FRANCANA OIL & GAS LTD.

Annual Report 1979

FRANCANA OIL & GAS LTD.
(Under the Canadian Business Corporations Act)

HEAD OFFICE

2900 Scotia Centre
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Calgary, Alberta T2P 2W2*

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700 Fifth and Fifth Building
505 - 5th Street S.W.
Calgary, Alberta T2P 3J2

TRANSFER AGENTS

THE ROYAL TRUST COMPANY
Halifax, Montreal, Toronto, Winnipeg, Calgary, Vancouver

THE CANADIAN BANK OF COMMERCE TRUST COMPANY
New York

REGISTRARS

THE ROYAL TRUST COMPANY
Calgary

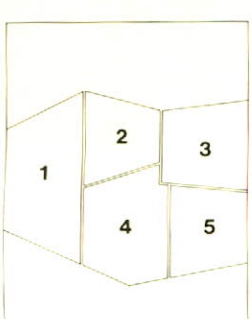
THE CANADIAN BANK OF COMMERCE TRUST COMPANY
New York

AUDITORS

DELOITTE HASKINS & SELLS
Calgary

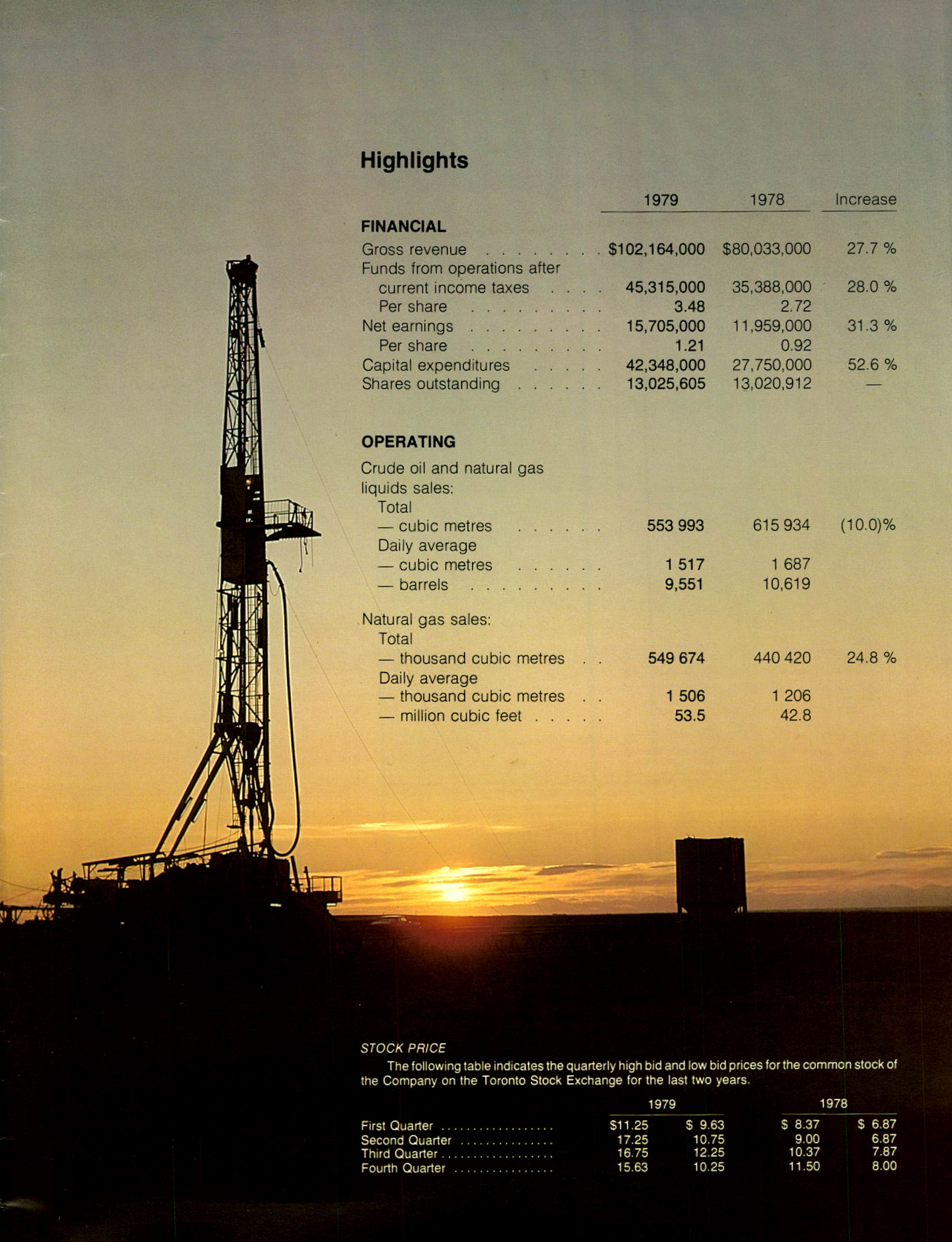
STOCK LISTINGS

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE
(Listing symbol is "FOG" on all exchanges)



COVER PHOTOGRAPHS:

1. Drilling on Francana acreage in western Colorado.
2. Production laboratory at the Kasim oil terminal, Irian Jaya, Indonesia.
3. Facilities at the Birch Lake gas plant, Alberta.
4. Production equipment on a Saskatchewan oil well.
5. Service rig crew preparing to place one of Francana's United States gas wells on production.



Highlights

	1979	1978	Increase
FINANCIAL			
Gross revenue	**$102,164,000**	$80,033,000	27.7 %
Funds from operations after current income taxes	**45,315,000**	35,388,000	28.0 %
Per share	**3.48**	2.72	
Net earnings	**15,705,000**	11,959,000	31.3 %
Per share	**1.21**	0.92	
Capital expenditures	**42,348,000**	27,750,000	52.6 %
Shares outstanding	**13,025,605**	13,020,912	—
OPERATING			
Crude oil and natural gas liquids sales:			
Total			
— cubic metres	**553 993**	615 934	(10.0)%
Daily average			
— cubic metres	**1 517**	1 687	
— barrels	**9,551**	10,619	
Natural gas sales:			
Total			
— thousand cubic metres	**549 674**	440 420	24.8 %
Daily average			
— thousand cubic metres	**1 506**	1 206	
— million cubic feet	**53.5**	42.8	

STOCK PRICE

The following table indicates the quarterly high bid and low bid prices for the common stock of the Company on the Toronto Stock Exchange for the last two years.

	1979		1978	
First Quarter	$11.25	$ 9.63	$ 8.37	$ 6.87
Second Quarter	17.25	10.75	9.00	6.87
Third Quarter	16.75	12.25	10.37	7.87
Fourth Quarter	15.63	10.25	11.50	8.00

Report to the Shareholders

We are pleased to report the results of Francana Oil & Gas Ltd. for the year ended December 31, 1979. This report includes our 57% ownership of Trend International Limited and encompasses Canadian, United States and international operations.

This was a year of significance to the Company in that we completed the reorganization of Francana and Canadian Merrill Ltd., which resulted in the Merrill shareholders receiving 1.9 Francana shares for each of their Merrill shares. Therefore, this report includes the results of the combined Francana and Merrill operations. It is our view that the reorganized Company will be better able to perform in today's highly competitive environment in the oil and gas exploration business because of significantly greater cash flow, a much broader geographic base of production and land holdings and, most importantly, because the talent of the combined staff will now be concentrated for greater effect.

Francana's combined gross revenue before royalties amounted to $102,164,000, which is an increase of 28% over last year. Funds from operations, after current income taxes, amounted to $45,315,000, an increase of 28% over 1978 results. Net earnings, after providing for the minority interest in Trend International Limited, amounted to $15,705,000, up 31% from 1978.

North American crude oil sales averaged 645 cubic metres (m^3) (4,059 barrels) per day, compared with 639 m^3 (4,022 barrels) per day in 1978. Trend's share of Indonesian crude oil production averaged 872 m^3 (5,492 barrels) per day in 1979, compared with 1 048 m^3 (6,597 barrels) per day last year.

Natural gas sales, all in North America, increased 24% to an average of 1 506 thousand cubic metres (10^3m^3) (53.5 million cubic feet) per day from the 1978 average of 1 206 10^3m^3 (42.8 million cubic feet) per day.

Francana and Trend participated in the drilling of a total of 232 gross wells in 1979, compared with 210 gross wells in 1978. Results in 1979 included 64 oil wells, 103 gas wells, and 65 dry holes, for an overall success rate of 72%.

During the year, Messrs. J. L. Carpenter and H. Re-Kunyk resigned as directors and were replaced by Messrs. V. Van Sant, Jr. and R. A. Wasteneys. Messrs. H. R. Fraser and W. A. Morrice tendered their resignations in the course of the corporate reorganization. On behalf of the directors, we gratefully acknowledge the many contributions made by these gentlemen during their years of service.

We are pleased to welcome as directors Messrs. R. J. Abercrombie, A. M. Doull, C. K. Taylor, Q.C., and J. M. Thomson, Q.C., former directors of Merrill, who were appointed to the expanded nine-member Board.

As presently constituted, the Company has well-balanced production of crude oil and natural gas in Canadian, United States and Indonesian fields. The land portfolio includes prospective properties favourably located in Canada and the United States which should support an expanded exploratory program involving substantial capital expenditures. Opportunities to participate in new international areas of activity will also be pursued.

Although it is uncertain whether the Canadian Federal and Provincial Governments will reach agreement on oil and gas policy in the months immediately ahead, we believe that hydrocarbon prices will continue to rise toward world levels. With our ability to market all of the crude oil that we can produce, and with the expected expansion of natural gas markets in the 1980-81 heating season, the continued growth of the Company appears assured.

On behalf of the directors, we wish to express our appreciation to all employees for their loyalty and dedication during the recent reorganization and we look forward confidently to their continued support. We would also like to express our appreciation to the shareholders of the Company for their support and the confidence which they have placed in us.

