WESTGROWTH PETROLEUMS LTD.

Annual Report 1984

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

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

Touche Ross & 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 10, 1985

The Westin Hotel—2:00 p.m.
Bonavista Room
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

	1984	1983
Petroleum and Natural Gas Revenues	**$6,348,000**	$4,859,000
Net Income	**$1,574,000**	$ 167,000
Per Share (Loss)	**($0.05)**	($0.12)
Cash Flow from Operations	**$3,036,000**	$1,385,000
Per Share	**$0.26**	$0.16
Capital Expenditures	**$3,307,000**	$8,467,000
Working Capital Deficit	**$ 606,000**	$1,357,000

Contents

Directors' Report to Shareholders

Westgrowth management team objectives during the past year have been:

- to replace reserves which have been produced,
- to prove the success of the Retlaw enhanced recovery CO_2 project,
- to lower operating and production costs,
- to increase cash flow and to service preferred share and other financial obligations.

These objectives are interdependent and since they are of similar importance to the ongoing strength of the Company, they have had equal priority. Turning around a beleaguered junior oil company which has paid dearly for past mistakes, is far from a glamorous activity. Successful attainment of objectives however, is satisfying, improves team morale, and creates the desire for the next stage of improvement. Here is how we made out:

Reserves

Although diluted by further price erosion in the Engineers' forecasts, (see chart: How Engineers changed their Oil Price forecast) Westgrowth was successful in increasing reserves in real terms as follows:

How Engineers Changed Their Oil Price Forecast

January '80 through January '85

Projection report dated January	'81	'82	'83	'84	'85
Forecasted Year '80	–	–	–	–	–
'81	$17.94	–	–	–	–
'82	19.94	$47.57	–	–	–
'83	21.94	55.06	$43.40	–	–
'84	25.81	61.83	46.90	$37.00	–
'85	30.32	68.53	50.60	39.00	$40.25
'86	36.69	75.78	54.70	42.00	40.25
'87	43.69	84.12	59.00	45.00	41.75
'88	50.69	93.36	63.80	49.00	43.75
'89	57.69	103.64	68.90	53.00	45.78
'90	64.69	115.04	74.40	58.00	48.50
'91+	7%	11%	5%	5%	7%
Future Net Income @ 15% ($M)	**20,100**	**68,300**	**47,100**	**51,300**	**52,100**

Notes: a) pricing was deregulated after 1981.
b) The 1985 forecast price has dropped $28/bbl (−41%) since 1982 and the 1990 price has dropped $66.54/bbl (−58%).

CO_2 Flood

Because of low gas takes in the region, it became clear, in late 1983, that sufficient CO_2 supplies for the Retlaw project would not be available as a by-product to the throughput of the Turin gas plant. We therefore contracted on behalf of the Unit for additional volumes from outside sources. Again, these were not forthcoming in the requisite volumes, and the result has been a further delay in repressuring the Mannville 'V' pool. This disappointment aside, we continue to experience encouraging technical results. Unit partners are therefore sufficiently supportive to see the project through, and indeed are considering expanding the unit to include the southern portion of the field. This process is currently being negotiated, and application will shortly be made for extension of our enhanced recovery project to this area which does not face similar repressuring problems. The fact remains however, that we did not reach our objectives in proving the success of the experimental phase of our project last year.

Operating costs

As can be seen from the profit and loss statement, general and administrative costs were two thirds of their level in 1983, while production costs are slightly lower compared to production, which was higher in real terms. We may not be able to make much further progress in the former area if Westgrowth is to grow, however we think production costs per unit can again be lowered in the current year.

Financial obligations

A major step in the reconstruction of our Company was the substitution of preferred shares for bank loans. Having been able to service preferred share dividends, our objective is to steadily improve the dividend coverage, which in 1983 was marginal. This past year, funds from operations increased to $3.0 million, and provided somewhat better coverage of the $2.1 million annual dividend requirement. Obviously, we still have a long way to go to make this ratio secure, and to generate adequate cash flow to finance growth expenditures.

