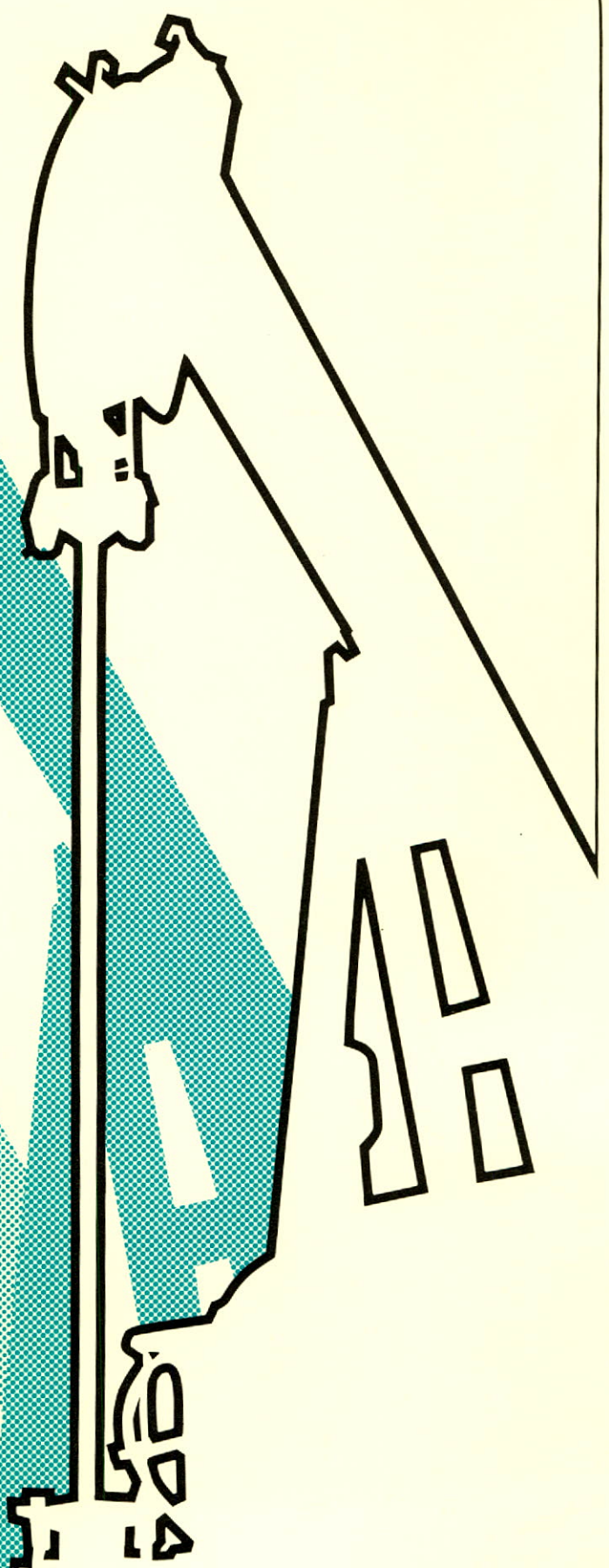


Giant Reef Petroleum Limited

1981 Annual Report

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GIANT REEF PETROLEUMS LIMITED

Incorporated under the laws of The Province of British Columbia.

14th Annual Report YEAR ENDING MARCH 31, 1981

HEAD OFFICE:	1460 - 639 5th Ave. S.W. CALGARY, Alberta, T2P 0M9 Area Code (403) 233-6600
OFFICERS:	P. D. WILLIAMS — <i>President</i> J. A. REILLY — <i>Secretary</i> J. K. TOMS — <i>Treasurer</i>
DIRECTORS:	R. T. VANDERHAM P. D. WILLIAMS D. W. WESTCOTT J. A. REILLY H. M. ARMSTRONG
BANKERS:	BANK of MONTREAL 604 - 8th Avenue S.W. CALGARY, Alberta T2P 1G4
REGISTRAR AND TRANSFER AGENT:	CANADA TRUST CO., 239 - 8th Avenue S.W. CALGARY, Alberta T2P 1B9 901 West Pender St., VANCOUVER, B.C.
AUDITORS:	TOUCHE ROSS & CO. 3500, 700 - 2 St. S.W. CALGARY, Alberta T2P 2W2
STOCK LISTING:	VANCOUVER STOCK EXCHANGE