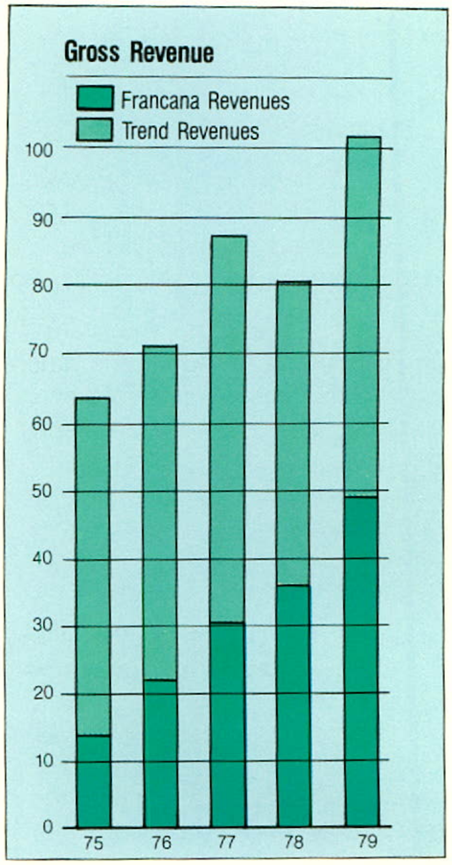
On behalf of the Board

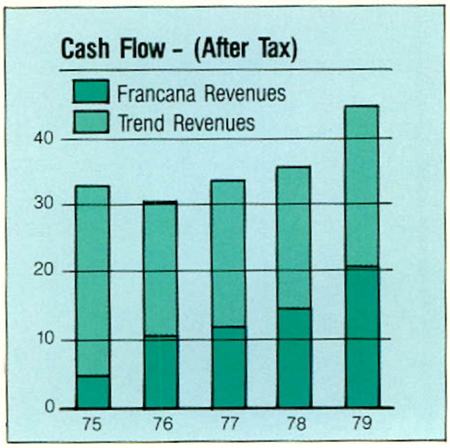
R. A. Wasteneys

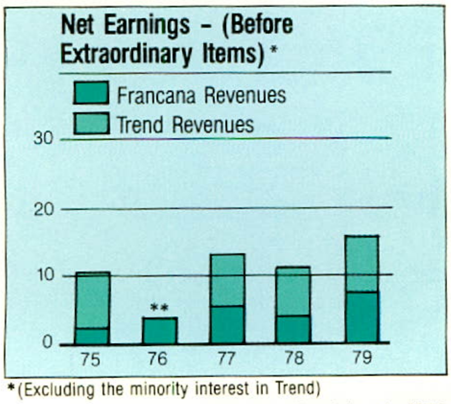
President

Chairman

April 28, 1980







*(Excluding the minority interest in Trend)

***Net of a Francana profit and a Trend loss in 1976*

Operations

The following review summarizes Francana's Canadian, United States and international operations. The report on each area of operations includes the combined results of Francana and all of its subsidiaries operating in that area, including the total results attributable to Trend, in which the Company holds a 57% interest.

CANADA

Francana held interests in 1,239 gross oil wells (159.1 net oil wells) and 1,041 gross gas wells (175.2 net gas wells) in Canada at December 31, 1979. The majority of these wells are located in Alberta, British Columbia, Manitoba and Saskatchewan.

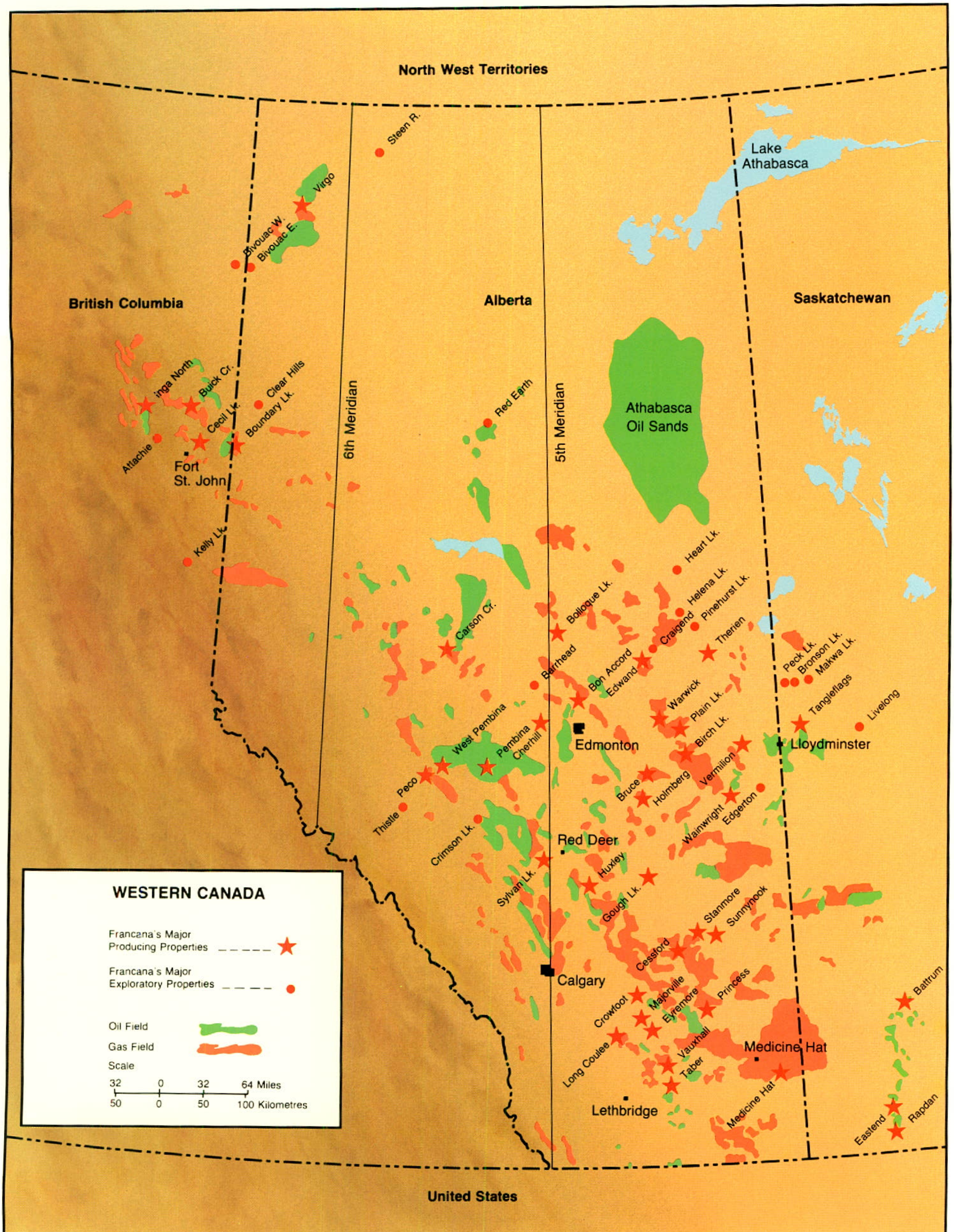
Francana's Canadian sales of crude oil and natural gas liquids in 1979 totalled 177 853 cubic metres (m^3), an 8% increase over sales of 165 488 m^3 in the previous year. These sales are equivalent to daily averages of 487 m^3 and 453 m^3 in the respective years, or 3,066 barrels and 2,853 barrels per day.

Canadian natural gas sales increased 25% in 1979 to 508 521 thousand cubic metres (10^3m^3) from 407 046 10^3m^3 in 1978. These sales are equivalent to daily averages of 1 393 10^3m^3 and 1 115 10^3m^3 in the respective years, or 49.5 million cubic feet and 39.6 million cubic feet per day.

The average price received by the Company for its Canadian crude oil sales increased to $12.58/barrel in 1979 from $11.65/barrel last year. Canadian natural gas prices increased to a 1979 average of $1.76/Mcf, compared with $1.51/Mcf in 1978.

Francana participated in drilling 61 exploratory wells in Canada in 1979. These resulted in 30 gas wells (10.3 net), 11 oil wells (3.9 net) and 20 dry holes (7.1 net).

The Company also participated in drilling 51 development wells in Canada resulting in 22 gas wells (9.3 net), 16 oil wells (6.5 net) and 13 dry holes (8.4 net).



North West Territories
British Columbia
Alberta
Saskatchewan
Lake Athabasca
Athabasca Oil Sands
6th Meridian
5th Meridian
Steen R.
Virgo
Bivouac W.
Bivouac E.
Buick Cr.
Clear Hills
Boundary Lk.
Cecil Lk.
Attachie
Fort St. John
Kelly Lk.
Red Earth
Heart Lk.
Helena Lk.
Pinehurst Lk.
Bolloque Lk.
Craigend
Therien
Carson Cr.
Barrhead
Bon Accord
Edward
Warwick
Plain Lk.
Birch Lk.
Peck Lk.
Bronson Lk.
Makwa Lk.
Tangleflags
Livelong
Lloydminster
Edmonton
West Pembina
Pembina
Cherhill
Peco
Thistle
Crimson Lk.
Bruce
Holmberg
Vermilion
Wainwright
Edgerton
Red Deer
Huxley
Sylvan Lk.
Gough Lk.
Stanmore
Sunnynook
Cessford
Calgary
Princess
Crowfoot
Majorville
Eyremore
Vauxhall
Long Coulee
Taber
Medicine Hat
Lethbridge
Battrum
Eastend
Rapdan
United States
WESTERN CANADA
Francana's Major Producing Properties
Francana's Major Exploratory Properties
Oil Field
Gas Field
Scale
32 0 32 64 Miles
50 0 50 100 Kilometres

Alberta

The major portion of Francana's 1979 Canadian exploratory and development drilling was concentrated in Alberta where it participated in drilling 85 wells.

In the Stanmore gas field, the Company completed three exploratory and three development gas wells. A seven-well exploratory program in the Crowfoot area resulted in two gas wells, three oil wells and two dry holes. A nine-well drilling program at Edwand was completed with two exploratory and three development gas wells and four dry holes.

Drilling at Holmberg produced three exploratory and one development gas wells and two dry holes, and exploratory drilling in the Long Coulee area resulted in three gas wells, one oil well and three dry holes.

In other Alberta drilling, three exploratory gas wells were drilled in the Gough Lake area, two exploratory gas wells in the Eyremore area, three development gas wells in the Therien area, six shallow development gas wells in the Medicine Hat area, and three heavy gravity oil wells in the Vermilion area. An exploratory well in the West Pembina area was completed as a Cadomin Gething gas well.

In other Alberta areas, a further six exploratory gas wells, two exploratory oil wells, seven development gas wells, and three development oil wells were successfully completed.