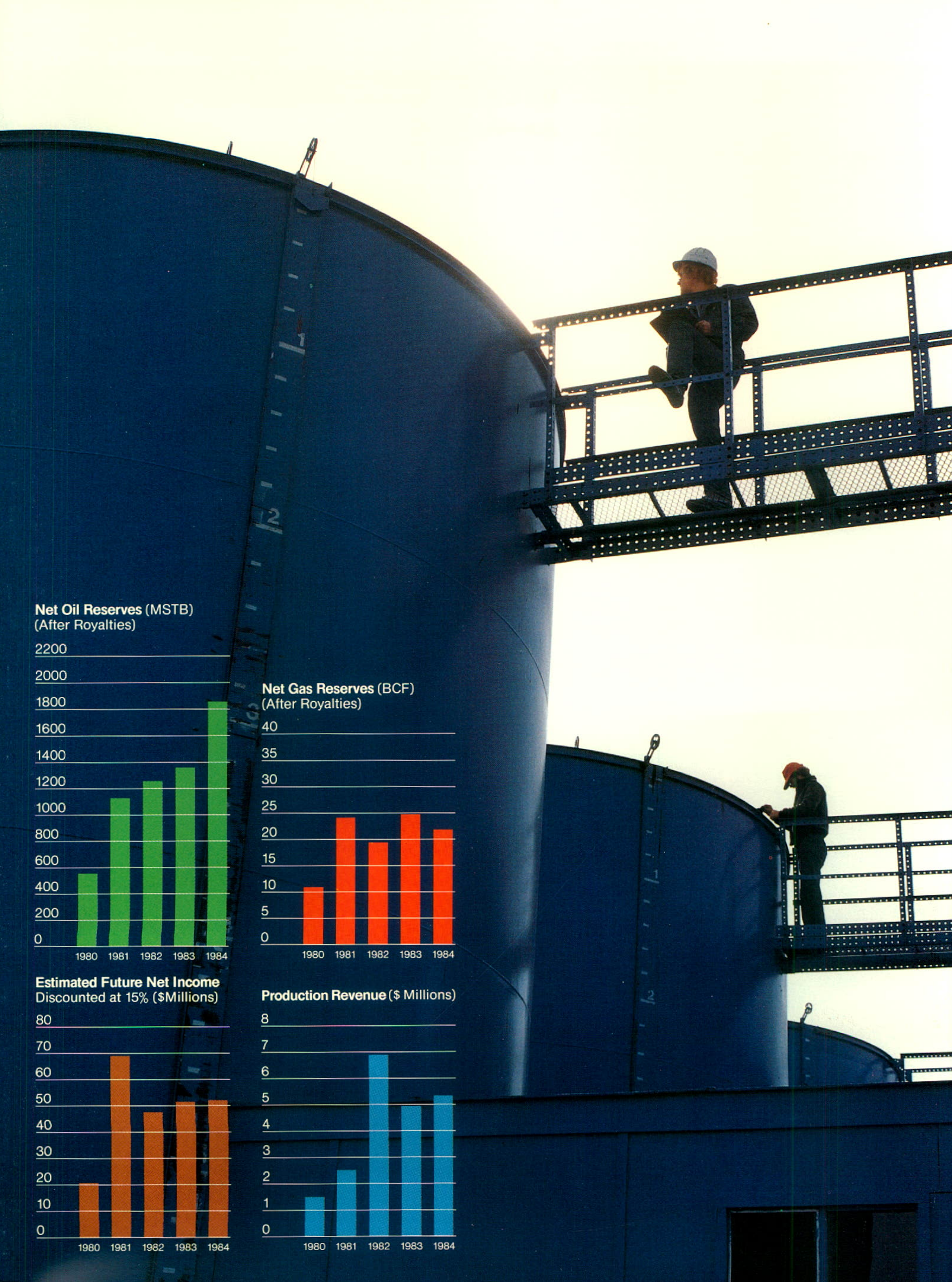
A further hurdle has been the retirement of $2 million in term debt in July this year. During 1984, we sold our compressor facilities to free up this capital for repayment. Subsequent to this sale, we entered into a processing agreement with the owners of the facility whereby we will pay processing fees in return for the utilization of the facility.

At year end, the Company's bank debt was $3.0 million, as against a credit facility of $8.0 million.

