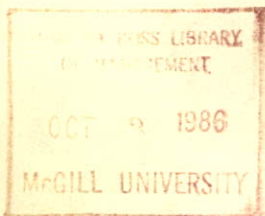


1985



WESTGROWTH PETROLEUMS LTD.

Auditors' Report and Consolidated Financial Statements — December 31, 1985
Unaudited Consolidated Financial Statements — March 31, 1986
Unaudited Consolidated Financial Statements — June 30, 1986



WESTGROWTH PETROLEUMS LTD.

AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1985

AUDITORS' REPORT

The Shareholders
Westgrowth Petroleums Ltd.

We have examined the consolidated balance sheet of Westgrowth Petroleums Ltd. as at December 31, 1985 and the consolidated statements of earnings, deficit and changes in cash resources 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, 1985 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for oil and gas properties as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
February 17, 1986

Touche Ross & Co.

Chartered Accountants

WESTGROWTH PETROLEUMS LTD.

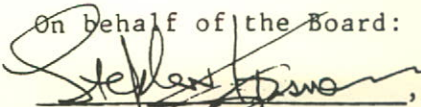
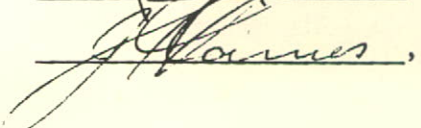
Consolidated Balance Sheet
December 31, 1985

| <u>Assets</u> | <u>1985</u> | <u>1984</u> (Restated) |
|--|---------------------|---------------------------|
| Current Assets: | | |
| Cash and short term deposit | \$ -- | 1,711,000 |
| Accounts receivable | 1,824,000 | 1,546,000 |
| Marketable securities | 96,000 | -- |
| Inventory | 65,000 | 114,000 |
| Prepaid expenses | 19,000 | 72,000 |
| | <u>2,004,000</u> | <u>3,443,000</u> |
| Property, Plant and Equipment (Notes 2, 4 and 5) | 28,506,000 | 26,242,000 |
| Other | 48,000 | -- |
| | <u>\$30,558,000</u> | <u>29,685,000</u> |

| <u>Liabilities</u> | | |
|------------------------------------|--------------|------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 2,994,000 | 2,006,000 |
| Long-term debt due within one year | <u>--</u> | <u>2,043,000</u> |
| | 2,994,000 | 4,049,000 |
| Deferred Revenue | 706,000 | 647,000 |
| Long-Term Debt (Note 5) | 3,100,000 | 3,063,000 |
| Deferred Income Taxes | 1,851,000 | 826,000 |

| <u>Shareholders' Equity</u> | | |
|-------------------------------|---------------------|---------------------|
| Share Capital (Notes 3 and 7) | 33,646,000 | 32,011,000 |
| Deficit (Note 2) | <u>(11,739,000)</u> | <u>(10,911,000)</u> |
| | 21,907,000 | 21,100,000 |

Commitments and Contingencies (Notes 10 and 11)

| | | |
|--|--------------|--------------|
| On behalf of the Board: | \$30,558,000 | 29,685,000 |
|  , Director | <u>=====</u> | <u>=====</u> |
|  , Director | | |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Earnings
Year ended December 31, 1985