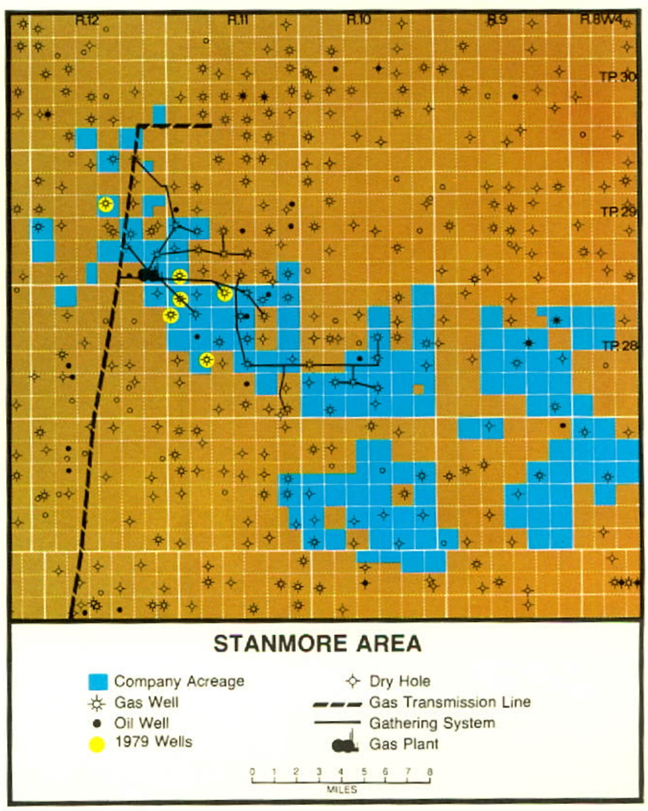
Francana and its subsidiaries operate a total of 12 gas plants in central Alberta. In 1979, the compressor capacities of the Birch Lake and Cherhill plants were expanded by the addition of 700 HP and 300 HP respectively. Gathering system additions were made in the Edwand, Plain Lake and Stanmore gas fields.

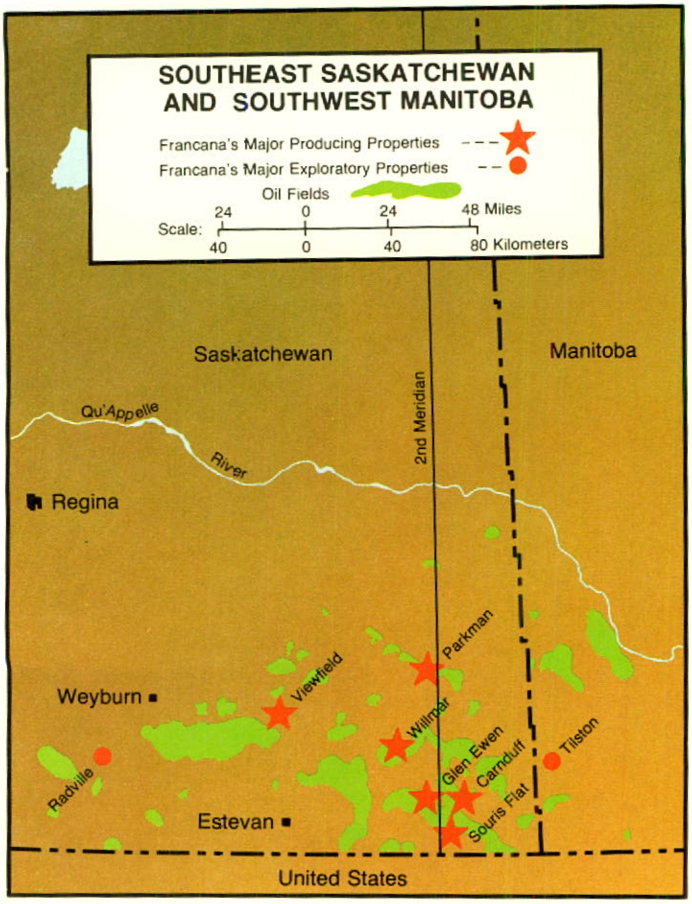
British Columbia

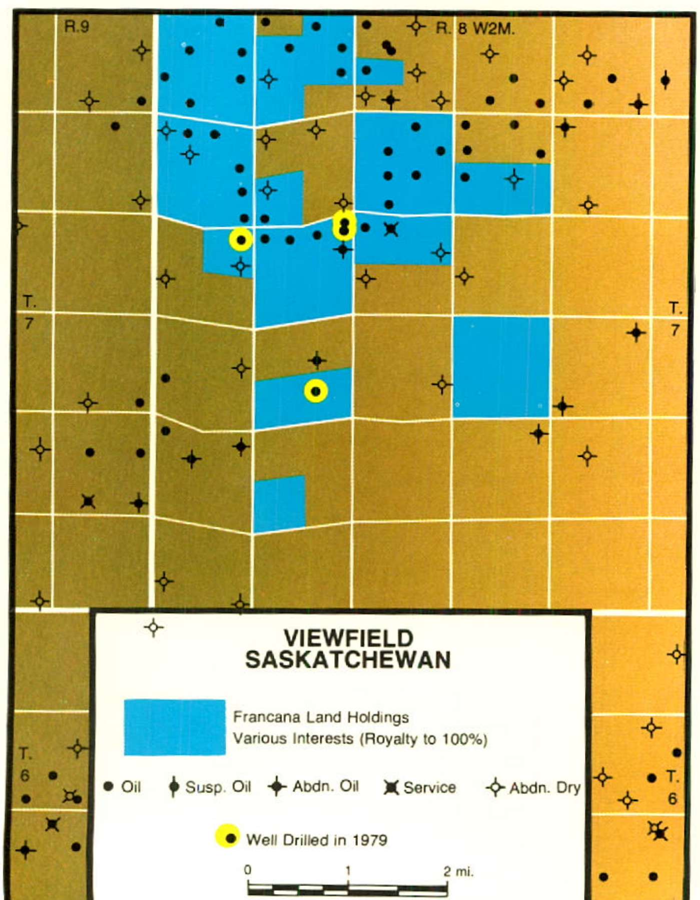
The Company drilled two exploratory gas wells in the Bivouac area and an exploratory gas well in the Buick Creek area.

In addition, an 11,700-foot well drilled on the Kelly Lake prospect was completed as a marginal gas discovery. Francana's lease holdings of 16,089 acres (4,022 net acres) in this area were increased through the acquisition of a 14,705-acre drilling reservation in which the Company holds a 26.67% working interest. A 13,400-foot Halfway test well is scheduled to be drilled on this acreage on a seismic anomaly in 1980.

A drilling crew on a Francana well in the Alberta Foothills.







Saskatchewan

Francana's drilling in Saskatchewan in 1979 resulted in 14 oil wells, two gas wells and one dry hole.

The main areas of activity were Viewfield, in which four oil wells were completed, Tangleflags with three oil wells, and the Eastend and Rapdan areas with two oil wells each.

Single oil wells were drilled in the Battrum, Livelong and Willmar areas, while two exploratory gas wells were drilled in the Makwa area. Trend also holds a minor interest in the two Makwa gas wells.

Manitoba

Francana participated in several geological and geophysical evaluations in southwestern Manitoba that should result in drilling prospects in 1980.

Beaufort Sea

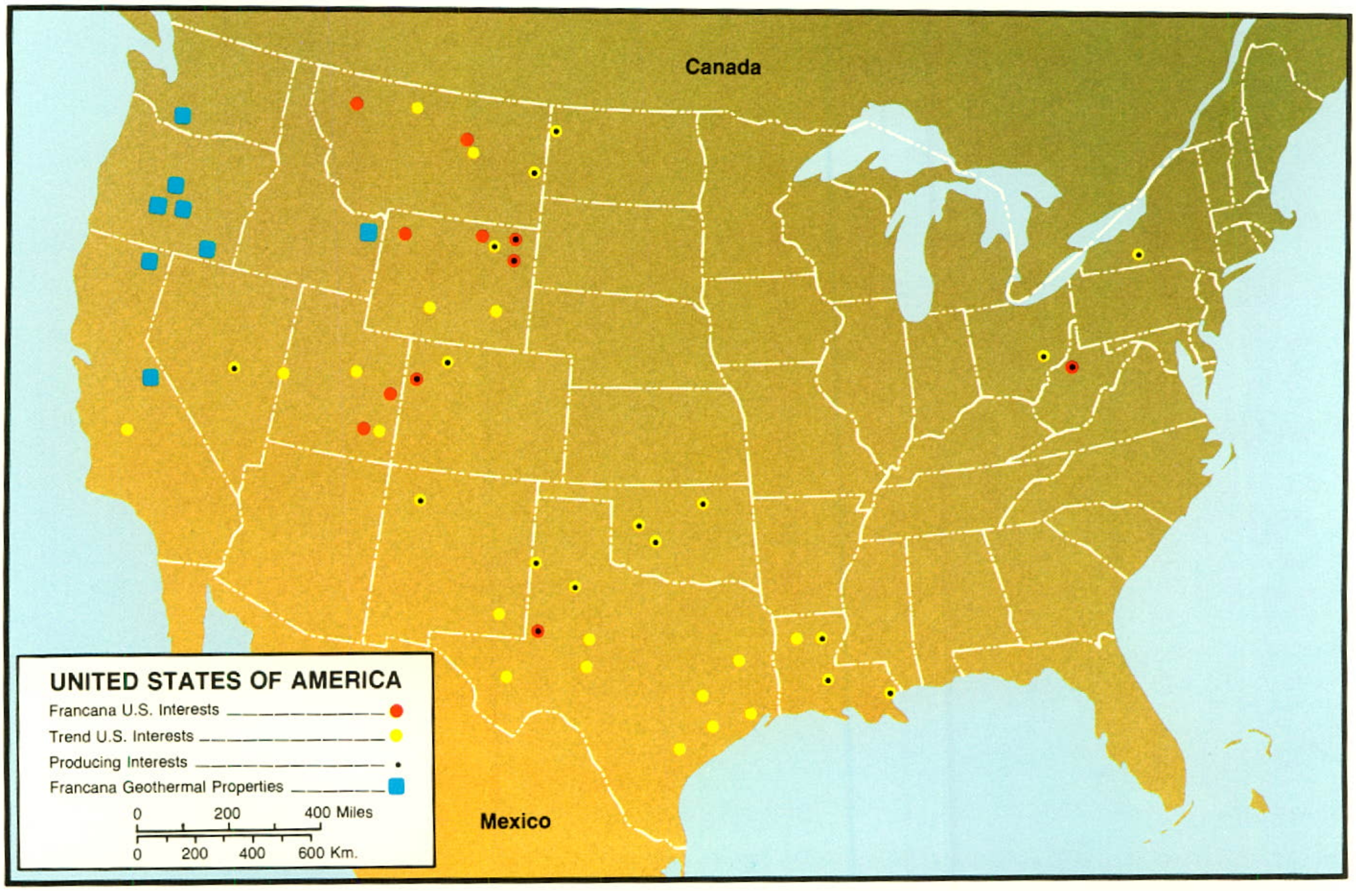
Dome Petroleum Limited has an option which must be exercised by December 31, 1980 to drill on an 84,582-acre Beaufort Sea permit in which the Company has retained the right to participate for its 12% working interest.