The Directors wish to express their appreciation to the employees who have come together as a team, and worked hard to improve their Company during the past year.

JMS Lecky

J. M. S. Lecky
Chairman



Net Oil Reserves (MSTB)
(After Royalties)
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1980 1981 1982 1983 1984
Net Gas Reserves (BCF)
(After Royalties)
40
35
30
25
20
15
10
5
0
1980 1981 1982 1983 1984
Estimated Future Net Income
Discounted at 15% ($Millions)
80
70
60
50
40
30
20
10
0
1980 1981 1982 1983 1984
Production Revenue ($ Millions)
8
7
6
5
4
3
2
1
0
1980 1981 1982 1983 1984

OPERATIONS

Operational activities in 1984 centered on optimizing Westgrowth's oil and gas revenues and streamlining operating and administrative costs. The spotlight of activity remained on the Retlaw area where the Company derives the bulk of its revenue and currently operates Canada's first commercial carbon dioxide (CO_2) enhanced recovery project.

In order to become more efficient in significant projects, Westgrowth relinquished operatorship of several lower priority projects to other working interest partners. In Retlaw, where the Company is operator, attention was focused on maximizing production and reducing the ratio of operating costs to oil and gas revenues.

For example, during the year as costs were reduced and as more oil was produced through our central battery facility, the per unit cost of operating that facility was significantly reduced.

Westgrowth's net developed and undeveloped land position decreased during the year due mainly to expiry of a large block of acreage held in the Crossroads area of Alberta by a predecessor company and considered to be of a high risk, exploratory nature. Westgrowth also used the farmout method of exploring its higher potential, but more risky acreage. Ten such farmout wells were drilled in 1984 at no cost to the Company, resulting in three oilwells, one gaswell and six dry and abandoned wells. Another net result of lease expiries and farmouts was a significant reduction in lease rental payments to the Crown from 1983 to 1984. In summary, the Company has developed a leaner land portfolio while retaining its higher quality prospects.

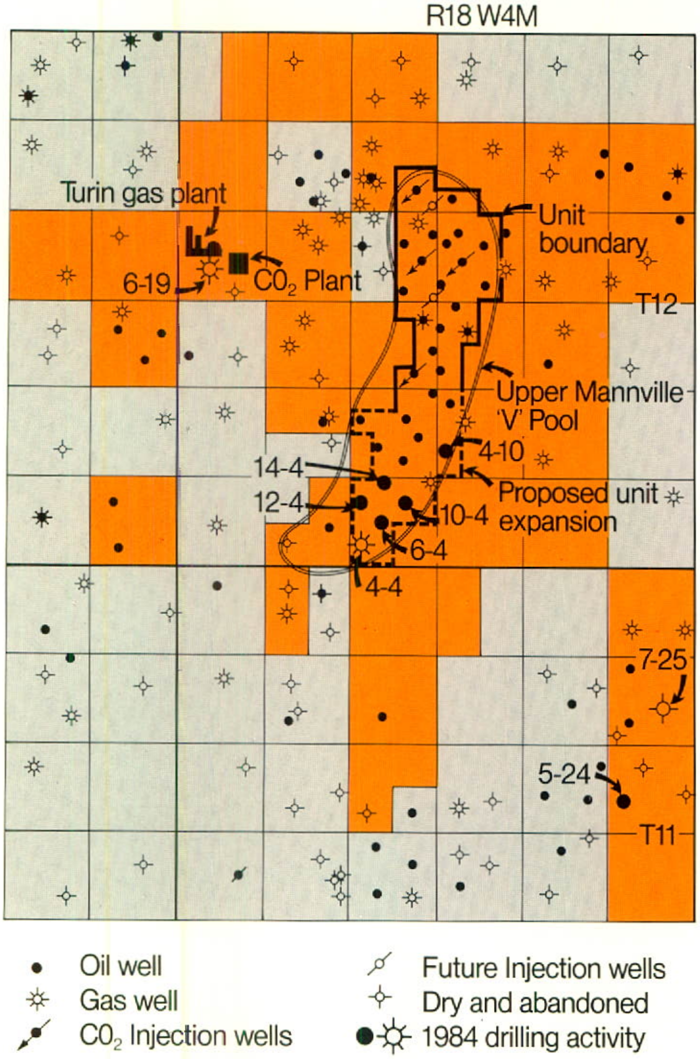
Westgrowth participated with a working interest in 14 wells in 1984, nine of which are oil, one gas, and four dry and abandoned for a success ratio of 71%. The most significant projects in terms of impact on our oil and gas revenues are the Retlaw Mannville 'V' Pool development and the Carrot Creek Prospect, both of which are highlighted in more detail in this report.

