

**Giant Reef
Petroleums Limited**

1984 ANNUAL REPORT

Highlights

A. Land holdings at March 31, 1984

	1984		1983	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta	60,644	7,953	55,644	7,129
British Columbia	3,337	641	3,337	641
Saskatchewan	10,369	1,821	10,369	1,860
TOTAL	<u>74,350</u>	<u>10,415</u>	<u>69,350</u>	<u>9,630</u>

B. Production and sales at March 31, 1984

	Gross before Royalties	Net after Royalties
Crude oil & liquids — bbls.	49,399	35,078
Natural gas — mcf	491,116	342,082
Sulphur — tonnes	1,284	990

C. Net proven and probable reserves as determined by independent reservoir engineers at March 31, 1984

	Crude Oil and Natural Gas Liquids (Barrels)	Natural Gas (Millions of Cubic Feet)
Proven	401,500	7,278,000
Probable	221,300	1,990,000
Total Proven and Probable	<u>622,800</u>	<u>9,268,000</u>

D. Future net revenue and present value of proven and probable reserves as determined by independent reservoir engineers at March 31, 1984

Future net revenues	<u>\$62,981,000</u>
Present worth discounted @ 12%	<u>\$18,268,000</u>
Present worth discounted @ 18%	<u>\$12,561,000</u>

Report to the Shareholders

Giant Reef Petroleums Limited continued to solidify its revenue base through successful exploration and development programs in Western Canada during fiscal 1984.

Revenues were \$2,175,000 for the year ended March 31, 1984, compared with \$1,857,000 last year; earnings were \$1,040,000 compared with \$1,172,000 and earnings per common share were \$0.31 compared with \$0.35. Cash flow for the current year was \$1,488,000 compared with \$1,757,000 last year while working capital increased to \$2,506,000 from \$2,051,000.

Giant Reef participated in 24 oil wells, one gas well, and four dry holes (two wells were in progress at year end) for a success ratio of 86 percent in fiscal 1984. Exploration was centered on oil prospects at existing land holdings in the Lochend and Ferguson Lake areas of Alberta and at Coleville, Saskatchewan.

In the coming year, the company will participate in a projected 25 wells concentrating on oil prone prospects to further explore and develop its oil and gas properties. Our strong financial position and the expectation of increased revenues and earnings will enable us to finance these programs from funds generated by our present operations.

In 1982, Giant Reef commenced the payment of dividends to common shareholders. Dividends will be continued in fiscal 1985 and the quarterly dividend is presently set at \$0.05 per common share.