Cape Breton

The Company's holdings offshore Nova Scotia total 79,966 acres of lease in which Francana holds a 24% interest. There have been no recent developments in this area and no work is planned in 1980.

Capital Expenditures

Capital expenditures in Canada totalled $24,242,000 in 1979. These included expenditures of $7,144,000 for land acquisition, $8,143,000 for exploration and $8,955,000 for development and other activities. The 1979 expenditures represent a 39% increase over the $17,391,000 spent in 1978.



UNITED STATES

Francana and Trend held interests in 383 gross oil wells (51.5 net oil wells) and 92 gross gas wells (56.6 net gas wells) in the United States at December 31, 1979. The majority of these wells are located in Colorado, Montana, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Texas and Wyoming.

United States sales of crude oil totalled 57 589 cubic metres (m^3) in 1979 compared with 67 791 m^3 in the previous year. These sales are equivalent to daily averages of 158 m^3 and 186 m^3 in the respective years, or 993 barrels and 1,169 barrels per day.

The Company's United States natural gas sales increased in 1979 to 41 153 thousand cubic metres (10^3m^3) from 33 374 10^3m^3 in 1978. These sales are equivalent to daily averages of 113 10^3m^3 and 91 10^3m^3 respectively, or 4.0 million cubic feet and 3.2 million cubic feet per day.

Average prices in the United States were $13.25 U.S./barrel for crude oil and $1.32 U.S./Mcf for natural gas. Comparable prices in 1978 were $10.80 U.S./barrel and $1.01 U.S./Mcf.

United States drilling included participation in 37 exploratory wells which resulted in 9 gas wells (3.5 net), 7 oil wells (2.2 net) and 21 dry holes (6.1 net).

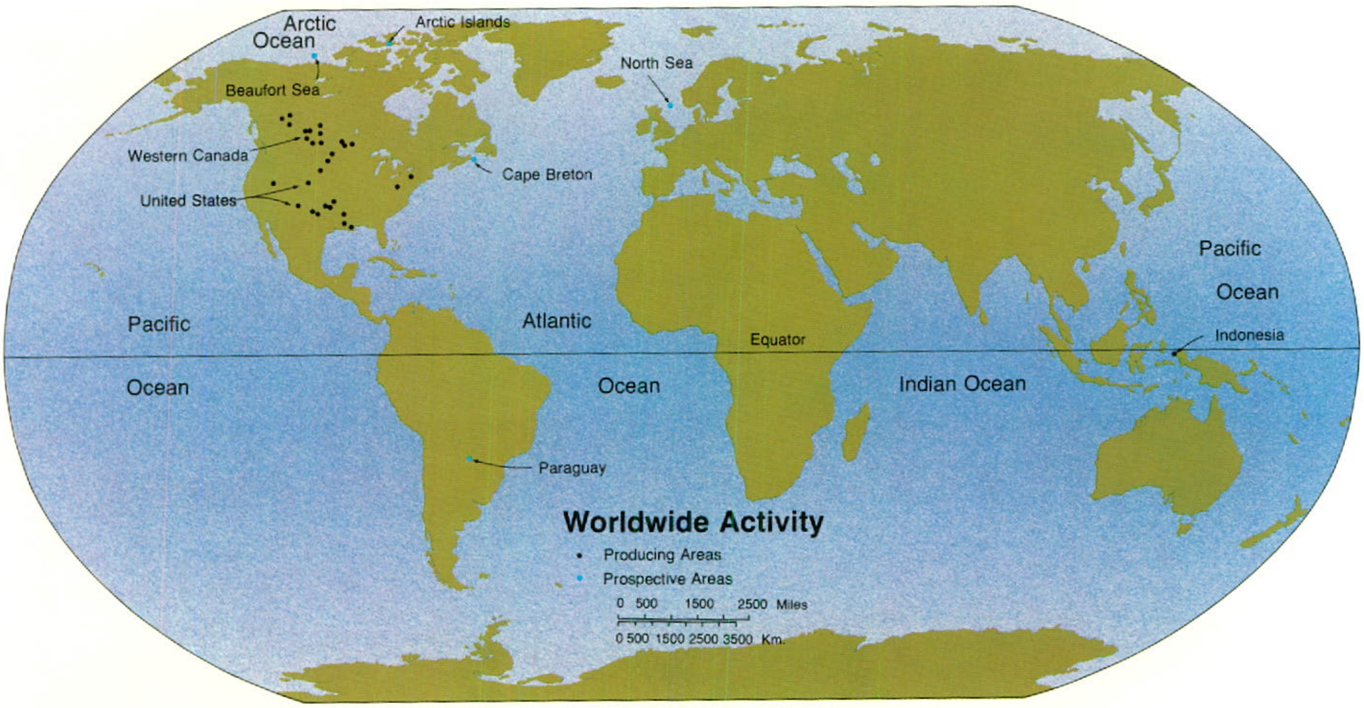
The Company's development drilling in the United States included a total of 56 wells which resulted in 42 gas wells (22.3 net), 4 oil wells (.7 net) and 10 dry holes (2.8 net).

Areas of Company activity in the United States included the Rock Canyon area of western Colorado where it completed four exploratory and 12 development gas wells in 1979.

The Company also participated in an oil discovery in Howard County, Texas, on a 2,427-acre lease block, and in a gas discovery in 1,930 lease acres in Live Oak County. In addition, it held interests in four additional oil wells completed in Texas.

In other United States drilling, the Company participated in drilling and completing two oil wells and 22 gas wells in New Mexico, 10 gas wells in Ohio, and two oil wells and four gas wells in Oklahoma.

The Company also participated in one gas well in Louisiana and single oil wells in each of Wyoming and Montana.



Geothermal

Francana has a 25.714% interest in geothermal leases covering 50,000 acres and lease applications covering 192,000 acres in California, Idaho, Oregon and Washington. Environmental impact studies and other government investigations have long delayed lease issuance and, in some cases, lease applications have been pending since 1974.

During 1979, one temperature gradient well was drilled on the Glass Butte prospect in Oregon. The data obtained, along with other available data, confirm a temperature anomaly worthy of further evaluation by deep drilling.

The geological evaluation of several prospects was advanced by further surface geological work during the year.

Capital Expenditures

Capital expenditures in the United States totalled $15,512,000 in 1979. These included expenditures of $1,740,000 for land acquisition, $6,003,000 for exploration and $7,769,000 for development and other activities. The 1979 expenditures represent a 115% increase over the $7,225,000 spent in 1978.

INTERNATIONAL OPERATIONS

Indonesia

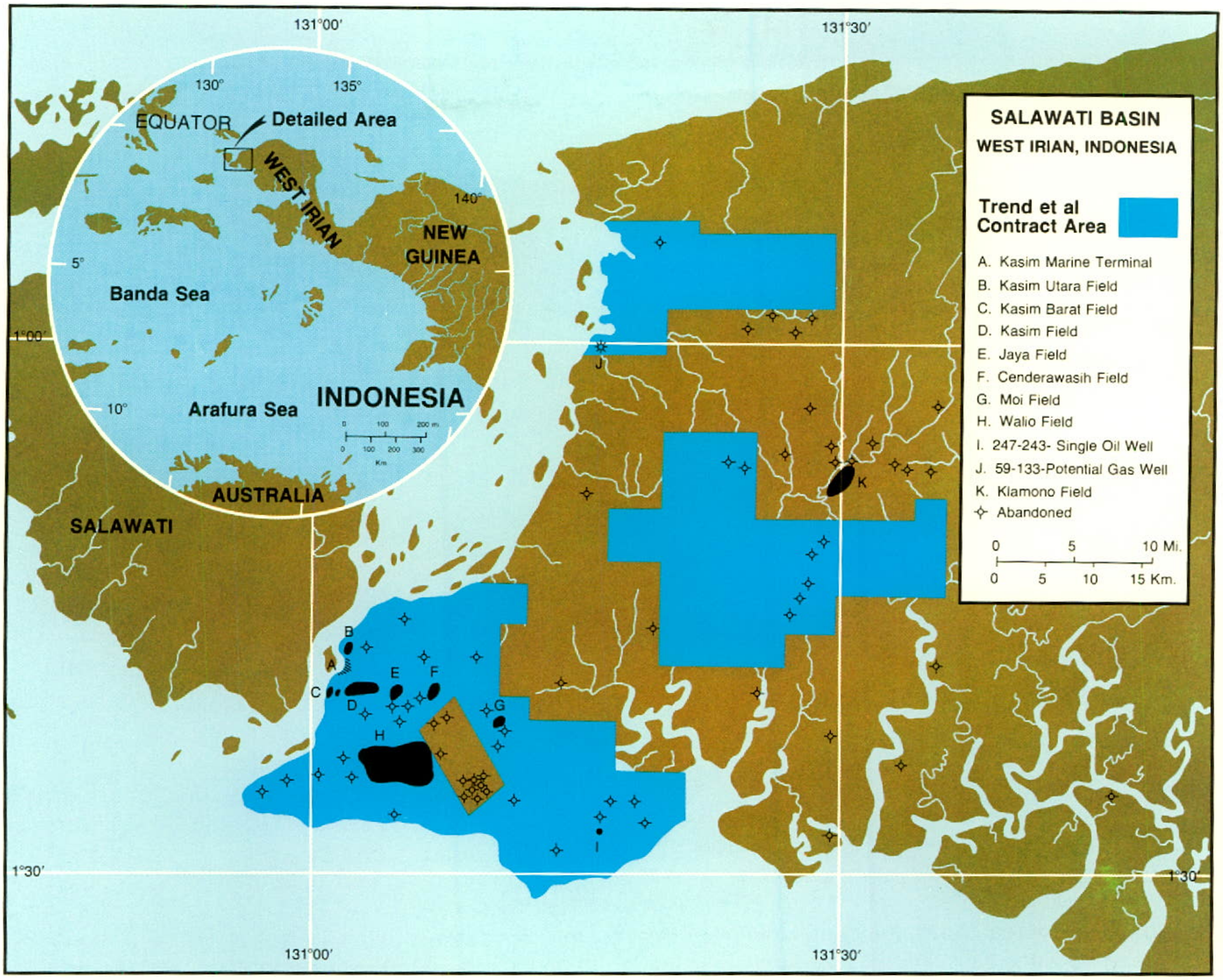
Gross crude oil production from the Indonesian project, in which Trend holds a 27% working interest and is the operator, was 22,456,000 barrels in 1979 compared with 25,948,000 barrels in 1978. Trend's net share of this production, after all deductions, averaged 872 cubic metres (5,492 barrels) per day in 1979 and 1 048 cubic metres (6,597 barrels) per day in the previous year. The lower production rate in 1979 reflects the normal decline of these reservoirs, as well as crude oil entitlement adjustments resulting from normal operation of the Production Sharing Contract.