| | <u>1985</u> | <u>1984</u> (Restated) |
|---|------------------------------|---------------------------|
| Revenue: | | |
| Sale of petroleum and natural gas | \$ 6,668,000 | 5,313,000 |
| Processing income | 1,058,000 | 1,035,000 |
| Gain on sale of property, plant and equipment | -- | 757,000 |
| Other income | <u>222,000</u> | <u>103,000</u> |
| | <u>7,948,000</u> | <u>7,208,000</u> |
| Expenses: | | |
| Production and processing costs | 2,649,000 | 2,042,000 |
| Petroleum and gas revenue tax | 42,000 | 149,000 |
| General and administrative | 901,000 | 845,000 |
| Interest on debentures | 117,000 | 200,000 |
| Interest on bank loans | 270,000 | 179,000 |
| Depletion | 1,139,000 | 801,000 |
| Depreciation | 351,000 | 507,000 |
| Bad debt expense | <u>249,000</u> | <u>--</u> |
| | <u>5,718,000</u> | <u>4,723,000</u> |
| Earnings before income taxes and extraordinary item | 2,230,000 | 2,485,000 |
| Deferred income taxes (Note 6) | <u>944,000</u> | <u>961,000</u> |
| Earnings before extraordinary item | 1,286,000 | 1,524,000 |
| Deferred tax benefits realized on losses carried forward | <u>--</u> | <u>135,000</u> |
| Net earnings | <u>\$ 1,286,000</u> ===== | <u>1,659,000</u> ===== |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Deficit
Year ended December 31, 1985

| | <u>1985</u> | <u>1984</u> |
|--|----------------|--------------|
| Deficit at beginning of year | | |
| As previously reported | \$ -- | (4,410,000) |
| To record change in accounting policy (Note 2) | -- | (6,048,000) |
| | <hr/> | <hr/> |
| As restated | (10,911,000) | (10,458,000) |
| Net earnings (Note 2) | 1,286,000 | 1,659,000 |
| Dividends on preferred shares | (2,114,000) | (2,112,000) |
| | <hr/> | <hr/> |
| Deficit at end of year | \$(11,739,000) | (10,911,000) |
| | <u>=====</u> | <u>=====</u> |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Changes in Cash Resources
Year ended December 31, 1985

| | <u>1985</u> | <u>1984</u> |
|---|--------------------|--------------------|
| Cash provided by internal sources: | | |
| Cash flow from operations | \$ 3,969,000 | 3,036,000 |
| Changes in working capital excluding cash | (1,576,000) | 346,000 |
| | <u>2,393,000</u> | <u>3,382,000</u> |
| Cash provided by (used in) financing activities: | | |
| Issuance of common shares | 1,635,000 | -- |
| Increase in long-term debt | 37,000 | 957,000 |
| Dividends on preferred shares | (2,114,000) | (2,112,000) |
| Deferred revenue | (157,000) | (247,000) |
| Acquisition of St. John's Petroleum Ltd. net of working capital of \$865,000 | (770,000) | -- |
| | <u>(1,369,000)</u> | <u>(1,402,000)</u> |
| Cash provided by (used in) investments: | | |
| Additions to property, plant and equipment - net | (3,396,000) | (1,307,000) |
| Less government incentives | 709,000 | 272,000 |
| Other | (48,000) | 152,000 |
| | <u>(2,735,000)</u> | <u>(883,000)</u> |
| Increase (decrease) in cash | (1,711,000) | 1,097,000 |
| Cash, beginning of year | <u>1,711,000</u> | <u>614,000</u> |
| Cash, end of year | \$ <u>0</u> | <u>1,711,000</u> |

WESTGROWTH PETROLEUMS LTD.

Notes to Consolidated Financial Statements
December 31, 1985

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., British Canadian Resources Ltd. and St. John's Petroleum 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 are capitalized on a country-by-country basis. 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 ("ceiling test").

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. Change in Accounting Policy

In 1985, the Company changed, on a retroactive basis, its method of accounting for oil and gas properties to adopt a country-by-country basis for recording exploration and development costs. In applying the ceiling test on this basis, management has determined that the recorded costs in the United States should be written off and a retroactive adjustment of \$6,048,000 has been made to the deficit as at January 1, 1984. Net earnings for 1984 has been increased by \$85,000 to reflect the related effect on depreciation, depletion and deferred income taxes.

3. Acquisition of St. John's Petroleum Ltd.:

Effective June 24, 1985, the Company acquired St. John's Petroleum Ltd. for a total consideration of \$1,635,000. The major shareholder of St. John's Petroleum Ltd. is also a director and officer of the Company. 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 based on independent engineers' reserve report.

