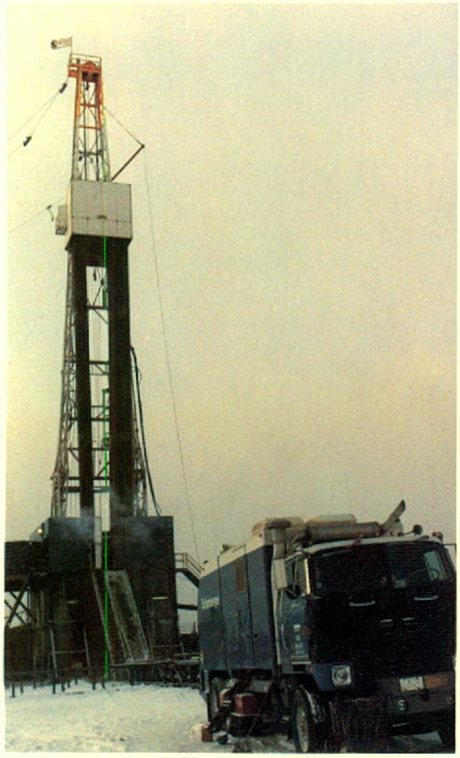
CZAR RESOURCES LTD.

1980 Annual Report

Our New Corporate Identity

The first letter of the Company name has been used in a linked fashion to show the interwoven nature of the disciplines of the oil and gas industry and the close working relationship of the Company's people in their various locations. The crown symbolizes the strength required to bring these aspects together to form a dynamic company.

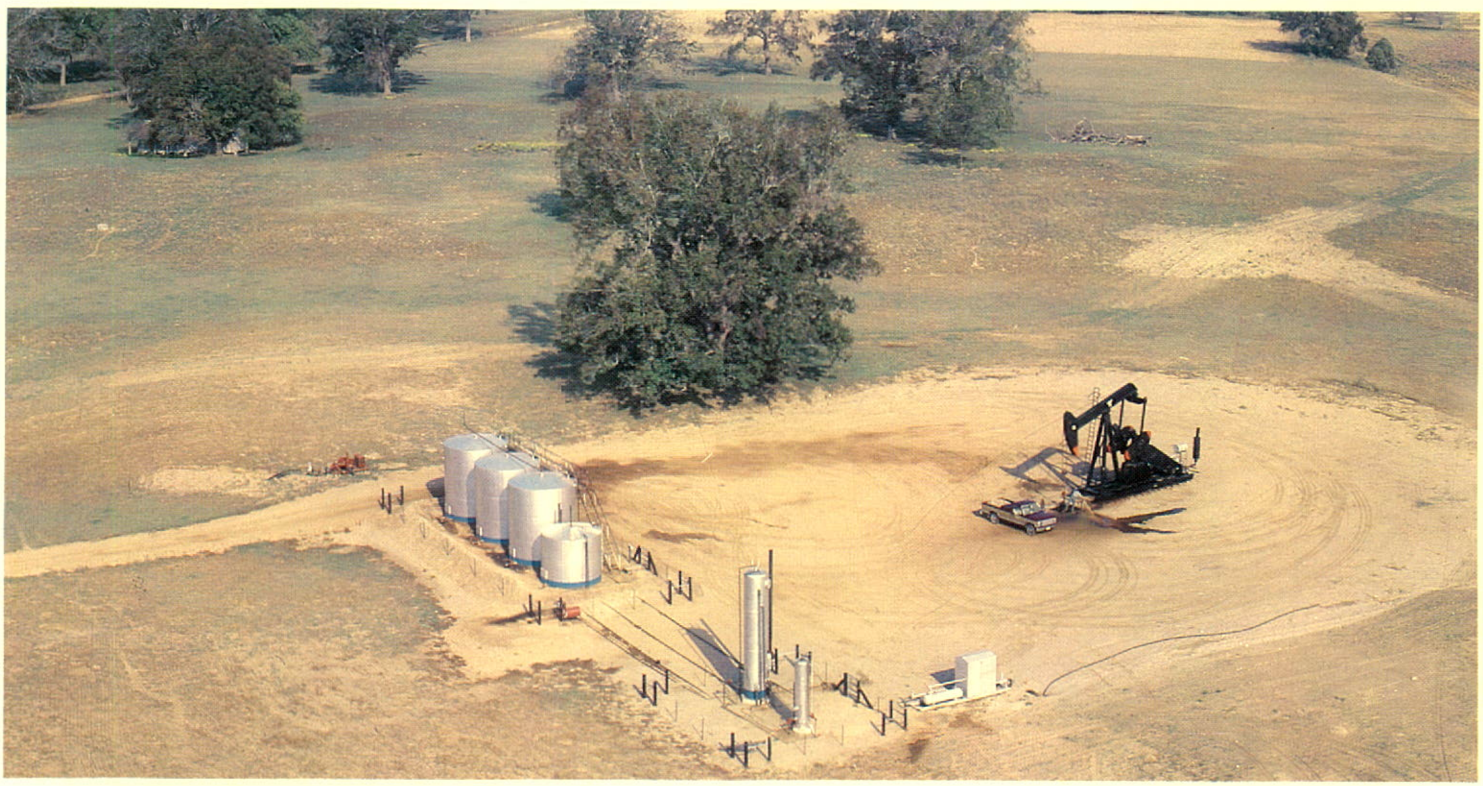
Electric Log operations, Czar et al Boucher
6-2-82-23-W6M N.E., B.C.



CENTRE
Drillstem testing at Czar Summit Manito
13-3-42-20-W4M central Alberta

RIGHT
Reception Area, Czar Resources, Inc.
Houston, Texas

BOTTOM
Production facilities for Austin Chalk oil,
Johnson #1, Fayette County, Texas



Corporate Information

Board of Directors

Robert W. Lamond
Calgary, Alberta

Ian B. McMurtrie
Calgary, Alberta

Christopher J. C. Bill
Toronto, Ontario

Les J. Broker
Houston, Texas

Officers

Robert W. Lamond
Chairman of the Board
& Chief Executive Officer

Ian B. McMurtrie
President and
Chief Operating
Officer

Les J. Broker
Vice-President

Phillip K. Swyden
Vice-President
Czar Resources, Inc.

Bonita O. Rawlyck
Treasurer

Allan R. Twa
Corporate Secretary

Charles E. Humphry Jr.
Assistant-Secretary
Czar Resources, Inc.

Corporate Office

10th Floor, 333-5th Avenue
South West
Calgary, Alberta T2P 3B6

U.S. Office

333 North Belt, Suite 400
Houston, Texas 77060

Division and Field Offices

Houston
333 North Belt, Suite 500
Houston, Texas, 77060

Denver
1675 Broadway, Suite 1310
Dome Tower
Denver, Colorado 80202

Tulsa
124 East 4th Street
Tulsa, Oklahoma 74101

Fort St. John
P.O. Box 6718
Fort St. John,
British Columbia V1J 4J2

Gonzales
P.O. Box 832
Gonzales, Texas 78629

Legal Counsel

Burnet, Duckworth & Palmer
800, Royal Bank Building
335 - 8th Avenue South West
Calgary, Alberta

Foreman and Dyess
Suite 4300
First International Plaza
Houston, Texas 77002

Auditors

Thorne Riddell & Co.
1400, Bow Valley Square 2
205 - 5th Avenue South West
Calgary, Alberta

Registrar & Transfer Agents

The Canada Trust Company
505 - 3rd St. S.W.
Calgary, Alberta

Wholly-Owned Subsidiaries

Czar Resources, Inc.
Czar Developments Ltd.