ON BEHALF OF THE BOARD



Jack Scrymgeour
President
August 10, 1984

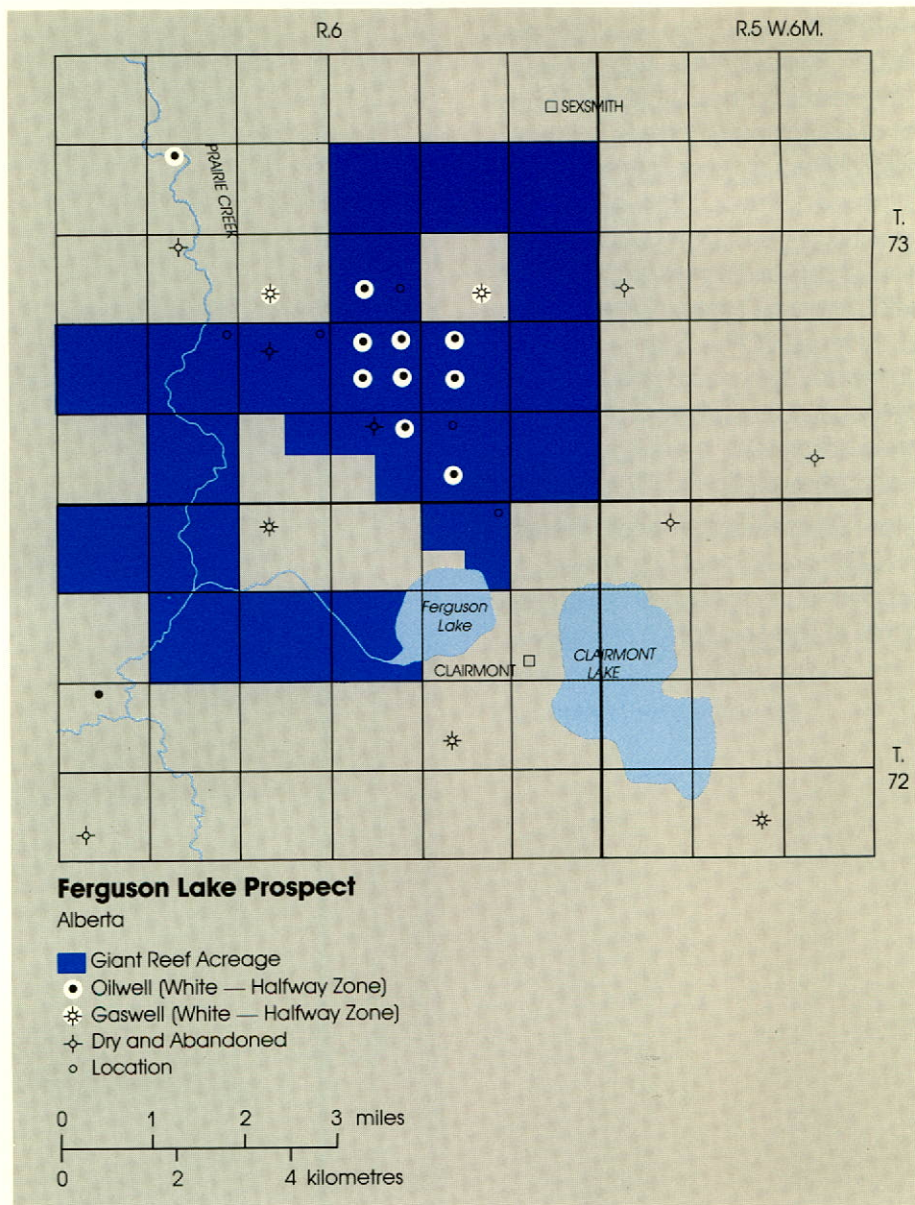
Exploration and Development

Giant Reef's exploration and development budget for fiscal 1985 of approximately \$1.2 million has been targeted for oil prone prospects having ready market access:

Alberta

Ferguson Lake

The company's net interest in 14,720 acres in this area ranges from 4.23 to 6.25 percent. To date, nine oilwells have been completed with average production for the month of February at 55 barrels of oil per day (BOPD) and 140,000 barrels of oil cumulative to the end of February. Drilling activity will be continued in this field with four wells budgeted for fiscal 1985.



Production

Approximately 60 percent of Giant Reef's net revenue for fiscal 1984 was contributed from the sale of natural gas. However, only 60 percent of our daily allowable gas production was sold due to poor market conditions.

Increased oil production at Ferguson Lake and Lochend, Alberta and at Coleville, Saskatchewan contributed significantly to cash flow. In the year, 25 oil wells were completed and had been placed on production. With

our increasing emphasis on oil exploration and development, it is anticipated that 68 percent of cash flow in fiscal 1985 will be generated from the sale of crude oil.

Five Year Selected Data

Fiscal year end	1984	1983	1982	1981	1980
Thousands of dollars except per share data		(Restated)			(10 mos.)
Net operating revenue . . .	\$2,175	\$1,856	\$1,486	\$1,415	\$1,384
Net earnings	1,040	1,172	816	558	551
Shares outstanding		3,329,802			
Earnings per common share	0.31	0.35	0.25	0.17	0.17
Cash flow from operations	1,488	1,757	1,218	1,177	1,070
Cash flow per common share	0.45	0.53	0.37	0.35	0.32
Working capital	2,506	2,051	1,720	1,028	216
Dividends	0.17	0.12	.06	—	—

Drilling Participation

	Alberta	Saskatchewan	Total
For the Twelve Month Period Ending March 31, 1984			
Gross Wells	16	13	29
Net Wells	1.56	1.53	3.09
Gross Producers	13	12	25
Net Producers	1.03	1.13	2.16
Wells Dry and Abandoned . .	3	1	4
Drilling	2	—	2
SUCCESS RATIO:	81%	92%	86%

Balance Sheet

As At March 31, 1984

ASSETS

	<u>1984</u>	1983 (Restated Note 5)
Current assets		
Cash and short-term deposits	\$2,071,945	\$1,944,716
Accounts receivable (Note 2)	922,351	911,302
Income taxes recoverable	106,320	195,418
Prepaid expenses	5,899	2,500
	<u>3,106,515</u>	<u>3,053,936</u>
Investments and advances, at cost		
Investments (market value \$4,600; 1983 — \$7,786)	3,236	3,236
Other	6	2,878
	<u>3,242</u>	<u>6,114</u>
Property, plant and equipment, net (Note 3)	<u>5,838,303</u>	<u>5,343,377</u>
	<u>\$8,948,060</u>	<u>\$8,403,427</u>