Details of the transaction are as follows:

| | |
|--|---------------------|
| Book value of net assets acquired | \$ 909,000 |
| Excess of the purchase cost over book value of net assets acquired | <u>726,000</u> |
| | <u>\$ 1,635,000</u> |
| | ===== |

3. Acquisition of St. John's Petroleum Ltd. (continued)

The net assets acquired at attributed values consist of:

| | |
|--------------------------------------|------------------|
| Working capital | \$ 865,000 |
| Petroleum and natural gas properties | 1,067,000 |
| Long-term liabilities | <u>(297,000)</u> |
| | \$ 1,635,000 |
| | ===== |

Consideration given:

| | |
|--|--------------|
| 2,302,889 common shares of Westgrowth Petroleums Ltd. | \$ 1,635,000 |
| | ===== |

4. Property, Plant and Equipment:

| | <u>1985</u> | <u>1984</u> |
|--|-------------------|-------------------|
| Cost: | | |
| Petroleum and natural gas properties: | | |
| Developed | \$ 24,416,000 | 21,264,000 |
| Undeveloped | 4,413,000 | 4,232,000 |
| Plant and equipment | <u>7,119,000</u> | <u>6,692,000</u> |
| | <u>35,948,000</u> | <u>32,188,000</u> |
| Accumulated depletion and depreciation: | | |
| Petroleum and natural gas properties | 5,482,000 | 4,343,000 |
| Plant and equipment | <u>1,960,000</u> | <u>1,603,000</u> |
| | <u>7,442,000</u> | <u>5,946,000</u> |
| Net book value | \$ 28,506,000 | 26,242,000 |
| | ===== | ===== |
| Exploration and development overhead capitalized during the year | \$ 476,000 | 318,000 |
| | ===== | ===== |

5. Long-Term Debt:

| | <u>1985</u> | <u>1984</u> |
|---------------------------------|---------------------|------------------|
| Bank loan | \$ 3,100,000 | 3,000,000 |
| Debentures | -- | 2,000,000 |
| Leasehold improvement loan | <u>--</u> | <u>106,000</u> |
| | 3,100,000 | 5,106,000 |
| Less amount due within one year | <u>--</u> | <u>2,043,000</u> |
| | <u>\$ 3,100,000</u> | <u>3,063,000</u> |

The Company has a line of credit with the Company's Canadian banker, providing for loans of approximately \$8,000,000 of which \$3,100,000 has been drawn down at December 31, 1985. Borrowings under this line of credit bear interest at 1/4% 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 10% subordinated convertible debentures and leasehold improvement loan were repaid during the year.

6. Deferred Income Taxes:

The provision for deferred income taxes of \$944,000 differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of 47% (1984 - 47%) to the earnings before income taxes. This difference results from the following items:

| | <u>1985</u> | <u>1984</u> |
|--|-------------------|------------------|
| Computed expected tax | \$1,049,000 | 1,168,000 |
| Increase (decrease) in taxes resulting from: | | |
| Non-deductible expenses | 556,000 | 333,000 |
| Government tax allowances and credits | <u>(661,000)</u> | <u>(540,000)</u> |
| Deferred income tax provision | <u>\$ 944,000</u> | <u>961,000</u> |

7. Share Capital:

a) Authorized:

The authorized capital of the Company consists of:

(i) Preferred:

- 6,000,000 cumulative, redeemable, convertible first preferred shares with a par value of \$5.00 each designated as follows:
 - 2,000,000 12% series A
 - 2,675,004 12% series B

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:

- 50,000,000 shares of no par value

b) Issued:

| | 1985 | | 1984 | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> |
| (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 | 1,973,156 | 9,866,000 |
| (ii) Common Shares | 13,933,075 | 16,030,000 | 11,630,186 | 14,395,000 |
| | | \$ 33,646,000 | | \$ 32,011,000 |
| | | \$ 33,646,000 | | \$ 32,011,000 |