The Indonesian crude oil price increased from $13.00 U.S./barrel to $25.30 U.S./barrel in 1979, and averaged $18.26 U.S./barrel over the year. This price was further increased in February, 1980 when the price of Walio crude was posted at $29.20 U.S./barrel.

Trend completed a marginal oil discovery in its contract area in 1979. Two subsequent development wells resulted in one oil producer and one dry hole.

Twenty-four infill wells were drilled in the Walio field, all of which were completed as oil producers. Other operations in the field included the installation of 35 larger down-hole electric pumps and the addition of electrical generating equipment.

Six exploratory wells and 13 development wells are planned for 1980.



United Kingdom

In the North Sea, a well was drilled on Block 9/17 in which Trend retains a 3.6% carried interest. The well spudded in early February and was abandoned at a total depth of 10,100 feet in April. This block is located southwest of Block 9/13, on which the Beryl oil field is located, and is west of an oil discovery on Block 9/18.

Paraguay

An agreement was concluded with a major oil company in 1979 providing for the continued exploration of the 14.8-million-acre prospecting licence. Trend has retained an 8% working interest. During 1979, 800 kilometres of seismic work and a magneto-telluric program were completed and further seismic surveys using portable equipment will resume in May 1980.

Philippines

Following the drilling of a dry hole on Trend's permit in the Panay Gulf, a request to defer the drilling of a further obligation well was denied and the permit was allowed to expire.

Capital Expenditures

Capital expenditures in international operations totalled $2,594,000 in 1979 compared with $3,134,000 in 1978. The 1979 expenditures include $2,401,000 of Indonesian exploration and development costs.

Land Holdings

As At December 31, 1979

	Gross Acres	Net Acres
FRANCANA		
Canada		
Alberta	1,324,356	503,460
British Columbia	118,229	38,090
Saskatchewan	484,978	166,582
Territories and Arctic Islands	815,444	70,663
East Coast Offshore	79,966	19,213
Other	37,670	14,237
Total Canada	2,860,643	812,245
Total United States	129,189	64,327
Total Francana	2,989,832	876,572
TREND		
Canada		
Alberta	26,246	9,199
British Columbia	5,836	1,881
Saskatchewan	55,802	16,045
Total Canada	87,884	27,125
United States		
Atlantic Coast	2,644	565
Gulf Coast	87,408	39,127
Mid Continent	57,397	19,775
Rocky Mountain	888,839	330,525
West Coast	25,946	1,973
Total United States	1,062,234	391,965
International		
Indonesia	231,370	21,297
North Sea	25,176	3,021
Paraguay	14,820,000	1,185,600
Total International	15,076,546	1,209,918
Total Trend	16,226,664	1,629,008

Reserves

As At December 31, 1979

	Oil and Natural Gas Liquids		Natural Gas	
Francana and Trend Combined	Thousands of Barrels	Thousands of Cubic Metres	Millions of Cubic Feet	Millions of Cubic Metres
North America				
Proved	13,509	2 148	229,141	6 456
Probable	12,785	2 032	63,652	1 793
Total	26,294	4 180	292,793	8 249
Indonesia				
Proved	11,162	1 774	—	—
Francana and Trend Total	37,456	5 954	292,793	8 249

A view of the Kasim oil terminal and storage facilities in Indonesia. Crude oil is shipped via tanker from the terminal to various markets throughout Southeast Asia.

LAND

At December 31, 1979, Francana held direct interests in a total of 2,989,832 acres of petroleum and natural gas rights in North America equivalent to 876,572 net acres. Trend held interests in 16,226,664 lease and permit acres in North America, Indonesia, the North Sea and Paraguay equivalent to 1,629,008 net acres. The distribution of this acreage is shown in the accompanying tables.

In addition, Francana held various royalty interests in 56,251 acres in Alberta and Saskatchewan and 3,799 acres in the United States at year-end. Trend held a 7.5% royalty interest in 421,572 acres in Utah and Nevada and various royalty interests in 26,472 acres elsewhere in the United States.

RESERVES

The Francana reserve estimates at December 31, 1979 have been prepared by independent consultants, while the Trend year-end reserve estimates have been prepared by its engineering staff. These estimates are summarized in the accompanying table.

Financial (pro forma)

The Company's net earnings of $15,705,000 ($1.21 per share) increased by $3,746,000 over the comparative $11,959,000 ($0.92 per share) in 1978. This 31% increase is primarily the result of higher average product prices, increased production levels for natural gas and increased interest and other income.

Francana's gross revenue for 1979 was $102,164,000, an increase of $22,131,000 or 28% from $80,033,000 last year. Of this total, gross production revenue increased by 25% to $98,100,000.

The significant increase in gross production revenue is directly attributable to (a) an average sales price of U.S. $18.26 for Indonesian crude oil production compared with U.S. $13.00 in 1978, which more than offset a 12% decline in the level of Indonesian production as a result of the natural decline of the reservoirs; (b) a 25% increase in the level of natural gas production from North American operations, combined with higher average product prices for Canadian and United States natural gas sales of 17% and 31% respectively; and (c) slightly increased crude oil production from North American operations together with improved product prices.

The increase of $2,622,000 in interest and other income was the result of a $1,952,000 gain on the disposition of a prospect by a subsidiary together with increased interest income.

Production and operating costs increased by $2,816,000 or 22% to $15,641,000 in 1979 due to the increased levels of North American natural gas and crude oil production, higher lifting costs in Indonesia and generally higher unit of production costs due to inflation.

General and administrative expenses increased by $921,000 or 27% to $4,274,000, primarily as the result of lower overhead reimbursement from outside parties and increased current pension plan, salary and benefit costs.

Interest costs on long-term debt increased by $814,000 or 49% to $2,470,000 in 1979 due to higher interest rates and a higher average level of long-term indebtedness.

Improved earnings were reduced by a loss of $353,000 in 1979 compared with a gain of $1,045,000 in 1978 from the translation of foreign currency due to the depreciation of the United States dollar relative to the Canadian dollar between the respective year-ends as a significant portion of the Company's consolidated working capital is retained in U.S. funds.

Funds generated from operations, before current income taxes were $61,782,000, a 26% increase from $48,949,000 last year. Funds generated after current income taxes, were $45,315,000 compared with $35,388,000 in 1978, or $3.48 and $2.72 per share respectively.

Depletion and depreciation charges increased by $4,638,000 to $17,677,000 in 1979 as the result of downward revisions in estimates of proved crude oil and natural gas reserves in excess of new discoveries, thereby creating a larger per unit of production charge combined with higher costs for recent additions to productive property and the higher levels of production discussed previously.

The increase in income tax expense reflects the higher pre-tax income. However, this increase was reduced somewhat by a lower effective tax rate for Canadian operations caused by an increased proportional impact of earned depletion.

The increase in the minority interest in earnings of subsidiaries reflects the higher contribution from Trend primarily as the result of the increase in interest and other income discussed previously.

Capital expenditures for 1979 totalled $42,348,000, comprised of $24,242,000 spent in Canada, $15,512,000 in the United States and $2,594,000 spent in Indonesia and other international areas. The 1979 expenditures represent a 53% increase over the $27,750,000 of capital expenditures incurred in 1978.

Working capital increased by $3,306,000 to $22,094,000 as at December 31, 1979.

FRANCANA OIL & GAS LTD.

Statement of Earnings

For the Year Ended December 31, 1979

(with 1978 figures for comparison)
(in thousands of Canadian dollars)

	Pro forma (Note 14)		Consolidated	
	1979	1978	1979	1978 (Restated - Note 2)
REVENUE:				
Gross production income	$ 98,100	$78,591	$66,686	$57,268
Interest and other income	4,064	1,442	4,043	1,383
Gross revenue	102,164	80,033	70,729	58,651
Crown and overriding royalties paid	17,402	14,063	7,463	6,691
Net revenue	84,762	65,970	63,266	51,960
COSTS AND EXPENSES:				
Production and operating	15,641	12,825	12,377	10,553
General and administrative	4,274	3,353	2,241	1,383
Interest on long-term debt	2,470	1,656	—	—
Interest on short-term debt	242	232	61	101
Loss (gain) on translation of foreign currency	353	(1,045)	207	(1,063)
Total costs and expenses	22,980	17,021	14,886	10,974
FUNDS GENERATED FROM OPERATIONS BEFORE CURRENT INCOME TAXES	61,782	48,949	48,380	40,986
DEPLETION AND DEPRECIATION (Note 4)	17,677	13,039	11,474	8,568
EARNINGS BEFORE INCOME TAXES	44,105	35,910	36,906	32,418
INCOME TAXES (Note 10):				
Current	18,134	15,188	16,723	14,638
Provincial royalty tax credit	(1,667)	(1,627)	(667)	(627)
Deferred	5,071	4,618	2,950	2,935
Total income taxes	21,538	18,179	19,006	16,946
EARNINGS FROM OPERATIONS	22,567	17,731	17,900	15,472
MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES	6,862	5,772	6,862	5,772
NET EARNINGS FOR THE YEAR	$ 15,705	$11,959	$11,038	$ 9,700
EARNINGS PER SHARE (Note 9)	$ 1.21	$ 0.92	$ 1.42	$ 1.24
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (,000's)	13,024	13,021	7,794	7,794

See accompanying notes.

FRANCANA OIL & GAS LTD.

Statement of Changes in Financial Position

For the year ended December 31, 1979

(with 1978 figures for comparison) (in thousands of Canadian dollars)

	Pro forma (Note 14)		Consolidated	
	1979	1978	1979	1978 (Restated — Note 2)
WORKING CAPITAL WAS PROVIDED BY:				
Operations:				
Funds generated from operations before current income taxes	$ 61,782	$ 48,949	$ 48,380	$ 40,986
Current income taxes	(18,134)	(15,188)	(16,723)	(14,638)
Provincial royalty tax credit	1,667	1,627	667	627
	45,315	35,388	32,324	26,975
New long-term debt	4,362	1,345	—	—
Deferred revenue	1,919	1,883	—	—
Issue of share capital	12	—	—	—
Other	546	624	—	257
Total	52,154	39,240	32,324	27,232
WORKING CAPITAL WAS USED FOR:				
Additions to properties and equipment	42,348	27,750	27,073	15,274
Dividends paid by subsidiary to minority interest	4,309	3,694	4,309	3,694
Deferred reorganization costs (Note 14)	1,600	—	1,600	—
Reduction of long-term debt	431	506	—	—
Other	160	193	159	—
Total	48,848	32,143	33,141	18,968
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	3,306	7,097	(817)	8,264
WORKING CAPITAL AT THE BEGINNING OF THE YEAR	18,788	11,691	18,273	10,009
WORKING CAPITAL AT END OF THE YEAR	$ 22,094	$ 18,788	$ 17,456	$ 18,273

Statement of Retained Earnings

For the year ended December 31, 1979

(with 1978 figures for comparison) (in thousands of Canadian dollars)

	Pro forma (Note 14)		Consolidated	
	1979	1978	1979	1978 (Restated — Note 2)
BALANCE AT BEGINNING OF THE YEAR AS PREVIOUSLY STATED	$32,231	$20,227	$21,432	$11,687
DEDUCT:				
Retroactive adjustment for deferred income taxes (Note 2)	1,061	1,016	1,061	1,016
	31,170	19,211	20,371	10,671
NET EARNINGS FOR THE YEAR	15,705	11,959	11,038	9,700
	46,875	31,170	31,409	20,371
REORGANIZATION COSTS (Note 14)	1,187	—	—	—
BALANCE AT END OF THE YEAR	$45,688	$31,170	$31,409	$20,371

See accompanying notes.