Stock Listing

The Toronto Stock Exchange
234 Bay Street
Toronto, Ontario

The Alberta Stock Exchange
201, 500 - 4th Avenue South West
Calgary, Alberta

Trading Symbol - CZR

ANNUAL MEETING

The Annual Meeting of Shareholders of Czar Resources Ltd. will be held at 2:30 p.m., Friday March 20, 1981, in the BelAir Room of the Calgary Inn
4th Ave. and 3rd St. S.W.
Calgary, Alberta

CZAR RESOURCES LTD.

Highlights of 1980

Financial	**1980**	**1979**	**1978**
Revenue	$ 8,884,779	$ 4,722,186	$ 3,428,017
Cash flow	$ 4,110,169	$ 3,328,013	$ 2,626,404
Cash flow per share	$ .46	$ .43	$ .37
Net Earnings	$ 1,034,573	$ 1,454,864	$ 1,533,155
Earnings per share	$ .10	$ .16	$ .22
Total Assets	$109,224,315	$38,006,709	$23,223,401
Shares Issued			
—Common	9,613,553	7,224,470	7,122,600
—First Preference	—	318,000	—
Reserves			
Gas (Bcf)	221.4	183.2	123.6
Oil (Bbls.)	3,082,000	1,847,600	1,500,000
Production			
Gas (Bcf/year)	3.87	3.55	2.06
(MMcf/day)	10.61	9.72	5.69
Oil (Bbls/year)	189,243	80,807	69,679
(Bbls/day)	518	221	191
Drilling Activity			
Gas Completions	66	74	40
Oil Completions	49	23	17
Dry and Abandoned	55	14	36
Total Wells	170	111	93
Undeveloped Land Holdings			
(Gross Acres)			
Alberta	512,069	269,844	243,094
British Columbia	377,105	141,282	133,893
United States	83,732	48,109	31,152
Total Acreage	972,906	459,235	408,139

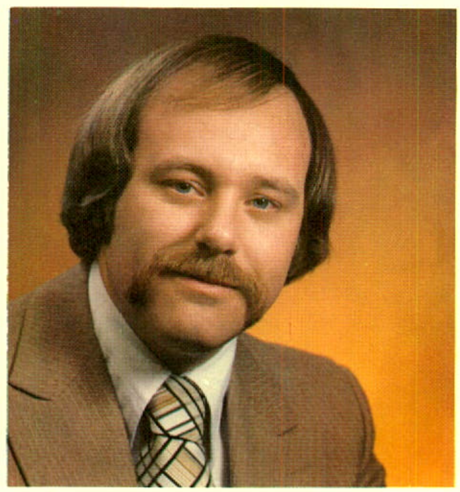
To the Shareholders

On behalf of the Board of Directors, we are pleased to report on the progress of the Company during the fiscal year ended October 31, 1980. The Company's proven and probable reserves of oil and natural gas were, respectively, 67% and 21% higher than as at October 31, 1979. Discounted at 15%, the estimated net reserves of the Company have increased 41% since the previous fiscal year end.

The Company continued its aggressive exploration program in Western Canada and signed a major gas sales contract with Consolidated Gathering Systems Limited which will substantially reduce the Company's shut-in gas situation and improve cash flow. In the United States, successful drilling results were obtained in Texas and Louisiana and exploration efforts expanded to include New Mexico, Oklahoma, Kansas and Montana. To manage operations in these areas and continue an orderly growth pattern, new division offices were opened in Denver, Colorado and Tulsa, Oklahoma.

For the year ended October 31, 1980, gross revenues totalled $8,884,779, an increase of 88% over gross revenues for fiscal 1979. Production derived revenue increased 125% from $3.0 MM in 1979 to $6.7 MM in 1980. Earnings per share fell to $.10 per share during 1980 due primarily to the substantially increased interest rates associated with bank borrowings. Cash flow per share increased from $.43 in 1979 to $.46 in fiscal 1980.

Robert W. Lamond
Chairman of the Board
and Chief Executive Officer



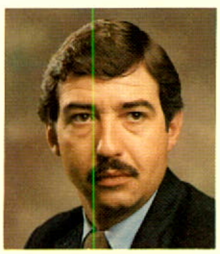
Ian B. McMurtrie
President
and Chief Operating Officer

In March 1980, $24 MM was raised through the sale of 1,500,000 common shares. This amount was used to reduce the Company's bank indebtedness. New lines of bank credit were established, which at year end were $45 MM in Canada and $4 MM (U.S.) in the United States.

In order to capitalize on the confidential information obtained by the Company, a draw down of the lines of credit was used to finance substantial land acquisitions as well as pay the Company's share of successful exploration drilling in key play areas in northeast British Columbia and central and southern Alberta. In addition, funds were allocated to production facilities in Alberta in anticipation of export gas sales from the Medicine River field and for construction of the facilities necessary for deliveries under the contract with Consolidated Gathering Systems Limited. With successful rapid expansion in the United States and considering the political overtones current in Canada with regard to the oil and gas industry, $13.2 MM of corporate funds were allocated to land acquisition and drilling in the United States during 1980.

In fiscal 1980, Czar continued the eighth drilling program agreement with its West German fund raising partner. Approximately $15 MM was raised through this program primarily to participate in development opportunities resulting from previous drilling activities of earlier West German partnerships. The Company also continued to participate in two joint ventures with its Canadian fund raising partner. The first program was a public offering of limited partnership units through which Czar raised over $28 MM for exploration and development; the second program was the continuation of a partnership with a major Canadian financial institution. In the United States, the Company acted as operator for its second U.S. limited partnership, a $5 MM (U.S.) private placement.

To supplement the Canadian and American raised finances, European capital was attracted to Czar by structuring a drilling fund in the form of a corporation so as to provide share trading liquidity for the investors. Participants purchased shares in a new company controlled by a Canadian management group which entered into joint ventures with Czar Resources Ltd. This type of financing has raised over $30 MM for the Company's North American operations. The

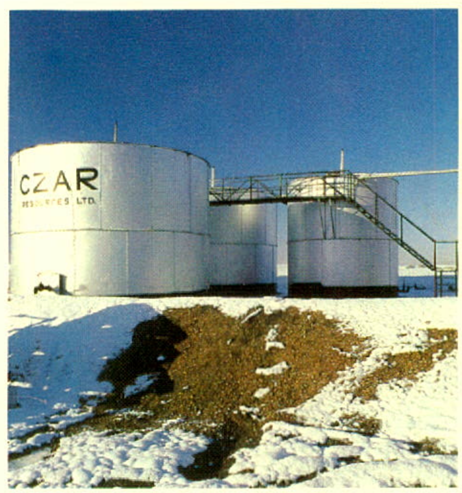


Les J. Broker
Vice-President
Czar Resources Ltd.

Phillip K. Swyden
Vice-President
Czar Resources, Inc.

Bonita O. Rawlyck
Treasurer
Czar Resources Ltd.

