taxes			226,000
Deferred income taxes			59,000
Net earnings			$ 167,000
Identifiable Assets:			
Property, plant and equipment	$25,157,000	6,648,000	31,805,000
Other identifiable assets	1,680,000	206,000	1,886,000
	$26,837,000	6,854,000	33,691,000

	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
Interest and other income	189,000	–	189,000
Net revenue	$ 7,353,000	381,000	7,734,000
Segment operating earnings before the undernoted items	$ 2,803,000	163,000	2,966,000
General and administrative			1,395,000
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			$ 280,000
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
	$21,748,000	5,832,000	27,580,000

11 Property, Plant and Equipment:

	1983	1982
Cost:		
Petroleum and natural gas properties:		
Developed	**$22,984,000**	21,790,000
Undeveloped	**5,553,000**	—
Plant and equipment	**8,420,000**	6,322,000
	36,957,000	28,112,000
Accumulated depletion and depreciation:		
Petroleum and natural gas properties	**3,683,000**	2,895,000
Plant and equipment	**1,469,000**	1,098,000
	5,152,000	3,993,000
Net book value	**$31,805,000**	24,119,000
Exploration and development overhead included in petroleum and natural gas properties	**$ 585,000**	633,000

Upon the acquisition of British Canadian Resources Ltd., the Company's investment in undeveloped properties amounted to $5,553,000. This amount has been excluded from the full cost pool for the purposes of depletion.

12 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 was payable by the purchaser in five equal annual installments of $200,000 each, which are cumulative and 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.

13 Related Party Transactions:

Details of related party transactions are as follows:

a) 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.

b) Included in other assets is an unsecured promissory note amounting to $57,000 (1982 - $117,000). The promissory note which bears interest at 12% per annum, is due in 1985 and represents funds advanced to an officer.

14 Commitment:

The Company has a ten year lease agreement for office space expiring December 31, 1991. The Company's minimum share of the aggregate payments is $2,867,000 comprised of gross payments of $3,477,000 less amounts to be paid by sublessors of $610,000. The minimum payments required in the next five years are as follows:

1984	$ 48,000
1985	221,000
1986	224,000
1987	466,000
1988	477,000
TOTAL	$1,436,000

15 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, 1983 was approximately $362,000 (1982 - $368,000).

16 Comparative Figures:

Certain reclassifications have been made to 1982 comparative figures to conform with the current year's presentation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Westgrowth Petroleums Ltd. as at December 31, 1983 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, 1983 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.

Calgary, Canada
February 6, 1984

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Ronalds Western
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