FRANCANA OIL & GAS LTD.

Statement of Financial Position

As at December 31, 1979

(with 1978 figures for comparison) (in thousands of Canadian dollars)

	Pro forma (Note 14)		Consolidated	
	1979	1978	1979	1978 (Restated - Note 2)
CURRENT ASSETS:				
Cash and short-term securities	$ 23,126	$ 21,096	$ 18,828	$ 20,807
Accounts receivable	17,886	12,478	10,966	8,307
Provincial royalty tax credit receivable	2,389	1,429	667	627
Inventories	1,770	1,260	1,228	704
Prepaid expenses and other	469	417	140	—
Total current assets	45,640	36,680	31,829	30,445
CURRENT LIABILITIES:				
Operating bank loans (Note 3)	115	—	115	—
Accounts payable and accrued liabilities	18,890	9,917	11,459	5,336
Estimated income taxes payable	3,599	1,269	2,019	719
Due to an affiliate (Note 14)	—	—	369	—
Deferred revenue	411	6,117	411	6,117
Current portion of long-term debt	531	589	—	—
Total current liabilities	23,546	17,892	14,373	12,172
WORKING CAPITAL	22,094	18,788	17,456	18,273
PROPERTIES AND EQUIPMENT (Note 4)	147,580	122,895	91,723	76,123
OTHER ASSETS (Note 14)	1,067	1,355	1,895	129
CAPITAL EMPLOYED	$170,741	$143,038	$111,074	$ 94,525
REPRESENTED BY:				
Long-term debt (Note 5)	$ 20,412	$ 16,375	$ —	$ —
Deferred revenue	3,802	1,883	—	—
Deferred income taxes	25,650	20,993	15,538	12,587
Minority interest in subsidiaries	26,987	24,427	26,987	24,427
	76,851	63,678	42,525	37,014
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)				
SHAREHOLDERS' EQUITY:				
Capital stock (Notes 6 and 7)	48,202	48,190	37,140	37,140
Retained earnings	45,688	31,170	31,409	20,371
Total shareholders' equity	93,890	79,360	68,549	57,511
CAPITAL EMPLOYED	$170,741	$143,038	$111,074	$ 94,525

Approved by the Board:

Vernon Van Sant, Jr., Director   Robert Gratton, Director

See accompanying notes.

FRANCANA OIL & GAS LTD.

Notes to the Financial Statements

December 31, 1979

1. Summary of Significant Accounting Policies:

(a) Generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. They are also in conformity in all material respects with accounting principles generally accepted in the United States, except with respect to foreign currency translation as discussed below.

(b) Principles of consolidation

The consolidated financial statements include the accounts of Francana Oil & Gas Ltd. and its subsidiaries (referred to as "Francana", unless the context otherwise requires).

(c) Joint ventures

A significant part of Francana's exploration and production activities are conducted jointly with others, and accordingly the accounts reflect only Francana's proportionate interest in such activities.

(d) Foreign currency translation

Francana follows the method of foreign currency translation whereby foreign currencies, primarily United States dollars, have been translated into Canadian dollars as follows: revenue, costs and expenses of foreign subsidiaries at the average rates of exchange for the year, non-current assets (including depreciation, depletion and amortization thereof) and non-current liabilities at rates in effect at dates of transactions, and current assets and liabilities at rates in effect at the end of the year. Gains and losses on currency translations are included in the statement of earnings. This method of translation was adopted retroactively in 1978. The practice previously followed was that prescribed by the United States Financial Accounting Standards Board Statement No. 8 ("FASB No. 8"), which requires the translation of long-term debt at current rates of exchange. Had long-term debt been translated at current rates as required by FASB No. 8 the effect on the pro forma net earnings for 1979 and 1978 would have been as shown in the following table:

	Pro Forma			
	1979		1978	
	As Reported	At Current Rate	As Reported	At Current Rate
Net earnings in thousands . .	$15,705	$15,928	$11,959	$11,373
Earnings per share	$ 1.21	$ 1.22	$ 0.92	$ 0.87

No adjustment would be necessary to the consolidated results of Francana for 1979 or 1978 under the requirements of FASB No. 8.

(e) Inventories

Equipment inventories, consisting primarily of tubular goods for gas field development, are valued at the lower of average cost or net realizable value.

(f) Properties and equipment — depletion, depreciation and amortization

Francana follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs include acquisition costs, geological costs, exploration overhead, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells. Plant and production equipment is recorded at cost. Depletion and depreciation are provided using the unit-of-production method based on estimated proven recoverable reserves of oil and gas for the respective cost centres to which they relate. No gains or losses are recognized upon the sale or disposition of properties except under circumstances which result in major disposals of reserves. The full cost method of accounting followed by Francana is in all material respects identical with the full cost method of accounting recommended by the United States Securities and Exchange Commission in Rule 3-18, Regulation S-X.

(g) Deferred revenue

Francana records revenue as oil and gas reserves are produced and sold. To the extent that Francana has been paid by its major gas purchaser for gas contracted for, but not taken (produced), amounts received are recorded as deferred revenue.

(h) Deferred income taxes

(1) Canada:

Drilling, exploration and lease acquisition costs and depreciation in excess of the related amounts provided in the accounts have been claimed for income tax purposes. The result of this practice has been to defer payment of income taxes otherwise payable to those future periods when the amount claimed for income tax purposes will be less than the amounts charged in the accounts.

(2) United States:

Petroleum and natural gas properties include intangible development, exploration, land retention and other related costs which have been deducted for United States federal income tax purposes by Francana's United States subsidiary, but capitalized for financial accounting purposes. Full provision has been made for deferred income taxes resulting from these timing differences.

(3) Indonesia:

Effective January 1, 1978, the Company's Production Sharing Contract with Pertamina (the national oil company of Indonesia) was amended, and the Company has been required since that date to pay its Indonesian income taxes without reimbursement from Pertamina. Full provision has been made for deferred Indonesian income taxes on timing differences arising after January 1, 1978, which result from the Company's use of different methods of recognition of income and expense for financial reporting and Indonesian income tax purposes. Prior to January 1, 1978, Pertamina was required under the Production Sharing Contract to pay the Company's Indonesian income taxes out of its share of the production. Certain costs incurred prior to January 1, 1978 were capitalized for financial reporting purposes and expensed for Indonesian income tax purposes. Provision for deferred Indonesian income taxes for these differences was not made because of Pertamina's obligation to pay the Company's taxes under the then existing contract. The cumulative amount of these differences is approximately U.S. $17,800,000 at December 31, 1979; (1978 — U.S. $21,000,000). Since this difference will continue to be amortized against earnings in future years, the rate of Indonesian income tax expense will be higher than otherwise expected.

(i) Indonesian production income

Gross production income from Francana's interest in the Indonesian Production Sharing Contract is recorded at the time of entitlement. To the extent Francana ships, in any contract year, more or less crude oil than its entitlement, Francana settles such imbalance with Pertamina at the end of such year. The estimated balance due to (from) Pertamina at December 31, 1979 was U.S. $(974,000); 1978 — U.S. $5,054,000.

(j) Pension expenses

Francana and its United States subsidiary maintain separate non-contributory pension plans providing retirement benefits for their respective employees. The total pension expense amounted to $298,000 (1978 — $121,000) and is funded on a current basis. Included in other assets in the pro forma statement of financial position as at December 31, 1979 is an unamortized balance of $206,000 representing initial past service costs of a subsidiary which are being amortized over a ten year period.

2. CHANGE IN ACCOUNTING METHOD:

Deferred income taxes

During 1979 generally accepted accounting principles in the United States were changed, as prescribed by the Financial Accounting Standards Board Statement No. 19, requiring a partially owned subsidiary of Francana to retroactively record deferred income taxes on timing differences resulting from intangible development, exploration, land retention and other related costs deducted for United States federal income tax purposes, but capitalized for financial accounting purposes, without consideration of the interaction of the excess of estimated future statutory depletion over future cost depletion.

Up to and including 1978, generally accepted accounting principles in the United States required the recording of deferred income taxes with respect to these timing differences only to the extent that they exceeded the excess of estimated future statutory depletion over future cost depletion. With the adoption of this retroactive change in generally accepted accounting principles, additional deferred income tax of $1,872,000 has been recorded in the statement of financial position. For the year 1978, the effect of this retroactive adjustment was to decrease net earnings by $45,000.

3. OPERATING BANK LOANS AND LINES OF CREDIT:

On a pro forma basis as at December 31, 1979 and 1978 Francana has operating lines of credit in the amount of $5,000,000 provided by Canadian banks and U.S. $5,000,000 provided by a United States bank. The operating lines provided by the Canadian banks are secured by assignments of certain specific properties under Section 82 of the Bank Act of Canada and a general assignment of accounts receivable and of the total, $1,500,000 bears a standby fee of 1/4 of one percent on the unused portion thereof. The operating lines provided by the United States bank, to a subsidiary, is unsecured, and requires that a compensating bank balance of 10% of the line and 10% of any borrowings be maintained. The United States line of credit bears interest at the United States bank's prime interest rate, 15 1/4% at December 31, 1979 and 11 3/4% at December 31, 1978. Interest on the Canadian operating lines is at the Canadian banks' prime minimum lending rate, 15% at December 31, 1979 and 11 1/2% at December 31, 1978.

These lines of credit, while approved, are not guaranteed and may be withdrawn by the respective banks.