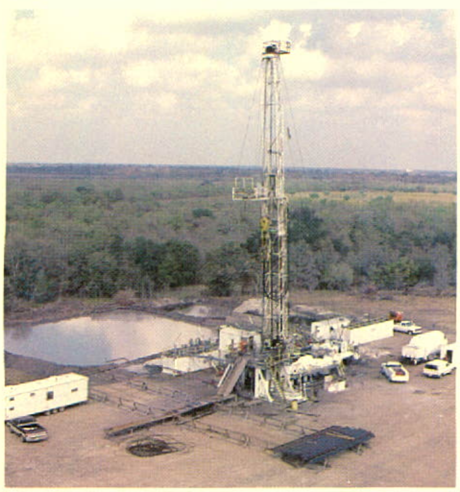
Gas flare from completion of Czar et al Parkland 7-11-15-27-W4M



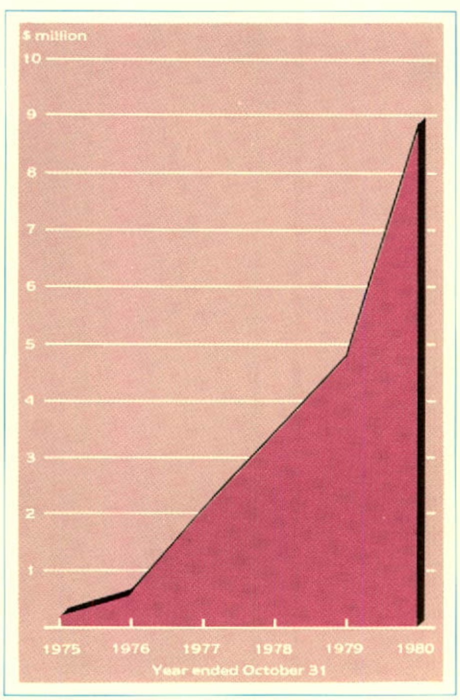
Oilwell battery, N. Twining, central Alberta concept is currently being used in the new Canadian fund raising program for 1981-82. Canadian investors will be able to continue to take advantage of the tax incentives provided in the Tax Act as well as have the additional benefit of liquidity.

During 1980, Czar and its drilling fund partners invested approximately $39 MM on exploration in Canada and an additional $16.5 MM (U.S.) in the United States. The Company participated in 170 wells of which 115 were cased as potentially hydrocarbon bearing. On average during fiscal 1980, Czar Resources Ltd. operated twelve drilling rigs in Canada as well as three in the United States. As in the past, the drilling program consisted of a wide range of exploratory, step-out and development wells. As stated in the 1979 annual report, with growth aimed at developing major hydrocarbon reserves, multi-well commitments on regional play trends with large acreage positions contributed substantially to the Company's exploration direction. It is significant to note that with this type of prospect, the overall success ratios have remained high. Projects of this type are located in the Nig Creek and Petitot areas of northeast British Columbia, Claresholm and Ft. Macleod in southern Alberta, the Austin Chalk trend in Texas, the San Juan Basin of New Mexico, and the Williston Basin and Sweetgrass Arch areas of Montana.

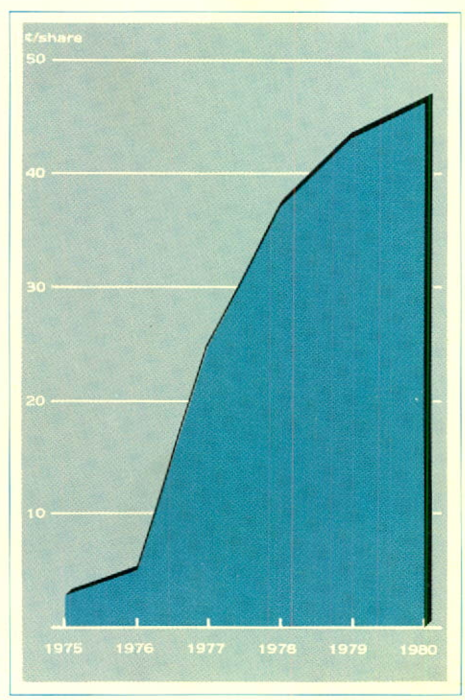
During 1980, the Company increased its average oil production to 518 barrels per day. Average daily sales of natural gas increased to 10.61 MMcf/d. The availability of gas markets continues to be one of the major problems for resource companies in Canada. To reduce the effect of this problem, the Company obtained a gas contract with an industrial consumer. Czar, its drilling fund partners and participating industry members have agreed to sell some 212 Bcf of natural gas to Consolidated Gathering Systems Limited for ultimate use by Sherritt Gordon Mines Limited at its fertilizer operations in Fort Saskatchewan, Alberta. The contract provides for the sale of 28 MMcf/d beginning February, 1983, and escalates to 30 MMcf/d by 1985. The price reflects a moderate discount from the Alberta field price, with 100% of any export flowback adjustment going to the Company and its drilling participants. During the period from November 1, 1980 to



Drilling operations Austin Chalk trend Gonzales County, Texas.



TOTAL REVENUE
(in millions of dollars)



CASH FLOW PER SHARE
(in cents per share)

February, 1983, the Company has been given the opportunity to provide up to 8 MMcf/d of natural gas to Consolidated. At the time of writing this report, 5 MMcf/d is being delivered. By March 1, 1981, the full 8 MMcf/d will be on stream. Recent industry developments, such as the announced world scale methanol operation and proposed liquified natural gas export facility on the west coast of British Columbia, along with the substantial fuel requirements for the development of the heavy oil and tar sands of eastern Alberta, cause the Company to be optimistic that future industrial and export gas sale contracts will be available.

Although long term growth will be achieved by continuing to develop gas reserves in Western Canada, the present corporate policy of Czar is to escalate the Company's exploration efforts in the United States. The availability of markets at or near world prices coupled with a political administration which is encouraging oil and gas exploration will result in the Company expending some $55 MM (U.S.) of corporate and partnership funds in the United States during 1981. Partnership funds include a $20 MM (U.S) joint venture with European investors and a $20 MM (U.S.) public limited partnership which Czar has filed with the United States Securities and Exchange Commission.

In order to effectively conduct the diversified scope of the Company's operations, several corporate management promotions occurred. Robert W. Lamond was appointed Chairman of the Board and Chief Executive Officer; and Ian B. McMurtrie, previously Vice-President, Exploration, was appointed to the position of President and Chief Operating Officer. Les J. Broker, Phillip K. Swyden and Bonita O. Rawlyck were appointed Vice-President Czar Resources Ltd., Vice-President Czar Resources, Inc., and Treasurer Czar Resources Ltd., respectively.

During the past year, the Company has grown to approximately 110 employees situated from Fort St. John in northeast British Columbia to the Field Office in Gonzales County, Texas.

We wish to thank the staff of the Company both in Canada and the United States for their unselfish and dedicated contributions during the past year. The growth of the Company and the optimistic outlook towards the future is directly related to these qualified and conscientious individuals.

On behalf of the Board.

R. W. Lamond
Chairman of the Board

Ian B. McMurtrie
President

TOP
Flare pit during testing of a gassy oilwell in central Alberta.

LEFT
Base camp - Petitot, N.E. British Columbia.