Common shares reserved for issue at December 31, 1985:

| | |
|---|------------|
| 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 options granted officers and employees one third of which are exercisable in any one year at \$0.55 per share expiring in 1987 | 400,000 |
| | 14,492,624 |
| | 14,492,624 |

8. Loss Per Common Share:

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

| | <u>1985</u> | <u>1984</u> |
|--|-------------|-------------|
| Loss per share before extraordinary item | \$.07 | .05 |
| Net loss per share | \$.07 | .04 |

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

9. Related Party Transactions:

Included in general and administrative expense is an amount of \$100,000 (1984 - \$100,000) which represents a management fee paid to The Resource Service Group Ltd., a related company, for the year ended December 31, 1985.

The Resource Service Group Ltd. held \$1,200,000 of the debentures which were retired during the year and was paid \$70,000 (1984 - \$120,000) of interest related to this debenture in 1985.

10. Commitments:

In 1984 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 \$2,568,000 comprised of gross payments of \$2,750,000 less amounts to be paid by sublessors of \$182,000. The minimum payments required in the next five years are as follows:

| | |
|-------|--------------|
| 1986 | \$ 193,000 |
| 1987 | 466,000 |
| 1988 | 477,000 |
| 1989 | 477,000 |
| 1990 | 477,000 |
| | <hr/> |
| TOTAL | \$ 2,090,000 |
| | <hr/> <hr/> |

11. 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 \$1,300,000 (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.

WESTGROWTH PETROLEUMS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1986

(Unaudited)

WESTGROWTH PETROLEUMS LTD.

Consolidated Balance Sheet
 March 31, 1986
 (With comparative figures for March 31, 1985)

(Unaudited)

| | <u>1986</u> | <u>1985</u> (Restated) |
|------------------------------------|---------------|---------------------------|
| <u>Assets</u> | | |
| Current Assets: | | |
| Accounts receivable | \$ 2,165,000 | 1,926,000 |
| Inventory | 75,000 | 76,000 |
| Prepaid expenses and other | 37,000 | 28,000 |
| | 2,277,000 | 2,030,000 |
| Property, Plant and Equipment | 29,917,000 | 26,076,000 |
| Other | 48,000 | -- |
| | 32,242,000 | 28,106,000 |
| <u>Liabilities</u> | | |
| Current Liabilities: | | |
| Accounts payable | 3,540,000 | 2,248,000 |
| Long-term debt due within one year | 500,000 | 2,043,000 |
| | 4,040,000 | 4,291,000 |
| Deferred Revenue | 686,000 | 610,000 |
| Long-Term Debt | 4,000,000 | 1,250,000 |
| Deferred Income Taxes | 1,921,000 | 931,000 |
| <u>Shareholders' Equity</u> | | |
| Share Capital | 33,646,000 | 32,011,000 |
| Deficit | (12,051,000) | (10,987,000) |
| | 21,595,000 | 21,024,000 |
| | \$ 32,242,000 | 28,106,000 |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Earnings
Three Months ended March 31, 1986
(With comparative figures for the three months ended March 31, 1985)

(Unaudited)

| | <u>1986</u> | <u>1985</u> (Restated) |
|---------------------------------------|--------------|---------------------------|
| Revenue: | | |
| Sale of petroleum and natural gas | \$ 1,390,000 | 1,585,000 |
| Processing income | 242,000 | 273,000 |
| Other income | 54,000 | 45,000 |
| | <hr/> | <hr/> |
| | 1,686,000 | 1,903,000 |
| Expenses: | | |
| Production and processing costs | 668,000 | 626,000 |
| Petroleum and gas revenue tax | (18,000) | 12,000 |
| General and administrative | 255,000 | 248,000 |
| Interest expense | 114,000 | 110,000 |
| Depletion | 410,000 | 196,000 |
| Depreciation | 83,000 | 78,000 |
| Loss on sale of marketable securities | 64,000 | -- |
| | <hr/> | <hr/> |
| | 1,576,000 | 1,270,000 |
| Earnings before income taxes | 110,000 | 633,000 |
| Deferred income taxes | 70,000 | 181,000 |
| | <hr/> | <hr/> |
| Net earnings | \$ 40,000 | 452,000 |
| | ===== | ===== |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Deficit
Three Months ended March 31, 1986
(With comparative figures for the three months ended March 31, 1985)