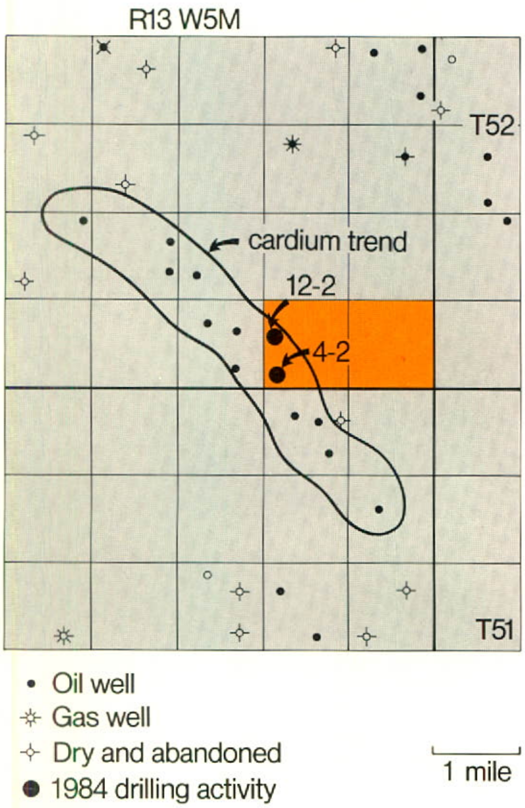
In spite of a large rise in net oil production, in 1984, the production of natural gas continued to contribute approximately half of the Company's total product revenue. Lower gas takes in the first three quarters of the year caused a decline in total annual gas sales, however the situation reversed itself in the fourth quarter, as TransCanada takes increased and more gas came onstream through discount contracts. Westgrowth's gas production rate is expected to remain high or increase during the first quarter of 1985.

The overall results of the aforementioned activities are reflected positively in increased reserve values and improved product sales even though oil and gas prices continued to fall in 1984. Proven and probable reserves of oil increased 35% from 1529 MSTB at the end of 1983 to 2067 MSTB at the end of 1984, while reserves of gas decreased 7% from 33.9 BCF at the end of 1983 to 31.5 BCF at the end of 1984, reflecting the priority drilling of N.O.R.P. oil.

Efforts will continue in 1985 to replace the reserves the Company produced and to show reserve growth by developing new producing bases. This activity will take place in areas of the Western Canada sedimentary basin which are logistically accessible and inexpensive to drill and with which Westgrowth's technical staff are most familiar. At the forefront will be projects which can utilize exploration and production techniques which have proven to be successful by the Company's experience in Retlaw. Westgrowth will endeavour to direct about one third of its activity to gas prospects to support its belief that domestic and export demand for natural gas will build in the next three years.

One of our Carbon Dioxide carriers off-loading at the Retlaw, Alberta storage tank. From this point the Carbon Dioxide is pipelined to several injection locations where it is pumped into the Mannville "V" formation.





Retlaw

During 1984, significant efforts were directed to development of the south extension of the Mannville 'V' Pool, discovered late in 1983. That development is now complete after the drilling of six new wells in the pool, the north end of which is unitized and under carbon dioxide enhanced recovery. Four of the wells are currently pumping oil from the Glauconite 'A' zone. The 4-10 well remains to be completed and the 4-4 well is a gas cap well in the Glauconite 'A' zone, but is currently on production through a discount gas contract from a Lower Mannville zone.

Twelve wells have now been drilled in the Mannville 'V' Pool outside of the existing Unit. During the latter part of 1984, flowlines and a test satellite were constructed to tie in the oil production to our central battery.