Exploration

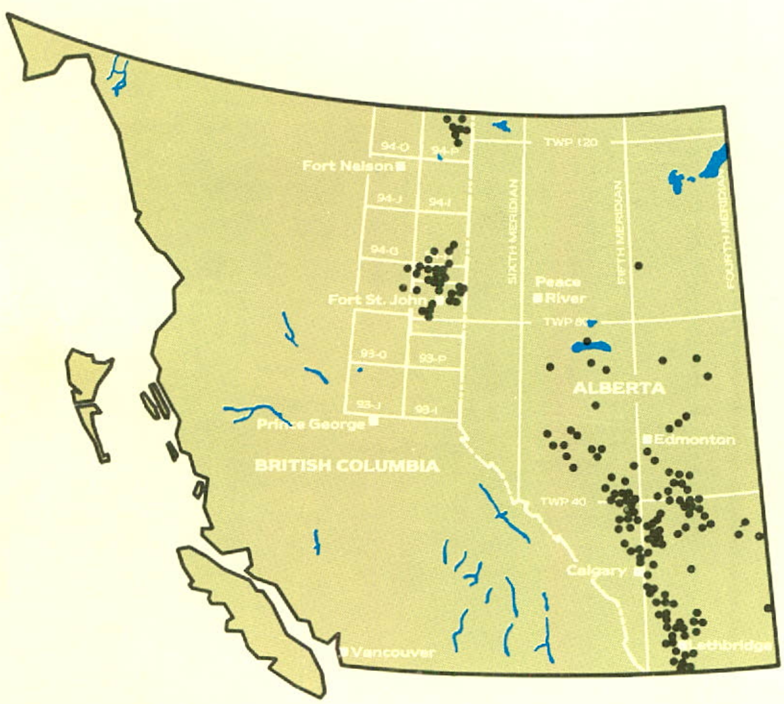
During 1980, Czar Resources Ltd. participated in 170 wells in Canada and the United States, of which 115 wells were oil or gas completions and 55 were abandoned. The Company's successful exploration program continued to concentrate in northeastern British Columbia and southern and central Alberta; and in the United States in the Gulf Coast areas of Texas and Louisiana. The United States exploration activities have been expanded to include the San Juan Basin of New Mexico, Kansas, Oklahoma and Montana. Net expenditures by Czar on land acquisition and exploration and development drilling were in excess of $50 MM. The Company's gross acreage position in the United States and Canada increased from 459,235 to 972,906 gross acres. In order to facilitate the planned expansion of the Company's United States exploration activity, five drilling rigs have been placed on long-term contract in the Gulf Coast and Rocky Mountain areas. If consistent with corporate objectives, further drilling rigs will be added during the coming fiscal year.

Canada

Monias-Callisto Boucher, B.C.

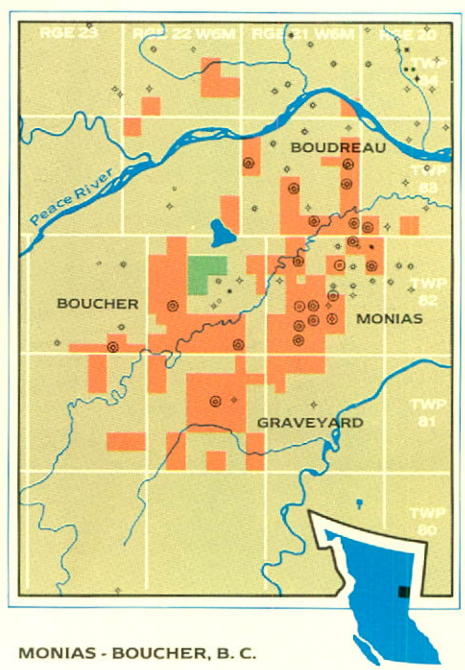
The general Monias-Callisto area is one of the focal points of Czar's Canadian operations as the Monias field was the Company's first major discovery and contributes substantially to the Company's present production revenue. Subsequent to the discovery of Monias which produces from the Triassic Halfway formation, Czar discovered gas at Callisto immediately to the north. To obtain production from the Halfway formation at Callisto, the Company is monitoring the reservoir pressures of southern Callisto wells. The purpose of this test is to establish reservoir continuity and resultant drainage by the wells at Monias. This may allow Czar to initiate production from Callisto wells through existing provincial drainage regulations.

Activity of Czar and other industry operators in this area in 1980 has indicated the potential for significant additional gas reserves in the deeper Belloy and Kiskatinaw formations.



ALBERTA - BRITISH COLUMBIA

● Areas in Which Czar Holds Crown, Freehold or Other Lease Interests



MONIAS - BOUCHER, B. C.

CZAR Interest Lands	Oil Well
Option Lands	Gas Well
CZAR Interest Well	Dry and Abandoned
Location	Abandoned Producer

During 1980, Czar participated in three development wells in this area, all of which have been credited with Halfway reserves. The wells were drilled to the Mississippian formation to evaluate these additional reservoir units. The three wells were cased to total depth with results indicating several gas bearing units, each unit ranging from 6 to 18 feet of net pay. Drillstem test results from 500 Mcf/d to 8.0 MMcf/d were achieved.

At Boucher, centered approximately eight miles west of Monias, two wells have now been completed. The Czar et al Boucher 6-17-82-22-W6M well has been completed as a Halfway gas well at a rate of 1.5 MMcf/d from 22 feet of net pay. The Czar et al Boucher 6-2-82-23-W6M well was drilled through the Halfway to the Mississippian formation and cased as a multi-zone gas well. This well has been completed in the lower Belloy unit and flow tested at a rate of 1.0 MMcf/d from 33 feet of net pay. Czar has interests in approximately 32,800 acres in the mapped area.

Highway/Nig Creek, B.C.

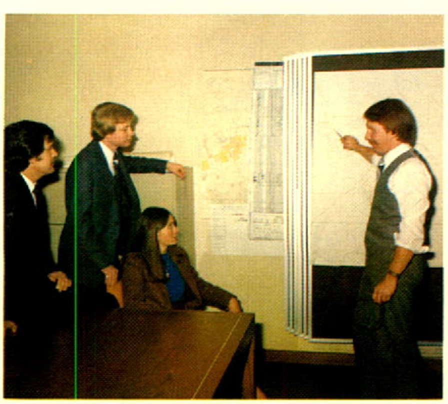
Czar negotiated a farmout in the Highway/Nig Creek area 75 miles northwest of Fort St. John, which resulted in the drilling of nine (9) wells which earned an interest in approximately 58,000 acres of land. This program resulted in eight (8) gas wells and one (1) dry hole.

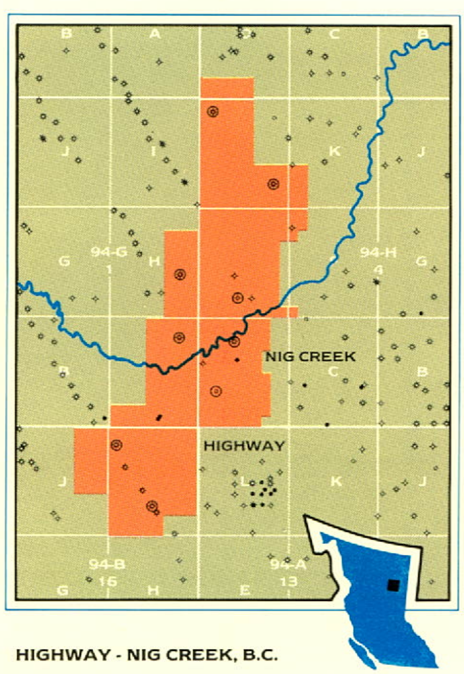
Of particular note are the Czar Gulf et al Highway d-26-I/94-B-16 and b-90-I/94-B-16 wells and the West Nig d-77-D/94-H-4 well, all of which have been completed as dual zone Cretaceous/Triassic gas wells. The Highway wells flow tested at rates of 2.7 MMcf/d and 2.5 MMcf/d, respectively, from the Triassic Halfway formation. Flow testing of the second horizon of each well will be undertaken in early 1981. Gross in-place gas reserves have been estimated by an independent engineering firm at 37 Bcf for the two drilled spacing units.

The West Nig d-77-D well has been completed at an initial rate of 2.0 MMcf/d from the Triassic Baldonnel formation and at a rate of 1.3 MMcf/d from the Lower Cretaceous Cadomin.