(Unaudited)

| | <u>1986</u> | <u>1985</u> (Restated) |
|-------------------------------|----------------------|---------------------------|
| Deficit, beginning of period | \$ 11,739,000 | 10,911,000 |
| Add: | | |
| Dividends on preferred shares | 352,000 | 528,000 |
| | <u>12,091,000</u> | <u>11,439,000</u> |
| Deduct: | | |
| Net earnings | 40,000 | 452,000 |
| | <u>12,051,000</u> | <u>10,987,000</u> |
| Deficit, end of period | \$ <u>12,051,000</u> | <u>10,987,000</u> |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Changes in Cash Resources
 Three Months ended March 31, 1986
 (with comparative figures for the three months ended March 31, 1985)

(Unaudited)

| | <u>1986</u> | <u>1985</u> |
|--|-------------|-------------|
| Cash provided by internal sources: | | |
| Cash flow from operations | \$ 667,000 | 907,000 |
| Change in working capital excluding cash | 773,000 | (56,000) |
| | 1,440,000 | 851,000 |
| Cash provided by (used in) financing activities: | | |
| Increase (decrease) in long-term debt | 900,000 | (1,813,000) |
| Dividends on preferred shares | (352,000) | (528,000) |
| Deferred revenue | (20,000) | (37,000) |
| | 528,000 | (2,378,000) |
| Cash provided by (used in) investments: | | |
| Additions to property, plant and equipment - net | (2,160,000) | (610,000) |
| Less government incentives | 192,000 | 426,000 |
| | (1,968,000) | (184,000) |
| Decrease in cash | 0 | (1,711,000) |
| Cash, beginning of period | 0 | 1,711,000 |
| Cash, end of period | \$ 0 | 0 |

WESTGROWTH PETROLEUMS LTD.

Notes to Unaudited Interim Financial Information
March 31, 1986

(Unaudited)

1. Loss per common share:

| | <u>Basic</u> | |
|--------------------|--------------|-------------|
| | <u>1986</u> | <u>1985</u> |
| | | (Restated) |
| Net loss per share | \$(0.04) | \$(0.01) |

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

The exercise of employee stock options and the conversion of preferred shares would be anti-dilutive in either period.

As of March 31, 1986 the Corporation was in arrears in preferred share dividends of \$0.05 per share or \$176,000; this amount was included in the calculation of the net loss per share for the three months ended March 31, 1986.

2. Long-Term Debt:

| | <u>1986</u> | <u>1985</u> |
|---------------------------------|--------------|-------------|
| Bank Loan | \$ 4,500,000 | 1,200,000 |
| Debenture due July, 1985 | -- | 2,000,000 |
| Leasehold improvement loan | -- | 93,000 |
| | <hr/> | <hr/> |
| | 4,500,000 | 3,293,000 |
| Less amount due within one year | 500,000 | 2,043,000 |
| | <hr/> | <hr/> |
| | \$ 4,000,000 | 1,250,000 |
| | ===== | ===== |

Subsequent to March 31, 1986 the Corporation has concluded a restructuring of its line of credit with the Corporation's banker whereby its line of credit was reduced from \$8.1 million to \$5.5 million with additional security provided by the Corporation principally in the form of a first floating charge debenture. Of the total line of credit \$3.5 million is non-revolving with repayments scheduled to commence in June, 1986.

3. Comparative figures:

Certain reclassifications have been made to 1985 comparative figures to conform with the current period's presentation.