DEAR SHAREHOLDER:

For the year under review, revenues rose to \$1,415,000 and earnings to \$557,000 or 17¢ per share.

Following are the production statistics:

	1981	1980 10 months	1979
Gross production			
Gas sales (mcf = 1000 cu. ft.)	616,000	700,000	861,000
Liquids (barrels).....	27,000	29,000	41,000
Sulphur (tons).....	4,000	3,000	3,000
Oil (barrels).....	4,000	3,000	3,000

DRILLING ACTIVITY

A well was drilled in the Ferrier area on a turn-key basis. The well was completed in the Cardium Zone, resulting in a marginal gas well. The company retains a sliding scale overriding royalty with an option to convert to a 40% working interest after payment.

The deep plate well at Quirk Creek was found to be non-productive in the deep zone. Plans are to sell the well for completion in the upper zones. Your company has a 5.37% working interest in the Rundle Zone.

In the upcoming year, the company is budgeted to spend \$600,000 on capital expenditures.

SUBMITTED ON BEHALF OF THE BOARD OF DIRECTORS



P. D. WILLIAMS
PRESIDENT

GIANT REEF PETROLEUMS LIMITED

Balance Sheet as at March 31, 1981

Assets

	<u>1981</u>	<u>1980</u> <u>(Note 5)</u>
Current assets		
Cash and short-term deposits	\$ 791,224	\$ 505,994
Accounts receivable	597,275	622,599
	<u>1,388,499</u>	<u>1,128,593</u>
Investments and advances, at cost		
Investments (market value \$19,500; 1980 — \$28,000)	3,236	3,236
Other	2,878	2,878
Advances to associated company	348	—
	<u>6,462</u>	<u>6,114</u>
Property, plant and equipment (Note 2)	4,192,618	3,941,400
Other	2,500	—
	<u>\$5,590,079</u>	<u>\$5,076,107</u>

Liabilities

Current liabilities		
Accounts payable and accrued liabilities	\$ 168,551	\$ 120,747
Drilling deposit	—	600,000
Current portion of long-term debt	191,619	191,619
	<u>360,170</u>	<u>912,366</u>
Due to parent company	104,851	52,048
Long-term debt (Note 3)	383,239	574,858
Deferred revenue	650,266	295,973
Deferred income taxes	1,198,920	906,161
	<u>2,697,446</u>	<u>2,741,406</u>

Shareholders' Equity

Share capital		
Authorized 5,000,000 common shares without nominal or par value Issued		
3,329,802 shares	1,102,647	1,102,647
Retained earnings	1,789,986	1,232,054
	<u>2,892,633</u>	<u>2,334,701</u>
	<u>\$5,590,079</u>	<u>\$5,076,107</u>

On behalf of the Board



, Director



, Director

See accompanying notes.