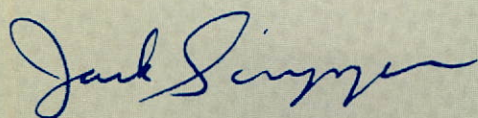
LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	\$ 279,268	\$ 139,781
Income taxes payable	250,687	46,780
Due to parent company	70,126	816,242
	<u>600,081</u>	<u>1,002,803</u>
Deferred revenue	1,914,087	1,573,541
Deferred income taxes	1,526,546	1,393,723
	<u>4,040,714</u>	<u>3,970,067</u>

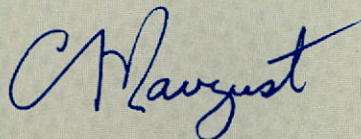
SHAREHOLDERS' EQUITY

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	3,804,699	3,330,713
	<u>4,907,346</u>	<u>4,433,360</u>
	<u>\$8,948,060</u>	<u>\$8,403,427</u>

On behalf of the Board



Director



Director

Statement of Earnings and Retained Earnings

For The Year Ended March 31, 1984

	1984	1983
		(Restated Note 5)
Revenues		
Oil and gas production	\$2,175,168	\$1,856,981
Operating expenses		
Oil and gas production	613,479	425,186
General and administrative	129,254	117,346
Lease rentals	12,233	7,503
Depletion, depreciation and amortization	315,181	317,569
	1,070,147	867,604
Earnings from operations	1,105,021	989,377
Other revenue (expenses)		
Interest and other income	177,901	224,254
Interest and bank charges	(40,066)	(35,070)
Interest on long-term debt	—	(29,481)
	137,835	159,703
Earnings before income taxes	1,242,856	1,149,080
Provision for (recovery of) income taxes (Note 4)		
Current	69,980	(290,589)
Deferred	132,824	267,542
	202,804	(23,047)
Net earnings for the year	1,040,052	1,172,127
Retained earnings at beginning of year, as previously reported	3,171,617	2,406,907
Adjustment for converting from successful efforts to full cost (Note 5)	159,096	151,255
As restated	3,330,713	2,558,162
Less dividends	(566,066)	(399,576)
Retained earnings at end of year	\$3,804,699	\$3,330,713
Earnings per common share	<u>\$0.31</u>	<u>\$0.35</u>

Statement of Changes in Financial Position

For The Year Ended March 31, 1984

	1984	1983
		(Restated Note 5)
Source of funds		
From operations		
Net earnings for the year	\$1,040,052	\$1,172,127
Add items not requiring current outlay of funds		
Deferred income taxes	132,824	267,542
Depletion, depreciation and amortization	315,181	317,569
	1,488,057	1,757,238
Increase in deferred revenue	340,546	658,973
Petroleum Incentives Program grants	303,763	239,212
Proceeds on sale of assets	152,908	—
Reclassification of drilling deposit	—	2,500
	2,285,274	2,657,923
Application of funds		
Additions to property, plant and equipment	1,263,907	1,699,270
Dividends	566,066	399,576
Repayment of long-term debt	—	191,620
Repayment of advance from parent company	—	36,399
	1,829,973	2,326,865
Increase in working capital	455,301	331,058
Working capital at beginning of year	2,051,133	1,720,075
Working capital at end of year	\$2,506,434	\$2,051,133

Auditors' Report

The Shareholders Giant Reef Petroleums Limited

We have examined the balance sheet of Giant Reef Petroleums Limited as at March 31, 1984 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, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for oil and gas activities as disclosed in Note 1(b), on a basis consistent with that of the preceding year.

Calgary, Alberta
May 22, 1984

Touche Ross & Co.
Chartered Accountants

Notes to the Financial Statements

March 31, 1984

1. Summary of Significant Accounting Policies

a) Parent company

82% of the Company's shares are owned by Westburne Petroleum and Minerals Ltd., a wholly-owned subsidiary of Westburne International Industries Ltd.

b) Petroleum and natural gas properties

Effective for the year ended March 31, 1984, the Company implemented retroactively a change to the full cost method of accounting for costs of oil and gas properties, on a country-by-country basis. All costs relating to the exploration for and development of oil and gas reserves including related administrative costs, are capitalized. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

Grants receivable under Provincial and Federal Petroleum Incentive Programs are recorded in the accounts at the time qualifying expenditures are applied for. The full cost pool is reduced by the amount of the grants.