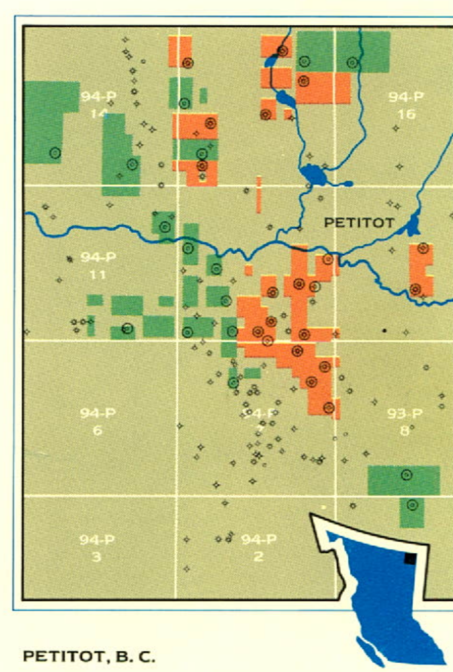
Petitot, B.C

In the past two years, Czar Resources Ltd. has drilled twenty-one (21) wells over a 2,300 square mile area in the Petitot region of northeastern British Columbia, fourteen (14) of which were completed as gas wells while seven (7) were abandoned. The results of this program indicate a substantial regional accumulation of natural gas in the Jean-Marie formation. Well results have ranged from approximately 500 Mcf/d with 20 feet of net pay to 4.0





HIGHWAY - NIG CREEK, B.C.



PETITOT, B. C.

MMcf/d and 56 feet of net pay.

As operations in this area can only be conducted in the winter months, the Company is currently stimulating and production testing wells which were drilled in early 1980. Initial completion results indicate that the Czar et al N. Helmet c-96-B/94-P-10 and Czar et al Kimea a-47-B/94-P-10 are flowing at 3.0 and 1.5 MMcf/d, respectively.

In the southern portion of the play, Czar constructed a gas pipeline and was successful in placing two wells, c-18-A/94-P-10 and b-30-B/94-P-10, on production at approximately 3.0 MMcf/d.

The success of the two previous winter drilling programs and the opportunity to earn substantial additional acreage led the Company to schedule a sixteen (16) well program during the current 1980-81 drilling season.

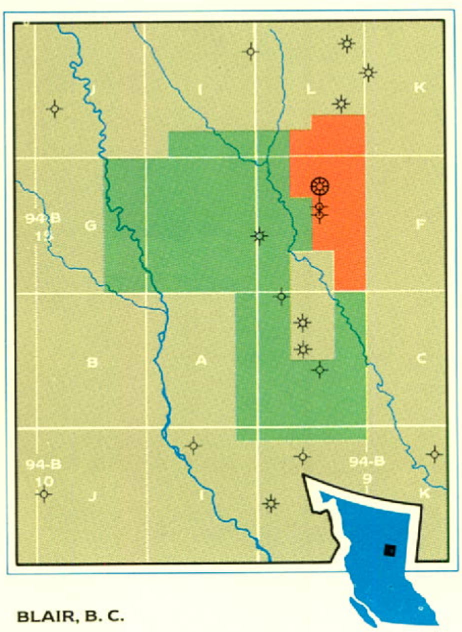
Czar presently holds an interest in approximately 144,000 gross acres and has the right to earn additional interests in a further 283,000 acres.

Blair, B.C.

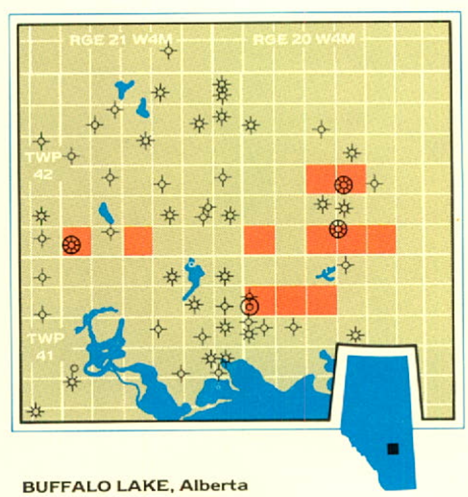
During the past year, Czar Resources Ltd. participated with Canadian Hunter Exploration Ltd. and Esso Resources Canada Limited in the CanHunter Esso Blair d-75-E/94-B-16 well. The well has been cased to total depth as a potential multi-zone gas well and is scheduled to be completed prior to spring break-up 1981. During the drilling of the well, the Debolt formation drillstem tested in excess of 5.6 MMcf/d. An independent engineering firm has assigned 25.17 Bcf of gas in place to the well. By participating in the drilling of the well, Czar has earned an interest in approximately 11,000 acres of land and has the option to earn an interest in an additional 56,000 acres of land through the drilling of five (5) wells.

Buffalo Lake, Alta.

During early 1980, Czar entered into a joint venture agreement in the subject area for the exploration and drilling of approximately 25 townships. To date, four wells have been drilled indicating reserves ranging from 3.2 Bcf to 15.8 Bcf per section. Three of the wells in this area are currently being equipped to go on production in early 1981 with deliverability ranging from 3 MMcf/d to 5 MMcf/d. Czar's interest varies from 19.5% to 26.8% in the wells and in 7,040 gross acres. During 1981, an exploration and development program will be undertaken with three wells planned for the second quarter.



BLAIR, B. C.



BUFFALO LAKE, Alberta

CZAR Interest Lands
Option Lands
Lands to be Drilled
CZAR Interest Well
Location
Oil Well
Gas Well
Dry and Abandoned
Abandoned Producer
Suspended Well

Parkland/Claresholm, Alta.

At Parkland, 50 miles south of Calgary, Czar Resources Ltd. drilled and participated in four (4) wells in 1980. Three (3) have been completed as gas wells, and one (1) as an oil well. The Company presently holds an interest in 8 gas wells in the area which have proven deliverability rates in excess of 20 MMcf/d. Deliverability of the wells average 1 to 2 MMcf/d although two of the Czar wells, Parkland 7-11-15-27-W4M and Claresholm 4-32-13-26-W4M have AOF tests of 16.5 MMcf/d and 11.0 MMcf/d, respectively. Czar holds an interest in approximately 21,000 gross acres in the area.

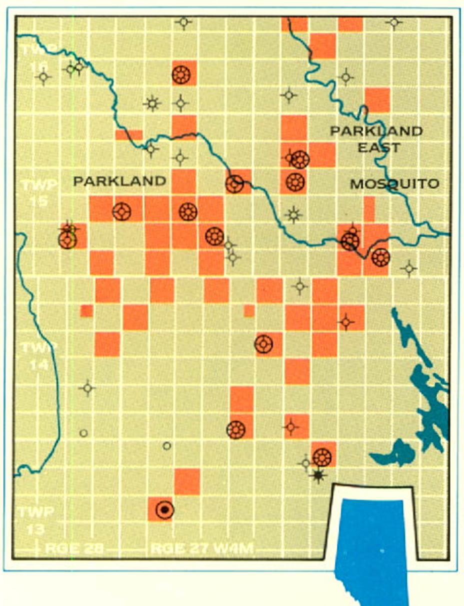
In 1981, the Company plans to drill at least four (4) development locations in the Parkland/Claresholm area, three (3) of which are to establish reservoir limits and develop additional reserves for the Consolidated-Sherritt contract. The remaining location will be a direct offset to the 7-20-13-27 W4M oil well.

Leahurst, Alta.