The ultimate objective of the latter development work is to expand the Unit and flood the entire Mannville 'V' pool with carbon dioxide in order to maintain high reservoir pressures and recover a maximum amount of the oil in place. At the present time negotiations are underway with the current Unit owners for inclusion of eleven more wells within the Unit. Westgrowth's working interest in the proposed expanded Unit should increase from 34% to approximately 39%.

The existing Retlaw Upper Mannville 'V' Pool Unit was formed in October, 1983, and at that time Westgrowth began a carbon dioxide flood and enhanced oil recovery project. Carbon dioxide, derived as a byproduct from the Turin gas plant, is compressed and injected into 3 patterns in the pool. It is expected that ultimate recovery from the pool could increase from 5% to over 35% of the oil in place.

During 1984 the quantity of carbon dioxide taken from the Turin plant was reduced due to lower TransCanada gas takes in the area. The Turin supplies were augmented by carbon dioxide from other sources, but the overall supply was below anticipated levels. The net result was to extend the repressuring period required and hence the date of increased production rates is now estimated to be delayed to the second quarter of 1985.

During 1985 the Company will continue with priorities pertaining to the Mannville 'V' Unit. Two new injection wells will be required, unit expansion will be pursued and constant efforts will be made to ensure that necessary carbon dioxide supplies are delivered and that operating costs are kept to a minimum.

Three farmout wells were drilled at no cost to the Company in various working interest areas of Retlaw. One well is a producing gaswell, one a marginal producing oilwell and one is dry and abandoned. By virtue of the total activity in the Retlaw area, Westgrowth booked estimated proven plus probable additional gross reserves of 948,000 barrels of oil and 2.5 BCF of gross proven gas reserves from the properties during 1984. The Company owns approximately 50% of these reserves.

Carrot Creek

In 1983 Westgrowth reported that a lease in which the Company owns a 13% working interest, was located in a Cardium sand bar discovered by Texaco Canada Inc. In 1984 a well was drilled on the lease at the location 4-2-52-13 W5M and 18m of Cardium conglomerate was encountered. The well was perforated and put on production at an allowable rate of 182 barrels of oil per day which enabled the working interest group to pay out drilling, completion and tie-in costs in approximately 3 months. The well has a production capacity of over 500 barrels of oil per day.

Late in 1984 an offset well was drilled in 12-2-52-13 W5M and an oil-bearing Cardium section of only 2 meters was encountered. At this time the well is cased awaiting final completion results to determine its potential. No further drilling is planned for our Carrot Creek property in 1985, but it is anticipated that the pool will be unitized and that a pressure maintenance scheme will be initiated.

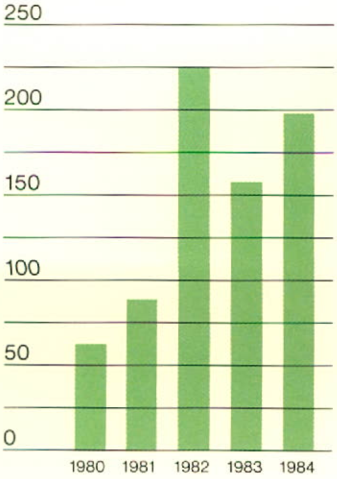
Left to right:
B. G. Hall
Land Manager
J. Chan Wong
Controller
W.E. Kerr
Chief Engineer
J.M.S. Lecky
President
L. A. Sanche
Exploration Manager

Reserves and Future Net Income Evaluations at January 1, 1985

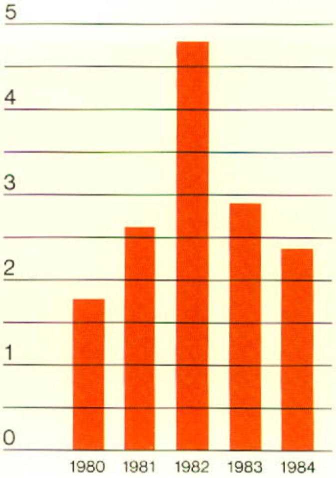
	Oil	Gas	Estimated Future Net Income ($000's)		
	MSTB	BCF	Undiscounted	15%	20%
Proven:					
Canada	942.0	15.9	$126,700	$35,500	$27,600
Probable:					
Canada	902.0	5.9	85,700	16,600	11,700
	1,844.0	21.8	$212,400	$52,100	$39,300

1. Canadian properties evaluated by Coles, Nikiforuk, Pennell Associates Ltd., and M&D Petroleum Consultants Ltd.
2. Reserve values are net of all royalties, non reserve acreages are valued at approximately $4,500,000.
3. United States properties have not been evaluated, as the value attributed to them is insignificant.