GIANT REEF PETROLEUMS LIMITED

**Statement of Changes in Financial Position
for the Year ended March 31, 1981**

	Year ended March 31, 1981	Ten months ended March 31, 1980
	<hr/>	<hr/>
		(Note 5)
Source of funds		
From operations		
Net earnings for the period	\$ 557,932	\$ 551,042
Add (deduct) items not requiring current outlay of funds		
Deferred income taxes	292,759	329,517
Depletion and depreciation.....	192,163	173,155
Dry holes and abandonments	154,904	16,197
Gain on sale of assets	(21,072)	(5,506)
Other	—	5,487
	<hr/>	<hr/>
	1,176,686	1,069,892
Increase in deferred revenue	354,293	172,723
Increase (decrease) in advance from parent company	52,803	(44,219)
Proceeds from sale of assets	21,072	—
Proceeds from long-term debt	—	766,477
Decrease in other assets	—	106,076
	<hr/>	<hr/>
	1,604,854	2,070,949
Application of funds		
Advances to affiliated company.....	348	—
Reduction of long-term debt	191,619	191,619
Additions to property, plant and equipment.....	598,285	1,459,964
Increase in other assets	2,500	—
	<hr/>	<hr/>
	792,752	1,651,583
Increase in working capital.....	812,102	419,366
Working capital (deficiency) at beginning of period	216,227	(203,139)
Working capital at end of period	\$1,028,329	\$ 216,227
	<hr/>	<hr/>

See accompanying notes.

GIANT REEF PETROLEUMS LIMITED

**Statement of Earnings and Retained Earnings
for the Year Ended March 31, 1981**

	Year ended March 31, 1981	Ten months ended March 31, 1980
		(Note 5)
Revenues		
Oil and gas production.....	\$1,415,519	\$1,364,373
Operating expenses		
Oil and gas production.....	282,787	218,783
Depletion and depreciation.....	192,163	173,155
Dry holes and abandonments	154,904	16,179
General and administrative.....	45,386	71,064
Loss on drilling agreement	26,387	—
Geological and geophysical	(20,844)	13,442
Lease rentals	8,964	9,994
	689,747	502,617
Earnings from operations	725,772	861,756
Other expenses (revenues)		
Interest on long-term debt	105,343	97,217
Bank interest.....	35,315	72,696
Interest and other income.....	(78,049)	(14,310)
Gain on sale of assets	(21,072)	(5,506)
	41,537	150,097
Earnings before income taxes	684,235	711,659
Provision for income taxes		
Current (recoverable)	(166,456)	(168,900)
Deferred	292,759	329,517
	126,303	160,617
Net earnings for the period.....	557,932	551,042
Retained earnings at beginning of period	1,232,054	681,012
Retained earnings at end of period.....	\$1,789,986	\$1,232,054
Earnings per share	\$0.17	\$0.17

See accompanying notes.

GIANT REEF PETROLEUMS LIMITED

1460 - 639 Fifth Avenue S.W.,
Calgary, Alberta T2P 0M9

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON SEPTEMBER 24, 1981

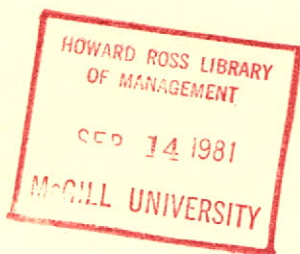
NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of GIANT REEF PETROLEUMS LIMITED (the "Company"), will be held in the Boardroom, 1460 - 639 - 5 Ave. S.W., City of Calgary, Province of Alberta, on the 24th day of September, 1981, at the hour of 10:30 o'clock in the forenoon (Calgary time) for the purposes of:

- A. Receiving report of the directors and the financial statements and auditors' report thereon for the year ended March 31, 1981.
- B. Electing directors for the ensuing year.
- C. Appointing auditors and authorizing the directors to fix their remuneration.
- D. Transacting such other business as may properly be brought before the meeting.

Only Shareholders of record at the close of business on September 4, 1981 will be entitled to notice of and to vote at the meeting. If you cannot attend the meeting, please sign and date the attached proxy form and return it in the enclosed envelope to the Company's Secretary, c/o Canada Trust Company, 239 - 8th Avenue S.W., Calgary, Alberta T2P 1B9. To be valid, instruments of proxy must be received by the Secretary of the Company or his agent Canada Trust Company not later than the close of business on September 23, 1981. The Company's Head Office is situated at 1460 - 639 Fifth Avenue S.W., Calgary, Alberta T2P 0M9. Telephone (403) 233-6600.