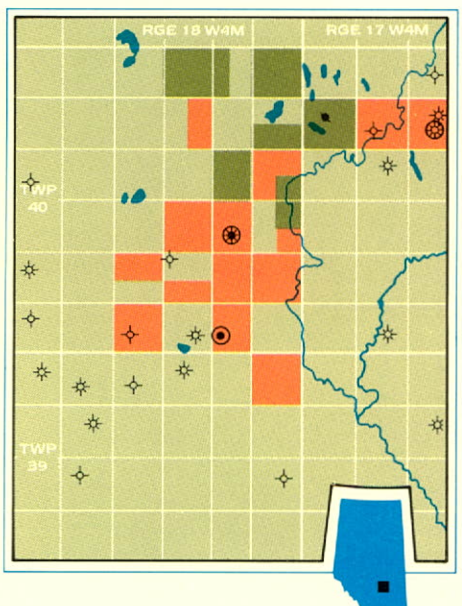
During 1980, Czar drilled and has recently completed two wells in the area that have indicated multi-zone gas/oil potential. The Czar et al Leahurst 5-2-40-18-W4M well was completed as a Lower Manville oil well at a flow rate of 113 barrels of oil per day. The Czar et al Leahurst 6-14-40-18-W4M was cased as a Basal Quartz gas well with an AOF test of 4.75 MMcf/d. This well was also completed in the Lower Manville which tested 6.0 MMcf/d. Czar has a 41.25% interest in 5,440 gross acres in the area. In addition, Czar has negotiated two additional farmins that will result in the drilling of two more wells in early 1981 and add 3,360 gross acres to the land inventory of this area.

Gadsby, Alta.

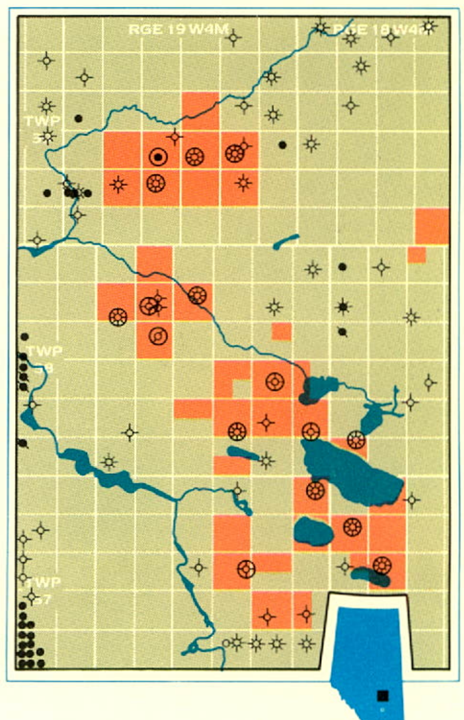
As discussed in the 1979 report, three wells had been drilled on the Gadsby prospect resulting in two gas wells and one dry hole. During 1980, Czar and its partners drilled nine additional wells, six gas wells and three dry holes. Of major significance was the Czar et al Gadsby 10-36-37-19-W4M well which was completed as a Basal Quartz gas well at a rate of 5.4 MMcf/d and also as a Viking gas well at 2.8 MMcf/d.



PARKLAND - CLARESHOLM, Alberta



LEAHURST, Alberta



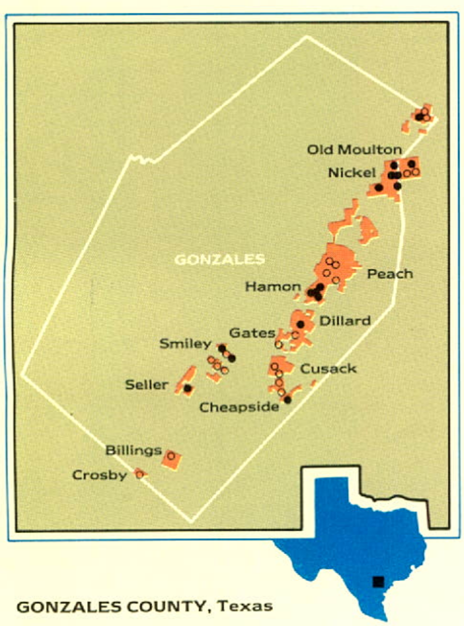
GADSBY, Alberta

United States

Austin Chalk Play

During fiscal 1980, the Austin Chalk play remained the Company's primary United States development play. The Company currently holds an interest in approximately 36,000 gross acres in the Austin Chalk. In **Gonzales County**, Texas, Czar participated in ten wells, nine of which were completed as oil wells. Five additional wells drilled subsequent to year end have indicated further success. Czar will continue to develop this play with some fifteen wells planned for fiscal 1981.

In the **West Point Prospect** of Fayette County, Texas, the Company completed four wells from which daily net production attributable to the Company is 330 barrels of oil and 245 Mcf of gas. In the **Smiley Prospect**, Czar drilled the Czar #1 Ruddock and the Czar #1-A Ruddock; Czar has a 100% and a 61.375% working interest before payout in the wells, respectively. Net production to Czar is approximately 110 barrels of oil per day. To further develop the 2,100 acres on this prospect, a subsequent well is planned for the second quarter of fiscal 1981. In the **Sellers Prospect**, the Company has a 39.5% interest in the Czar #1 Sheffield well, currently producing at a rate of 50 barrels of oil per day. Several locations remain to be drilled on this 1,742 acre block. In the **Dillard Prospect**, the Czar #1 Baker well in which Czar has a 38.875% working interest has produced 19,764 barrels of oil, averaging 89 barrels of oil per day since April, 1980. Seismic development during fiscal 1980 on this 2,700 acre prospect indicates areas which appear to be prospective and which will be drilled during this fiscal year.

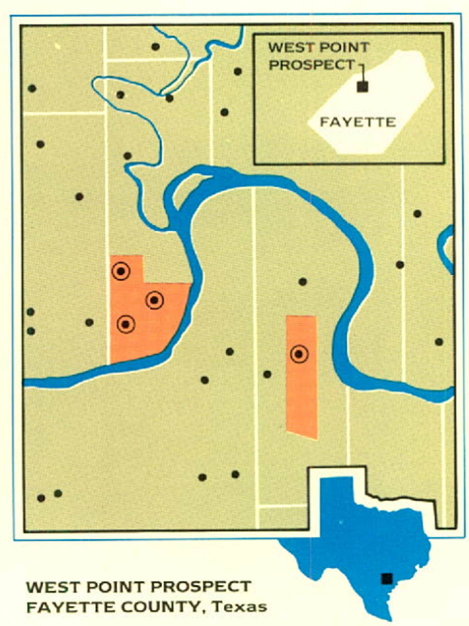


GONZALES COUNTY, Texas

- CZAR Interest Lands
- CZAR Interest Location
- CZAR Interest Oil Well

AUSTIN CHALK FRACTURE PRODUCTION TREND, Texas

- Austin Chalk Fracture Production Trend
- Austin Chalk Fields



WEST POINT PROSPECT FAYETTE COUNTY, Texas

- CZAR Interest Lands
- CZAR Interest Well
- Oil Well

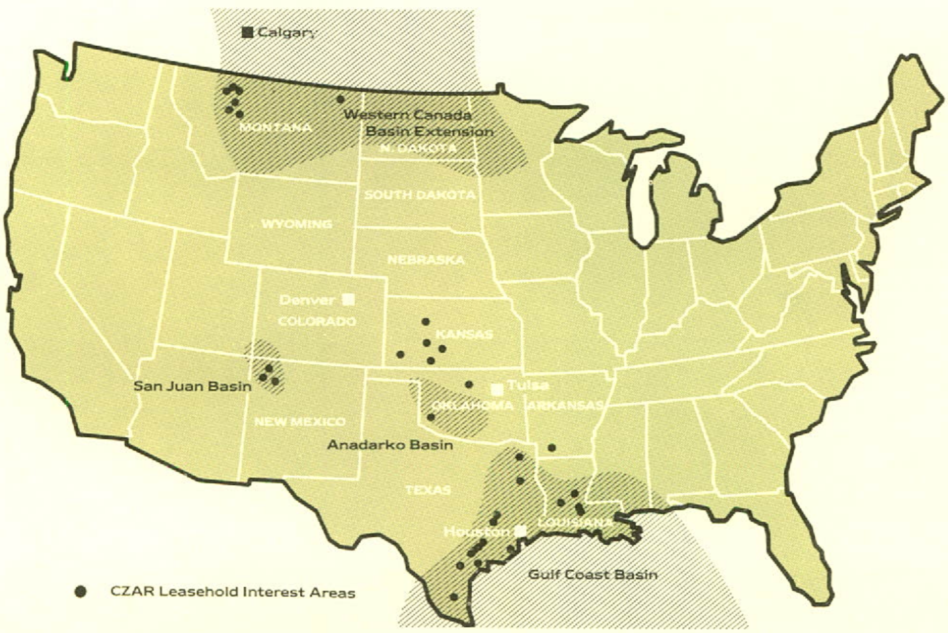
Stimulating the Austin Chalk, Gonzales County, Texas