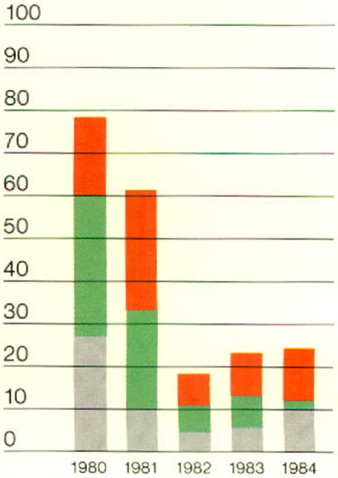
Net Daily Oil Production
(bbls/day)



Net Daily Gas Production
(mmcf/day)



Gross Number of Wells Drilled
Gas Oil Dry



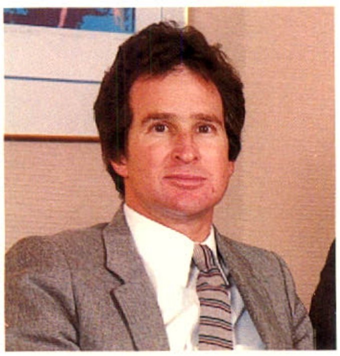
The Board of Directors

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

Westgrowth Petroleums Ltd.

Consolidated Balance Sheet

December 31, 1984

	1984	1983
ASSETS		
Current Assets:		
Cash and short term deposit	$ 1,711,000	614,000
Accounts receivable	1,546,000	1,033,000
Inventory	114,000	158,000
Prepaid expenses and other	72,000	2,000
	3,443,000	1,807,000
Property, Plant and Equipment (Notes 3 and 4)	32,129,000	31,884,000
	$35,572,000	33,691,000

	1984	1983
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 2,006,000	3,125,000
Long-term debt due within one year	2,043,000	39,000
	4,049,000	3,164,000
Deferred Revenue	647,000	894,000
Long-Term Debt (Note 4)	3,063,000	2,106,000
Deferred Income Taxes	750,000	–
SHAREHOLDERS' EQUITY		
Share Capital (Note 7)	32,011,000	31,937,000
Deficit	(4,948,000)	(4,410,000)
	27,063,000	27,527,000
Commitments and Contingencies (Notes 11 and 12)		
	$35,572,000	33,691,000

On behalf of the Board:

J. M. S. Lecky

Consolidated Statement of Earnings

Year ended December 31, 1984

	1984	1983
Revenue:		
Sale of petroleum and natural gas (Note 9)	$5,313,000	4,859,000
Processing income	1,035,000	–
Gain on sale of property, plant and equipment	757,000	–
Other income	103,000	240,000
	7,208,000	5,099,000
Expenses:		
Production and processing costs	2,042,000	1,762,000
Petroleum and gas revenue tax	149,000	8,000
General and administrative	845,000	1,219,000
Interest on debentures	200,000	200,000
Interest on bank loans	179,000	525,000
Depletion	930,000	788,000
Depreciation	539,000	371,000
	4,884,000	4,873,000
Earnings before income taxes and extraordinary item	2,324,000	226,000
Deferred income taxes (Note 5)	885,000	59,000
Earnings before extraordinary item	1,439,000	167,000
Extraordinary item (Note 6)	135,000	–
Net earnings	$1,574,000	167,000

Consolidated Statement of Deficit

Year ended December 31, 1984

	1984	1983
Deficit, beginning of year	$(4,410,000)	(3,351,000)
Net earnings	1,574,000	167,000
Dividends on preferred shares	(2,112,000)	(1,226,000)
Deficit, end of year	$(4,948,000)	(4,410,000)