DATED at Calgary, Alberta this 31st day of August, 1981.

BY ORDER OF THE BOARD OF DIRECTORS
John A. Reilly
Secretary



GIANT REEF PETROLEUMS LIMITED

INFORMATION CIRCULAR AND PROXY STATEMENT

This Information Circular and Proxy Statement relates to the Annual General Meeting of the Shareholders of GIANT REEF PETROLEUMS LIMITED (the "Company"), called for Thursday, the 24th day of September, 1981 and is FURNISHED IN CONNECTION WITH A SOLICITATION BY MANAGEMENT OF PROXIES FOR USE AT THAT MEETING. THE SOLICITATION WILL BE MADE AND THE COSTS THEREOF WILL BE BORNE BY THE COMPANY. SOLICITATION WILL ONLY BE MADE BY MAIL. It is anticipated that the Proxy Statement and form of proxy will be mailed to said shareholders on or about August 31, 1981.

The Annual Report of directors and financial statements of the Company for the year ended March 31, 1981 accompany this circular. Receipt at the meeting of the report of the directors, the financial statements of the Company for the year ended March 31, 1981 and the auditors' report thereon will not constitute approval or disapproval of any of the matters referred to in such reports and statements.

Unless otherwise indicated all amounts are expressed in Canadian dollars.

PROXY INSTRUMENTS AND VOTING SECURITIES OUTSTANDING

The Board of Directors has fixed September 4, 1981 as the record date for determining shareholders entitled to notice of the meeting. A list of such shareholders will be available for examination at the offices of Canada Trust Company, 239 - 8th Avenue S.W., Calgary, Alberta, during usual business hours after the said record date and will be available at the meeting. Each person named in the list of shareholders is entitled to vote at the meeting the number of shares shown thereon opposite his name except to the extent that he has subsequently transferred ownership thereof. If any transferee establishes his ownership of such shares not later than 10 days before the meeting and requests his name to be substituted in the shareholders' list in respect of such shares, then such transferee will be entitled to vote the transferred shares.

The quorum for the meeting is two persons personally present, being members or representatives of corporate members, and holding or representing by proxy not less than 10% of the outstanding common shares entitled to vote. Each shareholder entitled to vote is entitled to one vote for each common share held.

As of August 31, 1981 there were issued and outstanding 3,329,802 common shares of the Company. The following table sets forth information as of August 31, 1981 with respect to each person known to be the beneficial owner of more than 10% of the common shares of the Company.

Name and Address	Type Ownership	Common Shares Owned	Percentage of Common Shares Owned
Peyto Oils Ltd. 1460 - 639 Fifth Ave. S.W., Calgary, Alberta T2M 0M9	Beneficially and of Record	2,745,351	82.45%

APPOINTMENT, REVOCATION AND VOTING OF PROXIES

A form of proxy is attached to the Notice of the Annual General Meeting which accompanies this Information Circular and Proxy Statement. Instruments of proxy, to be valid, must be received by the Secretary of the Company or his Agent, Canada Trust Company, 239 - 8th Avenue S.W., Calgary, Alberta T2P 1B9, not later than the close of business on September 23, 1981. If the shareholder is a corporation, the instrument of proxy shall be executed under the common seal of such corporation or the hand of an officer or attorney duly authorized in writing by such corporation, in which case the authority or a notarial copy thereof shall be deposited with the instrument of proxy. Any person or company giving proxy will have the power to revoke such proxy by notice in writing delivered to the Secretary of the Company at any time before the meeting or to the Chairman at the meeting.

All shares represented by properly executed unrevoked proxies solicited hereby which are received by the Secretary prior to the close of business on September 23, 1981 will be voted and, if a choice is stated with respect to any matter to be acted upon, will be voted in accordance with that specification. If no such choice is specified, such shares will be voted for the election of directors and the appointment of auditors.