WESTGROWTH PETROLEUMS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1986

(Unaudited)

WESTGROWTH PETROLEUMS LTD.

Consolidated Balance Sheet
June 30, 1986

(Unaudited)

| | <u>1986</u> | <u>1985</u> (Restated) |
|------------------------------------|----------------------|---------------------------|
| <u>Assets</u> | | |
| Current Assets: | | |
| Cash | \$ 110,000 | 207,000 |
| Accounts receivable | 1,467,000 | 1,913,000 |
| Inventory | 78,000 | 65,000 |
| Prepaid expenses and other | 38,000 | 337,000 |
| | <u>1,693,000</u> | <u>2,522,000</u> |
| Property, Plant and Equipment | 29,905,000 | 27,725,000 |
| Other | 31,000 | -- |
| | <u>\$ 31,629,000</u> | <u>30,247,000</u> |
| | ===== | ===== |
| <u>Liabilities</u> | | |
| Current Liabilities: | | |
| Accounts payable | \$ 2,732,000 | 2,283,000 |
| Long-term debt due within one year | 600,000 | 2,043,000 |
| | <u>3,332,000</u> | <u>4,326,000</u> |
| Deferred Revenue | 658,000 | 787,000 |
| Long-Term Debt | 3,950,000 | 1,139,000 |
| Deferred Income Taxes | 1,951,000 | 1,291,000 |
| <u>Shareholders' Equity</u> | | |
| Share Capital | 33,646,000 | 33,646,000 |
| Deficit | (11,908,000) | (10,942,000) |
| | <u>21,738,000</u> | <u>22,704,000</u> |
| | <u>\$ 31,629,000</u> | <u>30,247,000</u> |
| | ===== | ===== |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Earnings

(Unaudited)

| | Six Months ended June 30 | | Second Quarter | |
|---------------------------------------|--------------------------|--------------------|----------------|--------------------|
| | 1986 | 1985 (Restated) | 1986 | 1985 (Restated) |
| Revenue: | | | | |
| Sale of petroleum and natural gas | \$ 2,750,000 | 3,419,000 | 1,360,000 | 1,834,000 |
| Processing income | 484,000 | 528,000 | 242,000 | 255,000 |
| Other income | 135,000 | 99,000 | 81,000 | 54,000 |
| | 3,369,000 | 4,046,000 | 1,683,000 | 2,143,000 |
| Expenses: | | | | |
| Production and processing costs | 1,371,000 | 1,293,000 | 703,000 | 667,000 |
| Petroleum and gas revenue tax | -- | 28,000 | 18,000 | 16,000 |
| General and administrative | 419,000 | 455,000 | 164,000 | 207,000 |
| Interest expense | 254,000 | 197,000 | 140,000 | 87,000 |
| Depletion | 805,000 | 424,000 | 395,000 | 228,000 |
| Depreciation | 173,000 | 162,000 | 90,000 | 84,000 |
| Loss on sale of marketable securities | 64,000 | -- | -- | -- |
| | 3,086,000 | 2,559,000 | 1,510,000 | 1,289,000 |
| Earnings before income taxes | 283,000 | 1,487,000 | 173,000 | 854,000 |
| Deferred income taxes | 100,000 | 460,000 | 30,000 | 279,000 |
| Net earnings | \$ 183,000 | 1,027,000 | 143,000 | 575,000 |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Deficit
Six Months ended June 30, 1986
(With comparative figures for the six months ended June 30, 1985)

(Unaudited)

| | <u>1986</u> | <u>1985</u> (Restated) |
|-------------------------------|---------------|---------------------------|
| Deficit, beginning of period | \$ 11,739,000 | 10,911,000 |
| Add: | | |
| Dividends on preferred shares | 352,000 | 1,058,000 |
| | <hr/> | <hr/> |
| | 12,091,000 | 11,969,000 |
| Deduct: | | |
| Net earnings | 183,000 | 1,027,000 |
| | <hr/> | <hr/> |
| Deficit, end of period | \$ 11,908,000 | 10,942,000 |
| | ===== | ===== |

WESTGROWTH PETROLEUMS LTD.