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1984

	1984	1983
Funds provided from:		
Operations	$ 3,036,000	1,385,000
Issue of common shares	—	3,792,000
Issue of preferred shares	—	7,838,000
Sale of property, plant and equipment	2,000,000	—
Increase in long-term debt	3,000,000	—
Petroleum incentive program grants	272,000	115,000
Deferred revenue	—	60,000
Other	152,000	137,000
	8,460,000	13,327,000
Funds applied to:		
Property, plant and equipment	3,307,000	3,142,000
Reclassification of debentures	2,000,000	—
Repayment of long term debt	43,000	39,000
Acquisition of British Canadian Resources Ltd. net of working capital of $11,996,000	—	5,325,000
Repayment of deferred revenue	247,000	201,000
Preferred share dividends	2,112,000	1,226,000
	7,709,000	9,933,000
Increase in working capital	751,000	3,394,000
Working capital deficiency:		
Beginning of year	1,357,000	4,751,000
End of year	$ 606,000	1,357,000

Notes to Consolidated Financial Statements

December 31, 1984

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. The Company capitalizes petroleum and natural gas properties at cost to the extent that they do not exceed the estimated discounted net cash flow from total proven reserves.

Costs related to the acquisition of undeveloped properties are excluded from capitalized costs to be depleted until it is determined whether proven reserves are attributable to the 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 30%.

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 using the temporal method.

e) Deferred Revenue:

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 or reduced in the case of a required repayment.

f) Inventory:

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

2 Acquisition of British Canadian Resources Ltd.:

Effective November 10, 1983, the Company acquired British Canadian Resources Ltd. 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 cost 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:	
3,581,690 common shares of Westgrowth Petroleums Ltd.	$ 4,298,000
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	3,226,000
	$17,321,000

3 Property, Plant and Equipment:

	1984	1983
Cost:		
Petroleum and natural gas properties:		
Developed	**$26,407,000**	23,063,000
Undeveloped	**4,751,000**	5,553,000
Plant and equipment	**7,375,000**	8,420,000
	38,533,000	37,036,000
Accumulated depletion and depreciation:		
Petroleum and natural gas properties	**4,613,000**	3,683,000
Plant and equipment	**1,791,000**	1,469,000
	6,404,000	5,152,000
Net book value	**$32,129,000**	31,884,000
Exploration and development overhead capitalized during the year	**$ 318,000**	585,000

4 Long-Term Debt:

	1984	1983
Bank loan	**$3,000,000**	—
Debentures	**2,000,000**	2,000,000
Leasehold improvement loan	**106,000**	145,000
	5,106,000	2,145,000
Less amount due within one year	**2,043,000**	39,000
	$3,063,000	2,106,000

The Company has a line of credit with the Company's Canadian banker, providing for loans of approximately $8,000,000 of which $3,000,000 has been drawn down at December 31, 1984. Borrowings under this line of credit bear interest at ¼% above the bank's prime lending rate.

The line of credit is evidenced by a demand note and 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. No portion of the bank loan has been classified as being payable within one year as this loan is repayable out of future production proceeds and accordingly is not expected to require the use of working capital.

The debentures are subordinated and bear interest at 10% per annum on the principal amount of $2,000,000 maturing July 31, 1985 and 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 is not less than $7.00 per share.

The leasehold improvement loan bears interest at 13% per annum and is repayable in equal monthly payments of $4,500 expiring in April 1987.

5 Deferred Income Taxes:

The provision for deferred income taxes of $885,000 differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of 47% (1983—48%) to the earnings before income taxes. This difference results from the following items:

	1984	1983
Computed expected tax	**$1,092,000**	108,000
Increase (decrease) in taxes resulting from:		
Non-deductible expenses	**333,000**	215,000
Government tax allowances and credits	**(540,000)**	(264,000)
Deferred income tax provision	**$ 885,000**	59,000

6 Extraordinary Item:

The Company realized a deferred tax benefit in the amount of $135,000 on application of prior years' operating losses carry forward.

7 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 designated as follows:
  - 2,000,000 12% series A cumulative, redeemable convertible first preferred shares, with a par value of $5.00 each.
  - 2,675,004 12% series B cumulative, redeemable convertible first preferred shares, with a par value of $5.00 each.

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.