A PROXY IN FAVOUR OF THE PERSONS DESIGNATED BY MANAGEMENT OF THE COMPANY WILL CONFER DISCRETIONARY AUTHORITY ON THE PERSONS APPOINTED WITH RESPECT TO:

(a) amendments or variations to matters identified in the said notice of meeting.

OR

(b) other matters which may properly come before the meeting.

MANAGEMENT OF THE COMPANY IS NOT AWARE OF ANY SUCH AMENDMENTS, VARIATIONS OR OTHER MATTERS TO BE PRESENTED FOR ACTION AT THE MEETING.

THE PERSON OR COMPANY SUBMITTING THE PROXY SHALL HAVE THE RIGHT TO APPOINT A PERSON TO REPRESENT HIM OR IT AT THE MEETING OTHER THAN THE PERSON OR PERSONS DESIGNATED IN THE FORM OF PROXY FURNISHED BY THE COMPANY. SUCH APPOINTMENT MAY BE EXERCISED BY MERELY INSERTING THE NAME OF THE APPOINTED REPRESENTATIVE IN THE BLANK SPACE PROVIDED.

ELECTION OF DIRECTORS

At the Annual General Meeting it is proposed that five directors be elected until the next annual general meeting or until their successors are elected or appointed. There are presently five directors of the Company.

If one or more of the following nominees shall be unable to serve, the shares represented by the proxies will be voted for such other nominees and for any substitute nominee or nominees as shall be designated by Management. Management of the Company presently has no knowledge that any of the following nominees will be unable to serve as a director.

The following table sets forth certain information with respect to each of the five nominees for director, all of whom are incumbent directors.

Name	Year when First Elected as a Director	Common Shares Owned	Position	Principal Occupation
P. David Williams	1980	100	President and Director	President of Westburne Petroleum & Minerals Ltd. Calgary, Alberta
R. T. M. Vanderham	1970	100	Director	President of Vanderham Oil Properties Ltd. Calgary, Alberta
John A. Reilly	1980	100	Secretary and Director	Secretary of Westburne International Industries Ltd. Calgary, Alberta
Druval W. Westcott	1980	100	Director	President of United Westburne Industries Limited Vancouver, B.C.
H. Murray Armstrong	1975	48,000	Director	President of Associated Corrosion Consultants Ltd. Calgary, Alberta

NOTE 1.

Management does not contemplate that any of the nominees will be unable to serve as Directors. However, if for any reason any of the proposed nominees do not stand for election or are unable to serve as such, the management nominees, if named as proxy, reserve the right to vote for any other nominee in their sole discretion. The information relating to the nominees as Directors is based on information received by the Company from said nominees.

REMUNERATION OF DIRECTORS AND OFFICERS

No direct remuneration has been paid by the Company to any of the Directors or Senior Officers of the Company.

Reference is made to the heading "Management Contract" of this Information Circular for particulars of payments made to Peyto Oils Ltd.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Company's entire exploration, production and financial management is carried out by Peyto Oils Ltd., the owner of 82% of the shares of the Company. The cost of this management, as reviewed by your Board of Directors, is equitably related to the level of activity of the Company versus that of its parent and amounted to \$26,000 for the year ended March 31, 1981.

Interest of Management and Others in Material transactions

Other than as set forth in the Information Circular, the management of the Company is not aware of any material interest, direct or indirect, of any Director or Senior Officers of the Company, and proposed nominee for election as Director of the Company, or any associates or affiliate of any such person in any transaction which was commenced under the last completed fiscal year of the Company or of any proposed transaction which in either case is materially affected or will materially affect the Company or any of its subsidiaries, other than as set forth in this present Information Circular.

APPOINTMENT OF AUDITORS

Management has been advised that it is the intention of Peyto Oils Ltd. to nominate Touche Ross & Co. as auditors of the Company for the ensuing year. Unless such authority is withheld, the persons named in the accompanying form of proxy will vote in favour of the appointment of Touche Ross & Co.