Consolidated Statement of Changes in Cash Resources

(Unaudited)

| | Six months ended June 30, | | Second Quarter | |
|--|---------------------------|--------------------|------------------|------------------|
| | <u>1986</u> | <u>1985</u> | <u>1986</u> | <u>1985</u> |
| Cash provided by internal sources: | | | | |
| Cash flow from operations | \$ 1,261,000 | 2,073,000 | 594,000 | 1,166,000 |
| | <u>1,261,000</u> | <u>2,073,000</u> | <u>594,000</u> | <u>1,166,000</u> |
| Changes in working capital excluding cash | 759,000 | (306,000) | (14,000) | (250,000) |
| | <u>2,020,000</u> | <u>1,767,000</u> | <u>580,000</u> | <u>916,000</u> |
| Cash provided by (used in): | | | | |
| Financing activities: | | | | |
| Issuance of common shares | -- | 1,635,000 | -- | 1,635,000 |
| Increase (decrease) in long-term debt | 850,000 | (1,924,000) | (50,000) | (111,000) |
| Dividends on preferred shares | (352,000) | (1,058,000) | -- | (530,000) |
| Deferred revenue | (48,000) | (77,000) | (28,000) | (40,000) |
| Acquisition of St. John's Petroleum Ltd net of working capital of \$890,000 | -- | (745,000) | -- | (745,000) |
| | <u>450,000</u> | <u>(2,169,000)</u> | <u>(78,000)</u> | <u>209,000</u> |
| Investments: | | | | |
| Additions to property, plant and equipment | (2,577,000) | (1,528,000) | (417,000) | (918,000) |
| Other | 17,000 | -- | 17,000 | -- |
| Less government incentives | 200,000 | 426,000 | 8,000 | -- |
| | <u>(2,360,000)</u> | <u>(1,102,000)</u> | <u>(392,000)</u> | <u>(918,000)</u> |
| Increase (decrease) in cash | 110,000 | (1,504,000) | 110,000 | 207,000 |
| Cash, beginning of period | 0 | 1,711,000 | 0 | 0 |
| Cash, end of period | <u>\$ 110,000</u> | <u>207,000</u> | <u>110,000</u> | <u>207,000</u> |

WESTGROWTH PETROLEUMS LTD.

Notes to Unaudited Interim Financial Information
June 30, 1986

(Unaudited)

1. Loss per common share:

| | <u>Basic</u> | |
|--------------------|--------------|-------------|
| | <u>1986</u> | <u>1985</u> |
| | | (Restated) |
| Net loss per share | \$(0.06) | \$ 0.00 |

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

The exercise of employee stock options and the conversion of preferred shares would be anti-dilutive in either period.

As of June 30, 1986 the Corporation was in arrears in preferred share dividends of \$0.20 per share or \$705,000; this amount was included in the calculation of the net loss per share for the six months ended June 30, 1986

2. Long-Term Debt:

| | <u>1986</u> | <u>1985</u> |
|---------------------------------|--------------|-------------|
| Bank Loan | \$ 4,550,000 | 1,100,000 |
| Debentures | -- | 2,000,000 |
| Leasehold improvement loan | -- | 82,000 |
| | 4,550,000 | 3,182,000 |
| Less amount due within one year | 600,000 | 2,043,000 |
| | \$ 3,950,000 | 1,139,000 |

In April, 1986 the Corporation concluded a restructuring of its line of credit with the Corporation's banker whereby its line of credit was reduced from \$8.1 million to \$5.5 million with additional security provided by the Corporation principally in the form of a first floating charge debenture. Of the total line of credit, \$3.5 million is non-revolving with repayments which commenced in June 1986.

3. Comparative figures:

Certain reclassifications have been made to 1985 comparative figures to conform with the current period's presentation.