On May 11, 1984, the shareholders approved a Special Resolution authorizing the Company to convert all Series C first preferred shares into Series B first preferred shares. All series C first preferred shares were cancelled and the provisions attached to the series were repealed.

(ii) Common:

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

	1984		1983	
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	1,973,156	9,866,000	405,656	2,028,000
Series C	—	—	1,567,500	7,838,000
(ii) Common shares	11,630,186	14,395,000	11,676,811	14,321,000
		$32,011,000		$31,937,000

The change in common share amount reflects the final adjustments arising from the acquisition of British Canadian Resources Ltd. pursuant to the terms of the offer.

The following schedule summarizes the common shares reserved for issue at December 31, 1984, 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	7,892,624
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 one third of which are exercisable in any one year:	
– at $0.55 per share expiring in 1987	333,000
	15,418,957

8 Loss per common share:

	1984	1983
Loss per share before extraordinary item	$ .06	.12
Net loss per share	$ .05	.12

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.

9 Segmented Information:

	1984		
	Canada	U.S.A.	Total
Oil and gas revenue before the following:	$ 5,609,000	195,000	5,804,000
Crown royalties	(894,000)	–	(894,000)
Alberta royalty tax credit	403,000	–	403,000
Net oil and gas revenue	5,118,000	195,000	5,313,000
Processing income	1,035,000	–	1,035,000
Gain on sale of property, plant and equipment	757,000	–	757,000
Other income	103,000	–	103,000
Net revenue	$ 7,013,000	195,000	7,208,000
Segment operating earnings before the undernoted items	$ 3,447,000	101,000	3,548,000
General and administrative			845,000
Interest on debentures			200,000
Interest on bank loans			179,000
Earnings before income taxes and extraordinary item			2,324,000
Deferred income taxes			885,000
Earnings before extraordinary item			$ 1,439,000
Extraordinary item			135,000
Net earnings			$ 1,574,000
Identifiable Assets:			
Property, plant and equipment	$26,077,000	6,052,000	32,129,000
Other identifiable assets	3,285,000	158,000	3,443,000
	$29,362,000	6,210,000	35,572,000

	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
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	$ 2,068,000	102,000	2,170,000
General and administrative			1,219,000
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	$25,715,000	6,169,000	31,884,000
Other identifiable assets	1,619,000	188,000	1,807,000
	$27,334,000	6,357,000	33,691,000

10 Related Party Transactions:

Included in general and administrative expense is an amount of $100,000 which represents a management fee payable to The Resource Service Group Ltd. for the year ended December 31, 1984.

The Resource Service Group Ltd. holds $1,200,000 of the issued debentures and was paid $120,000 of interest related to this debenture in 1984.

11 Commitments:

During the year the Company disposed of its carbon dioxide processing facility. Subsequent to this sale, the Company entered into a processing agreement with the owners of the facility whereby the Company has agreed to pay a minimum processing fee in return for the utilization of the facility to process its waste gas. The Company has provided the owners of the facility with security for these obligations by means of collateral debentures aggregating $2,000,000 and an assignment of its related processing revenue.

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 $2,774,000 comprised of gross payments of $3,113,000 less amounts to be paid by sublessors of $339,000. The minimum payments required in the next five years are as follows:

1985	$ 176,000
1986	224,000
1987	466,000
1988	477,000
1989	477,000
TOTAL	$1,820,000

12 Contingencies:

The Company is a defendant in a legal action instituted in the Alberta Provincial Court by a Canadian chartered bank as assignee for a certain drilling company. The amount claimed is approximately $1,200,000 (U.S. $913,000) plus interest and costs and the Company is vigorously contesting the claim. The Company's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action.

In 1982 the Company sold a 20% working interest in certain acreage and wells on the Company's Retlaw property for a consideration of $2,750,000. The sale agreement also provided for the payment of $1,000,000 contingent upon achievement of certain production performance standards. If and when received, the contingent amount will be credited to the consolidated statement of earnings.

Auditors' Report

The Shareholders
Westgrowth Petroleums Ltd.

We have examined the consolidated balance sheet of Westgrowth Petroleums Ltd. as at December 31, 1984 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, 1984 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 8, 1985

TOUCHE ROSS & CO.
Chartered Accountants