OTHER BUSINESS

Management is not aware of any matters to be brought before the meeting other than those set forth in the notice therefore. If other matters are properly brought before the meeting it is the intention of the persons named in the enclosed proxy to vote the proxy on such matters in accordance with their best judgment.

APPROVAL

The contents of this Information Circular together with the sending thereof to all Shareholders has been approved by the directors of the Company.

IT IS THE INTENTION OF THE MANAGEMENT NOMINEES, IF NAMED AS PROXY, TO VOTE FOR APPROVAL OF ALL OF THE FOREGOING.

DATED at the City of Calgary in the Province of Alberta, this 31st day of August A.D. 1981.

BY ORDER OF THE BOARD
JOHN A. REILLY
Secretary

GIANT REEF PETROLEUMS LIMITED

Auditors' Report

The Shareholders
Giant Reef Petroleum Limited

We have examined the balance sheet of Giant Reef Petroleum Limited as at March 31, 1981 and the statements of earnings and 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 financial statements present fairly the financial position of the Company as at March 31, 1981 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 period.

Calgary, Alberta
June 8, 1981

Touche Ross & Co.
Chartered Accountants

Notes to the Financial Statements March 31, 1981

1. Summary of Significant Accounting Policies

(a) Petroleum and natural gas properties

The Company follows the successful efforts method of accounting for costs of oil and gas properties. The costs of drilling and equipping successful wells are capitalized. Lease acquisition costs are capitalized and are subsequently expensed in the year of disposal, abandonment or surrender. All other exploration costs, including lease carrying costs, geological and geophysical costs and drilling costs of unsuccessful wells are expensed. Costs pertaining to producing properties are depleted on the unit-of-production method based on proven reserves as calculated by independent engineers.

Lease and well equipment is being depreciated on the unit-of-production method. The gas plant is being depreciated on the straight-line basis using a rate of 5% per annum.

Expenditures on maintenance and repairs are charged to operations as incurred, while expenditures on renewals and betterments are capitalized.

Upon the sale or retirement of properties and improvements, the cost and accumulated depletion and depreciation are removed from the respective accounts and any gain or loss is included in earnings.

b) Deferred revenue

Payments received for undelivered gas are deferred and are taken into income when deliveries are made or the make-up period expires.

c) Income taxes

The Company follows the tax allocation method of accounting for income taxes whereby deferred taxes are provided to the extent that current taxes have been reduced by claiming capital cost allowances and exploration, development and lease acquisition costs in excess of the related depreciation and depletion provided in the financial statements. Investment tax credits are deducted from income tax expense.

d) Joint ventures

The majority of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

GIANT REEF PETROLEUMS LIMITED

2. Property, plant and equipment

	March 31, 1981	March 31, 1980
Developed oil and gas properties	\$2,819,964	\$2,917,467
Equipment	421,795	326,598
Gas plant	1,281,857	1,198,767
Undeveloped oil and gas properties	744,184	381,587
	5,267,800	4,824,419
Accumulated depletion and depreciation	1,075,182	883,019
	\$4,192,618	\$3,941,400

3. Long-term debt

	March 31, 1981	March 31, 1980
Agreement for sale payable in four annual installments commencing September 1980 of \$191,619 with interest at bank prime rate plus 1%. The annual payments are secured by letters of credit issued by the Company's bankers. A standby charge of 1% per annum is charged on the letters of credit	\$ 574,858	\$ 766,477
Less amount due within one year	191,619	191,619
	\$ 383,239	\$ 574,858

4. Related party transactions

The Company has been charged by its parent company, Peyto Oils Ltd., for administrative services rendered in the amount of \$26,000 (1980 — \$52,000).

5. Comparative figures

Certain of the comparative figures have been restated in order to conform with the current year's financial statement presentation.