North Corn Prospect, Oklahoma

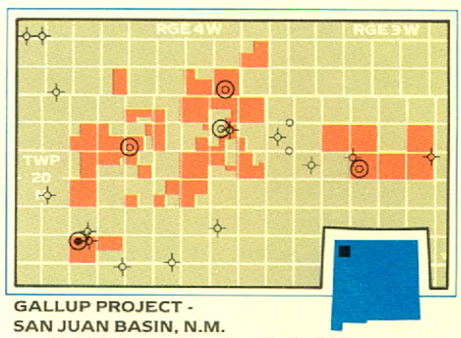
During fiscal 1980, Czar committed to participate in the drilling of nine wells to 17,500 feet to evaluate and develop the North Corn Prospect. Prior to fiscal year end, the #1 Brown Foundation Red Fork had reached total depth and tested in excess of 2.0 MMcf/d. Production is expected to commence by spring 1981. Subsequent to year end, the Suderman, Katie, and the David wells have indicated production in the Springer formation. The Katie has tested 7.5 MMcf/d from the Springer and 6.7 MMcf/d from the Red Fork. The David and Suderman wells also have indicated Springer and Red Fork pay. The remaining five wells are in various stages of drilling and completion, with final results expected by the second quarter of fiscal 1981. Czar on behalf of itself and its drilling program partners have working interests varying from .57% to 5.95%. The Springer zone is below 15,000 feet and qualifies for deep gas pricing which is currently being contracted at $6.70 per Mcf.

San Juan Basin, New Mexico

Czar is drilling five commitment wells on behalf of itself and its joint venture partners in order to earn varying interests from 30% to 50% in 15,000 gross acres. These wells are currently drilling or evaluating the Gallup member of the Niobrara Formation.

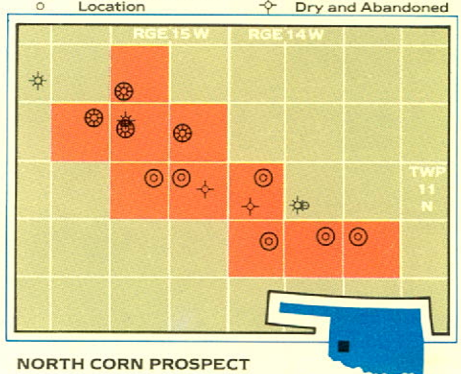


MAJOR AREAS OF U.S. EXPLORATION



GALLUP PROJECT - SAN JUAN BASIN, N.M.

CZAR Interest Lands
CZAR Interest Well
Location
Oil Well
Gas Well
Dry and Abandoned



NORTH CORN PROSPECT
WASHITA COUNTY, Oklahoma

Subsequent Events

Reeves Prospect, Louisiana

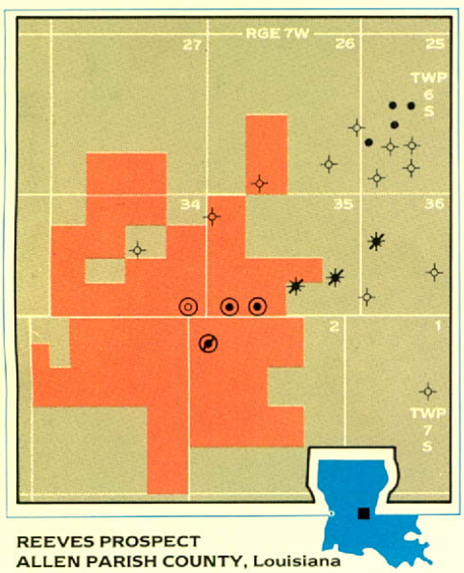
The Czar #1 Lake Charles Naval Stores in Allen Parish, Louisiana has produced an average of 110 barrels of oil per day and 434 Mcf/d since initial production. During 1980, the #1 Owen-Illinois (which is currently shut-in awaiting unitization) was re-entered and successfully completed for 80 barrels of oil and 96 Mcf of gas per day. Based on geological evaluation and additional seismic, several development wells are planned for fiscal 1981. Czar and its drilling fund partners have a 27% working interest in this play and surrounding 1,800 acres.

Kansas Prospects

Czar elected to participate on behalf of itself and its joint venture partners for a 25% working interest in six wells in southern Kansas. Four of these wells have reached total depth indicating three oil wells with production potentials varying between 50-125 barrels of oil per day and one dry hole.

Flat Lake, Montana

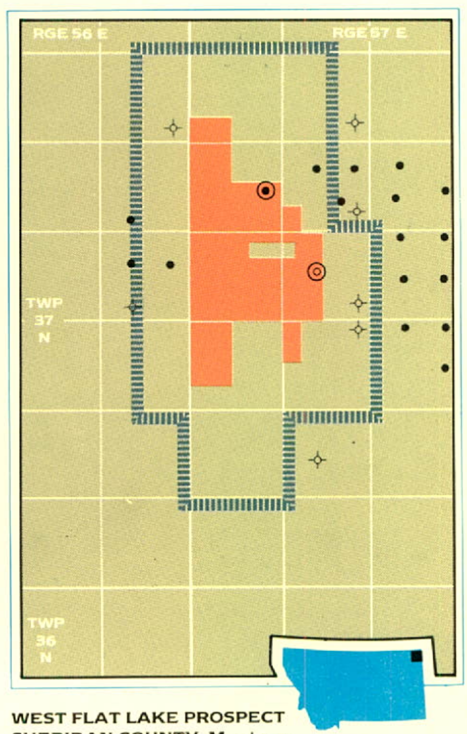
Subsequent to the fiscal year end, Czar drilled the #1 Lindell which is indicated to be a multi-zone gas well. The well is currently being production tested. Czar has a 12.5% working interest in the well and the right to earn five additional spacing units.



REEVES PROSPECT
ALLEN PARISH COUNTY, Louisiana

CZAR Interest Lands
Area of Mutual Interest
CZAR Interest Well
Location
Oil Well
Gas Well
Dry and Abandoned
Abandoned Producer

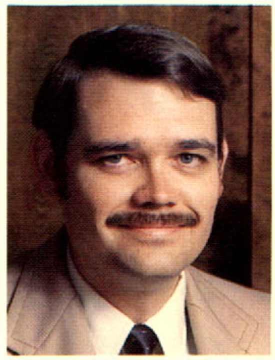
Tour of British journalists visiting a service rig during workover operations at Johnson #2 Fayette County, Texas



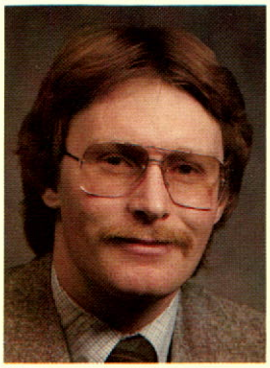
WEST FLAT LAKE PROSPECT
SHERIDAN COUNTY, Montana

Key Personnel

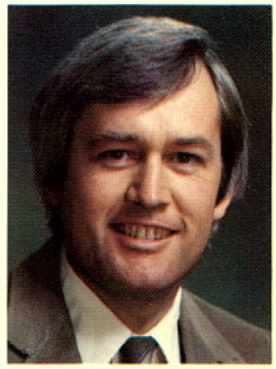
Anthony D. Convey
Manager
Engineering
Czar
Resources Ltd.