4. PROPERTIES AND EQUIPMENT:

This account is comprised as follows:

	Pro forma		Consolidated	
	1979	1978	1979	1978
	(thousands of dollars)			
Petroleum and natural gas leases, rights, exploration and development costs thereon	$161,071	127,160	109,633	87,116
Less accumulated depletion	50,172	38,533	39,250	31,668
	110,899	88,627	70,383	55,448
Plant and production equipment and other assets	58,742	50,826	38,565	34,342
Less accumulated depreciation	22,061	16,558	17,225	13,667
	36,681	34,268	21,340	20,675
	$147,580	$122,895	$91,723	$76,123
Depletion and depreciation charged to operations:				
Depreciation	$ 5,611	$ 7,017	$ 3,599	$ 5,782
Depletion	12,066	6,022	7,875	2,786
	$ 17,677	$ 13,039	$11,474	$ 8,568

5. LONG-TERM DEBT:

	Pro forma	
	1979	1978
	(thousands of dollars)	
Canadian Merrill Ltd.:		
Term production Canadian dollar bank loan, interest at 3/4 of 1% over the lending bank's prime minimum lending rate of 15% at December 31, 1979, (11 1/2% at December 31, 1978), evidenced by demand notes, secured under Section 82 of the Bank Act of Canada, covering virtually all of the producing oil and gas properties owned by Merrill, repayable $117,000 Canadian monthly commencing in January, 1982 to 1987	$ 8,415	$ 8,309
Term production United States dollar bank loan, interest at 1% over the lending bank's United States Base Rate of 15 1/4% at December 31, 1979, (12 1/4% at December 31, 1978), evidenced by demand notes, secured as above, repayable $148,000 U.S. monthly commencing in January, 1982 to 1987 ($10,625,000 U.S.; 1978 — $6,900,000 U.S.)	11,721	7,359
Term production bank loans, with a United States bank, interest at the lending bank's prime lending rate of 15 1/4% at December 31, 1979, (11 3/4% at December 31, 1978) plus 1 1/2%, secured by mortgage, security agreement and assignment of production on certain producing properties located in the United States, evidenced by a demand note, repayable $21,000 U.S. monthly to 1981 ($333,000 U.S.; 1978 — $583,000 U.S.)	333	583
Gas pipeline advances, interest-bearing at the rate of 10 1/3% at December 31, 1979, interest-free at December 31, 1978, due $14,000 U.S. monthly to 1981 ($349,000 U.S.; 1978 — $520,000 U.S.)	374	555
Other	—	75
	20,843	16,881
Less current portion of long-term debt	431	506
	$20,412	$16,375

Principal repayments required in the respective currencies over the next five years are as follows:

	United States Funds	Canadian Funds
	(thousands of dollars)	
1980	$ 420	$ —
1981	249	—
1982	1,789	1,403
1983	1,776	1,403
1984	1,776	1,403

6. CAPITAL STOCK:

Francana is authorized to issue an unlimited number of common shares without par value. During 1978 Francana was continued under the Canada Business Corporations Act. As part of the continuance the 5% cumulative convertible preferred shares that were originally authorized for issue, were eliminated.

Issued and fully paid shares at December 31, were: pro forma, 1979 — 13,025,605; 1978 — 13,020,912; consolidated, 1979 — 7,793,752; 1978 — 7,793,752. The pro forma issued shares give effect to the issue of 5,231,853 Francana shares to the Merrill shareholders under the reorganization agreement as discussed in Note 14, with the difference from the 1978 pro forma issued shares being 2,470 shares issued by Merrill in 1979 pursuant to the terms of an employees' stock option plan for a consideration of $12,000.

7. STOCK OPTION PLANS:

In 1969, 75,000 common shares were reserved for issuance to key employees and senior officers of the Company under an incentive stock option plan. At December 31, 1978 there were 27,280 shares available in the plan for future grants. The plan terminated on August 19, 1979.

In 1974, 115,000 common shares were reserved for issuance to key employees of a subsidiary under a qualified stock option plan. Under the plan, options expire five years after the date of grant and the option price of grants cannot be less than 100% of the fair market value of the common shares on the date on which the options are granted. Options are generally exercisable as to one third of the aggregate number of shares optioned at the expiration of each of the first three years following the grant of such options. At December 31, 1979 and 1978 there were 57,767 and 56,100 shares, respectively, available in the plan for future grants. As at December 31, 1979 and 1978 there were options on 57,233 and 58,900 shares outstanding, respectively. There were no share options outstanding for officers.

8. COMMITMENTS AND CONTINGENT LIABILITIES

Francana has only commitments in the normal course of business. As at December 31, 1979 there were no contingent liabilities except as explained in Note 14.

9. EARNINGS PER COMMON SHARE:

Basic earnings per common share have been calculated in accordance with Canadian principles. The net earnings have been divided by the weighted average number of shares outstanding during the year. Exercise of the options referred to in Note 7, have no dilutive effect on the earnings per share.

Under United States principles earnings per share would not differ materially from those calculated in accordance with Canadian principles.

10. INCOME TAXES:

Francana and each of its subsidiaries are required to file income tax returns in the various jurisdictions in which they operate. The provision for income taxes differs from the amount obtained by applying the Canadian corporate income tax rate (approximately 48%) to the earnings before income taxes. The reasons for these net differences are as follows:

	Pro forma		Consolidated	
	1979	1978	**1979**	1978
	(thousands of dollars)			
Earnings before income taxes	**$44,105**	$35,910	**$36,906**	$32,418
Statutory tax rate	**48%**	48%	**48%**	48%
Computed "expected" tax expense	**$21,170**	$17,237	**$17,715**	$15,561
Actual provision for income taxes	**21,538**	18,179	**19,006**	16,946
Difference	**$ (368)**	$ (942)	**$ (1,291)**	$ (1,385)

These differences are attributed to the increase (decrease) in taxes resulting from:

	Pro-forma		Consolidated	
	1979	1978	**1979**	1978
	(thousands of dollars)			
Crown royalties and other payments not deductible	**$6,670**	$5,247	**$2,899**	$2,466
Federal and provincial credits and rebates	**(8,329)**	(6,046)	**(3,141)**	(2,576)

	Pro forma		Consolidated	
	1979	1978	**1979**	1978
	(thousands of dollars)			
Unrealized exchange (gains) losses	**157**	(560)	**87**	(560)
Foreign income taxes at rates in excess of the Canadian corporate income tax rate	**2,298**	2,128	**2,298**	2,128
Net foreign income not subject to income tax	**(940)**	(511)	**(940)**	(511)
Operating losses of a foreign subsidiary	**442**	293	**—**	—
Other	**70**	391	**88**	438
	$ 368	$ 942	**$1,291**	$1,385

As at December 31, 1979 Francana has unclaimed capital cost allowances and exploration and development expenditures amounting to approximately $21,947,000 pro forma ($10,578,000 consolidated) to be applied against future Canadian taxable incomes. In addition, unclaimed earned depletion amounted to approximately $11,617,000 pro forma ($7,622,000 consolidated) which may be claimed against future taxable income at a rate of 25 per cent of production profits.

For United States income tax purposes, at December 31, 1979 a partially-owned subsidiary has foreign tax credits and investment credits available to reduce future taxable incomes in the aggregate amount of approximately U.S. $5,503,000. In addition, on a pro-forma basis, a wholly-owned subsidiary has net operating losses aggregating U.S. $12,312,000 available to reduce future taxable incomes. These net operating losses will expire as follows: 1982 — U.S. $339,000; 1983 — U.S. $3,012,000; 1984 — U.S. $2,508,000; 1985 — U.S. $2,038,000 and 1986 — U.S. $4,415,000. No recognition has been given in these financial statements to the potential tax savings which may result from the above items.

11. BUSINESS SEGMENTS:

Francana and its consolidated subsidiaries are engaged in one dominant industry segment, that being oil and gas exploration, development and production. Pertinent information relative to the geographic distribution of Francana's operations for the years ended December 31, 1979 and 1978 is as follows:

	Pro forma		Consolidated	
	1979	1978	**1979**	1978
	(thousands of dollars)			
GROSS REVENUE:				
Canada	**$ 47,088**	$ 35,338	**$ 19,074**	$ 16,130
United States	**7,986**	6,621	**4,586**	4,506
Indonesia	**43,026**	36,632	**43,026**	36,632
Corporate	**2,091**	1,437	**2,070**	1,378
Other	**1,973**	5	**1,973**	5
	$102,164	$ 80,033	**$ 70,729**	$ 58,651
NET EARNINGS (LOSS) FOR THE YEAR:				
Canada	**$ 8,226**	$ 5,472	**$ 2,637**	$ 2,601
United States*	**(985)**	(205)	**(63)**	407
Indonesia*	**6,633**	6,533	**6,633**	6,533
Corporate*	**1,033**	649	**1,033**	649
Other*	**798**	(490)	**798**	(490)
	$ 15,705	$ 11,959	**$ 11,038**	$ 9,700
IDENTIFIABLE ASSETS:				
Canada	**$104,531**	$ 80,049	**$ 53,242**	$ 38,282
United States	**40,980**	28,595	**23,429**	16,129
Indonesia	**29,245**	31,926	**29,245**	31,926
Corporate	**18,669**	18,970	**18,669**	18,970
Other	**862**	1,390	**862**	1,390
	$194,287	$160,930	**$125,447**	$106,697

*Includes any gain or loss arising from the translation of United States dollars into Canadian dollars.

12. REMUNERATION OF OFFICERS AND DIRECTORS:

The Company has seven directors and seven officers; two of the officers are also directors. The directors, as such, received $30,300 (1978 — $13,200); the officers as such received $311,000 (1978 — $150,000). Other persons who are designated as senior officers under the provisions of the Ontario Securities Act, being the five highest paid employees of the Company, including any officers or directors, received $233,000 (1978 — $196,000).

13. QUARTERLY FINANCIAL DATA (unaudited):

Following is a summary of quarterly financial information for the years 1979 and 1978. The 1978 figures have been restated to reflect the retroactive change in the method of recording deferred income taxes (see Note 2).

	Pro-forma		Consolidated	
	1979	1978	**1979**	1978
	(in thousands, except per share amounts)			
GROSS REVENUE:				
First quarter	**$ 24,103**	$20,853	**$16,566**	$14,748
Second quarter	**19,689**	16,795	**15,537**	13,392
Third quarter	**26,540**	18,942	**18,737**	14,287
Fourth quarter	**31,832**	23,443	**19,889**	16,224
	$102,164	$80,033	**$70,729**	$58,651
NET EARNINGS FOR THE PERIOD:				
First quarter	**$ 4,457**	$ 3,810	**$ 3,411**	$ 2,660
Second quarter	**2,674**	2,387	**2,529**	2,041
Third quarter	**3,803**	3,470	**2,702**	2,551
Fourth quarter	**4,771**	2,292	**2,396**	2,448
	$ 15,705	$11,959	**$11,038**	$ 9,700
NET EARNINGS PER SHARE:				
First quarter	**$ 0.34**	$ 0.29	**$ 0.44**	$ 0.34
Second quarter	**0.21**	0.18	**0.32**	0.26
Third quarter	**0.29**	0.27	**0.35**	0.33
Fourth Quarter	**0.37**	0.18	**0.31**	0.31
	$ 1.21	0.92	**$ 1.42**	$ 1.24

14. SUBSEQUENT EVENTS:

On November 20, 1979 the shareholders of both Francana and Canadian Merrill Ltd. ("Merrill") approved a reorganization agreement (the "Agreement") providing, among other things, that the business of Merrill would be transferred to Francana, that Merrill would be liquidated and that all Merrill shareholders would become shareholders of Francana on the basis of 1.9 shares of Francana for each outstanding share of Merrill.