Depreciation of production equipment and the gas plant and depletion of oil and gas properties have been provided on a unit of production method based on estimated proven recoverable reserves as calculated by independent engineers.

The retroactive change in accounting for oil and gas activities has no effect on assets, earnings and retained earnings prior to April 1, 1981. (See Note 5 for the adjustments to prior years).

c) Deferred revenue

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

d) Income taxes

The Company follows the tax allocation method of accounting for income taxes. Provincial Government royalty refunds and tax credits have been taken into account in calculating the current year's income tax provision.

e) 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.

2. Petroleum Incentives Program

Under government legislation, the Company is eligible to apply for grants based on qualifying oil and gas expenditures. Included in accounts receivable is \$388,341 (1983 — \$239,212) with respect to grants for which application has been made.

3. Property, Plant and Equipment

	1984	1983
		(Restated Note 5)
Property, plant and equipment, at cost		
Oil and gas leases and development expenditures	\$5,333,786	\$4,836,271
Gas plant	1,308,726	1,295,510
Equipment	1,151,558	855,054
	7,794,070	6,986,835
Accumulated depletion and depreciation	1,955,767	1,643,458
Net book value	\$5,838,303	\$5,343,377

4. Alberta Royalty Tax Credit

Current income taxes have been reduced by \$411,371 (1983 — \$584,423) as a result of the Alberta Royalty Tax Credit.

5. Change in Accounting Policy

The change in accounting policy in respect of oil and gas activities to the full cost country-by-country method from successful efforts required a restatement of oil and gas assets and earnings for the year ended March 31, 1983. The following table sets forth the effect of the changes on fixed assets, deferred income taxes and earnings as reported in prior years:

	March 31, 1983	Prior years	Total
Increase in oil and gas leases and development expenditures	\$ 30,592	\$273,478	\$304,070
Increase in accumulated depletion	(18,226)	(33,021)	(51,247)
Increase in deferred income taxes thereon	(4,525)	(89,202)	(93,727)
Increase in net earnings from those previously reported	<u>\$ 7,841</u>	<u>\$151,255</u>	<u>\$159,096</u>

If the previous policy had continued to be followed, net earnings for the year ended March 31, 1984 would have decreased by \$115,549.

6. Related Party Transactions

The majority of the Company's recent activities are being conducted jointly with its parent which administers the affairs of the Company.

The Company has been charged \$60,000 (1983 — \$55,977) by its parent for administrative services.

Payments of \$1,306,833 have been made to the parent company for the Company's proportionate cost for the purchase and development of lands in which the Company has an interest.

Land acquisition	\$ 26,416
Geological and seismic	48,662
Drilling and completion costs	926,891
Tangible equipment	304,864
	<u>\$ 1,306,833</u>

Payments of \$152,908 have been received from the parent company for the Company's proportionate share of proceeds received on the sale of a portion of their interest in certain properties.

The Company earned net revenue of \$759,114 on properties operated jointly with its parent.

7. Dominant Industry

The Company has substantially all of its operations in the petroleum and natural gas industry within Canada. The majority of the Company's revenues are derived from oil and gas sales.

8. Subsequent Event

In connection with the recent continuation of the Company from British Columbia to Alberta, the Company has offered to acquire from shareholders who filed Notices of Dissent, 60,450 shares of the company at a price of \$4.15 per share, plus accrued interest calculated from September 9, 1983 to June 15, 1984.

Corporate Information

Head Office:

200, 535 7th Ave. S.W.
CALGARY, Alberta, T2P 0Y4
Area Code (403) 233-6600

Officers:

P. D. WILLIAMS — *Chairman*
J. SCRYMGEOUR — *President*
D. B. MUIR — *Secretary*
J. K. TOMS — *Controller*
C. J. GALLIVAN — *Treasurer*

Directors:

P. D. WILLIAMS
J. SCRYMGEOUR
D. W. WESTCOTT
C. A. RAUGUST
H. M. ARMSTRONG
N. McDUFFIE

Bankers:

BANK of MONTREAL
604 - 8th Avenue S.W.
CALGARY, Alberta, T2P 1G4

**Registrar and
Transfer Agent:**

CANADA TRUST CO.,
505 - 3rd Street S.W.
CALGARY, Alberta, T2P 3E6
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

Giant Reef Petroleums Limited

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