On November 14, 1979 a legal action was commenced by certain shareholders of Merrill seeking, among other remedies, an injunction restraining completion of the Reorganization on the grounds that it did not comply with the Companies Act of Quebec. On February 19, 1980 the Superior Court of Quebec gave judgement favourable to Merrill dismissing an application by the plaintiffs for an interlocutory injunction restraining completion of the Reorganization pending final adjudication of the issues raised by the plaintiffs in their action.

On February 20, 1980 the business of Merrill was transferred to Merrill Inc., a corporation incorporated for the purpose of the Reorganization, in exchange for shares of Merrill Inc., whereupon Merrill transferred to Francana all of the issued and outstanding shares of Merrill Inc. in return for 5,231,853 shares of Francana which were issued to Merrill, all in accordance with the Agreement.

On March 13, 1980 a shareholder of Francana commenced a legal action against Francana and Merrill seeking, among other remedies, an injunction restraining completion of the Reorganization on the grounds that it had not been carried out in accordance with federal corporation law. At a hearing held on March 19, 1980 the Supreme Court of Alberta gave judgement favourable to Francana and Merrill dismissing an application by the plaintiff for an interlocutory injunction restraining completion of the Reorganization pending final adjudication of the issues raised by the plaintiff.

The Agreement stipulates that Francana shall bear all of the costs in connection with the Reorganization unless the Reorganization is not completed. Accordingly, included in other assets is an amount of $1,600,000 representing the estimated costs incurred in connection with the Reorganization, including $369,000 incurred by Merrill which is shown as a current liability to that company. These costs, net of deferred income taxes of approximately $414,000, will be charged to retained earnings in 1980 in accordance with Canadian generally accepted accounting principles appropriate to a business combination accounted for as a "pooling of interests". Under United States principles this amount would be charged directly to operations.

Included as part of these financial statements are the combined pro forma consolidated financial statements of Francana and Merrill for 1979 and 1978 based upon the "pooling of interests" accounting method.

Auditors' Report

To the Shareholders of
Francana Oil & Gas Ltd.:

We have examined the consolidated statement of financial position of Francana Oil & Gas Ltd. as at December 31, 1979 and the consolidated statements of earnings, retained earnings, 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, 1979, 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, after giving retroactive effect to the change in accounting for income taxes referred to in Note 2.

As explained in Note 14, on February 20, 1980, implementation of a reorganization agreement with Canadian Merrill Ltd. was commenced. Under the reorganization agreement, the operations of the two companies will effectively be combined. We have examined the pro forma consolidated statements of financial position of Francana Oil & Gas Ltd. as at December 31, 1979 and 1978, and the pro forma consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended, which give effect to the reorganization. These pro forma consolidated financial statements have been prepared from the audited consolidated financial statements of Francana Oil & Gas Ltd., mentioned above, and Canadian Merrill Ltd., for which company we are also auditors, and have rendered our unqualified report to the shareholders thereon dated February 20, 1980. In our opinion, these pro forma consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended after giving effect to the reorganization agreement, in accordance with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS
Chartered Accountants
Calgary, Alberta
February 20, 1980
(March 19, 1980 with
respect to Note 14)

Five Year Review

(dollar amounts in thousands except per share amounts)

FINANCIAL (pro forma):

	1979	1978	1977	1976	1975
Revenue:					
Gross production income	$ 98,100	$ 78,591	$ 86,533	$ 70,479	$ 63,104
Interest and other income	4,064	1,442	850	748	362
Gross revenue	102,164	80,033	87,383	71,227	63,466
Crown and overriding royalties paid	17,402	14,063	11,834	8,933	4,693
Net revenue	84,762	65,970	75,549	62,294	58,773
Costs and expenses:					
Production and operating	15,641	12,825	12,466	9,408	6,624
General and administrative	4,274	3,353	2,734	2,345	1,967
Interest	2,712	1,888	1,520	1,518	2,181
Loss (gain) on translation of foreign currency	353	(1,045)	(632)	(369)	—
	22,980	17,021	16,088	12,902	10,772
Funds generated from operations before current income taxes	61,782	48,949	59,461	49,392	48,001
Depletion and depreciation	17,677	13,039	12,050	24,598	15,929
Earnings before income taxes	44,105	35,910	47,411	24,794	32,072
Income taxes	21,538	18,179	28,419	22,511	16,853
Earnings before the following	22,567	17,731	18,992	2,283	15,219
Add (Deduct):					
Minority interest in earnings of subsidiaries	(6,862)	(5,772)	(5,800)	2,628	(4,912)
Other discontinued operations	—	—	—	(243)	(8)
Earnings before extraordinary items	15,705	11,959	13,192	4 ,668	10,299
Extraordinary items — net	—	—	274	(19,797)	520
Net earnings (loss)	$ 15,705	$ 11,959	$ 13,466	$ (15,129)	$ 10,819
Per common share	$ 1.21	$ 0.92	$ 1.13	$ (1.30)	$ 0.93
Weighted average shares outstanding (,000's)	13,024	13,021	11,835	11,615	11,613
After-tax cash flow	$ 45,315	$ 35,388	$ 34,786	$ 30,179	$ 33,881
Per common share	$ 3.48	$ 2.72	$ 2.94	$ 2.60	$ 2.92
Long-term debt	$ 20,412	$ 16,375	$ 15,569	$ 13,914	$ 15,987
Capital expenditures	$ 42,348	$ 27,750	$ 24,351	$ 31,867	$ 37,122
Total capital employed	$170,741	$143,038	$121,693	$ 96,627	$142,335

OPERATING (pro forma):

	1979	1978	1977	1976	1975
Oil and natural gas liquid sales (cubic metres):					
North American	235 442	233 279	223 555	204 558	206 369
Indonesia	318 551	382 655	419 348	405 538	336 492
Total	553 993	615 934	642 903	610 096	542 861
Daily average:					
Cubic metres	1 517	1 687	1 761	1 671	1 487
Barrels	9,551	10,619	11,084	10,490	9,359
Natural gas sales (thousands of cubic metres):					
North America	549 674	440 420	465 722	411 394	346 416
Daily average:					
Thousands of cubic metres	1 506	1 206	1 276	1 124	949
Million cubic feet	53.5	42.8	45.3	39.9	33.7
Wells drilled:					
Gross	232	210	193	175	146
Net	85.4	68.8	59.1	52.5	40.8

FRANCANA OIL & GAS LTD.

(Under the Canadian Business Corporations Act)

DIRECTORS

ROBIN J. ABERCROMBIE †*
Edmonton, Alberta
Senior Vice-President of
The Alberta Gas Trunk Line Company Limited

JEAN DEBRAY
Denver, Colorado
President of Trend Exploration Limited

ADRIAN M. DOULL †
Toronto, Ontario
Senior Vice-President, Finance of
Hudson Bay Mining and Smelting Co., Limited

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Montreal, Quebec
President and Chief Executive Officer
of Crédit Foncier

E. PETER GUSH *
Toronto, Ontario
President and Chief Executive Officer of Hudson
Bay Mining and Smelting Co., Limited

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and General Counsel of Hudson Bay Mining
and Smelting Co., Limited

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Calgary, Alberta
Associate in Milner & Steer

VERNON VAN SANT, JR.
Calgary, Alberta
Chairman of the Board and Chief Executive
Officer of the Company

RICHARD A. WASTENEYS
Calgary, Alberta
President and Chief Operating Officer
of the Company

† Member of Audit Committee
* Member of Compensation Committee

OFFICERS

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Chairman of the Board and
Chief Executive Officer

RICHARD A. WASTENEYS
President and Chief
Operating Officer

NORMAN D. KNOWLES
Senior Vice-President, Operations

EDWARD W. HAYES
Vice-President, Exploration

G. BARRY PADLEY
Vice-President, Finance

WILLIAM C. MILLS
Administrative Vice-President
and Secretary

ALFRED J. WILLIAMS
Administrative Vice-President,
Personnel and Public Relations

JAMES N. WILLIAMS
Treasurer

ALLAN E. DOBSON
Controller

SENIOR PERSONNEL

LUCILLE R. BRIMACOMBE
Manager, Employee Relations

THOMAS W. DICKSON
Manager, Crude Oil Production

BRENT T. KIRKBY
Chief Accountant

JAMES E. McDONALD
Land Manager

WILLARD J. NICKLOM
Gas Plant Superintendent

KENNETH R. STAN
Chief Engineer

LYLE V. VERSTRAETE
Drilling Manager

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Denver, Colorado 80203

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Chairman

JEAN DEBRAY
President and Chief Executive Officer

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Corporate Development

ELWOOD F. HARDMAN
Senior Vice-President, Exploration

DR. JOHN D. HARPER
Vice-President, Geology

DR. JOHN L. REDMOND
Vice-President, Geology

ROBERT P. WYLIE
Vice-President, Engineering

PETER A. LEACH
Manager, Drilling and Production

MARLIN MILES
Controller, Treasurer and Secretary

E. PAUL BACHELLER
Assistant Secretary

LINDA J. WHITAKER
Assistant Secretary

PETROMER TREND DIVISION

of Trend Exploration Limited

JAMES S. WILSON
President, Denver

ROBERT M. LANE
Vice-President and General Manager,
Jakarta

JOHN F. HENRY, JR.
Vice-President, Singapore

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Suite 821, 821 - 17th Street,
Denver, Colorado 80202

WILLIAM L. WARBURTON
Vice-President

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Francana Resources Inc.
incorporated in Colorado

Provident Resources, Inc.
incorporated in Wyoming

Provident Resources Ltd.
incorporated in Alberta

Trend Exploration Limited
incorporated in Colorado

Petromer Trend Division of
Trend Exploration Limited

Trend Holdings Limited
incorporated in British Virgin Islands

Trend International Limited
incorporated in Bermuda

Trend Resources International Limited
incorporated in Bermuda

Trend Resources Limited
incorporated in Colorado

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