J. Michael Gatlin
Manager
Engineering
Czar
Resources, Inc.



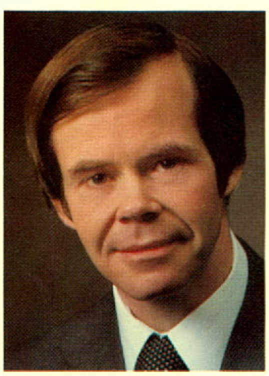
Robert H. Johnston
Chief Geologist
Czar
Resources Ltd.



Graham B. Livesey
Division Geologist -
Denver
Czar
Resources, Inc.

Sharon P. Runge
Controller
Czar
Resources Ltd.

Peter R. Glidden
Division Geologist -
Houston
Czar
Resources, Inc.



Trevor L. C. Williams
Land Manager
Czar
Resources Ltd.

Frederick R. Esch
Co-ordinator of
Financial Planning
Czar
Resources, Inc.

Production

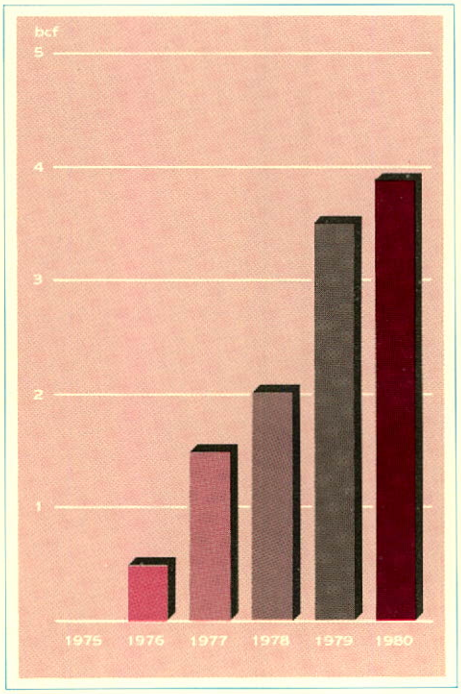
During 1980, net production of oil increased 135% to 189,248 barrels or approximately 518 barrels per day. Net production of natural gas increased by 9% to approximately 10.61 MMcf per day.

New oil wells were placed on production in Alberta at Twining, Leahurst, Manito, Claresholm, Lethbridge, Pearce, Standoff and Lanaway, and in Texas in Fayette and Gonzales Counties.

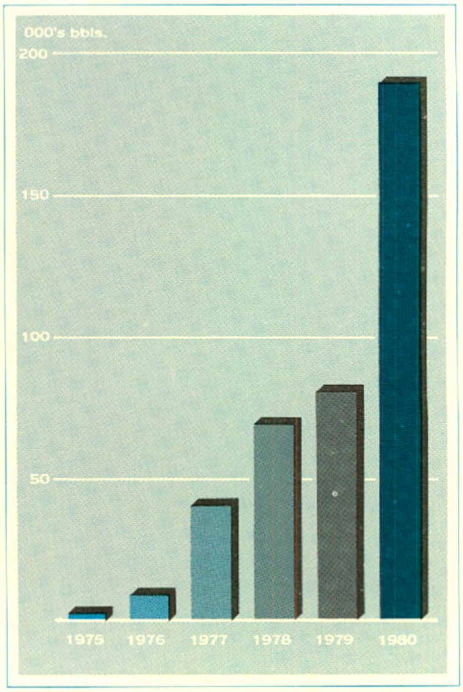
Of particular significance was the placing on production of 10 wells in the Austin Chalk trend of Central Texas. These wells are currently producing approximately 1,100 barrels of oil per day, of which approximately 600 are net to the Company. At the time of writing this report, the Company is in the process of completing five additional wells on this trend.

In the Lanaway area of central Alberta, seven wells have been tied-into a newly installed central battery. Through this facility, 800 barrels of oil per day are being produced, of which approximately 150 barrels per day is net to Czar. A solution gas dehydration and compression facility is presently being constructed on site and is expected to be fully operational by the end of February, 1981. Gross gas sales of 1.5 MMcf/d will net to the Company sales of 285 Mcf/d.

To obtain maximum advantage from high winter gas sales in British Columbia, compression installations were completed in the Birch and Buick areas. At Helmet, two wells were tied-into a new gathering system with dehydration and compression facilities. These wells are currently producing 3 MMcf/d. A single well was tied-in at Rigel, increasing production from that area by an additional 2 MMcf/d. Consequently, current gas



ANNUAL GAS PRODUCTION
(in billions of cubic feet)



ANNUAL OIL PRODUCTION
(in thousands of barrels)

production from wells in British Columbia in which Czar has an interest is approximately 40 MMcf/d, of which Czar's share is some 12 MMcf/d.

In Alberta, gas wells were tied-in at Sylvan Lake and Medicine River resulting in production of 3.5 MMcf/d and 1.5 MMcf/d, respectively. During the year, the Company installed additional compression at Hussar to maintain and deliver at a rate of 9 MMcf/d. At Gadsby in central Alberta, a gathering system plant was constructed during the latter period of fiscal 1980 and beginning of 1981, which is now producing at a rate of 4 MMcf/d. The gas from the Gadsby facility and single wells at Twining and Sullivan Lake provides the initial requirements of the Consolidated gas contract. At Medicine River, pipelines were installed to an existing processing plant enabling Czar's 5 contracted wells to go on stream immediately upon approval of the Pro-Gas agreement. Production from this contract will be 8 MMcf/d to 10 MMcf/d and 350 to 475 barrels of condensate per day.

Reserves

Proven and probable reserves at the October 31, 1980 fiscal year end were 221.4 Bcf of natural gas and 3.08 million barrels of oil and natural gas liquids. Reserve additions for 1980 are approximately 38 Bcf of natural gas and approximately 1,232,000 barrels of oil representing increases of 21% and 67% respectively over the 1979 reserve figures. Evaluations of the reserves were conducted by independent engineering consulting firms and are expressed as net reserves to the Company after deduction of Crown or freehold royalties. The Company's reserves as at October 31, 1980 had an undiscounted value of $879,232,503.

TOP
Tripping for a bit.

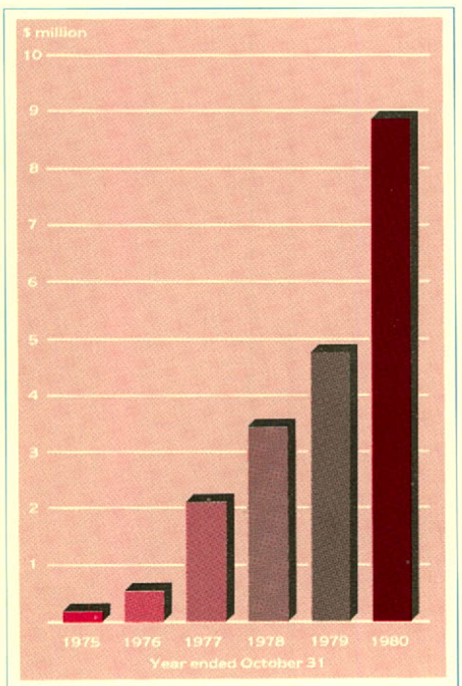
LEFT
Servicing equipment, Birch compressor station, N.E., British Columbia.

Funding and Financial

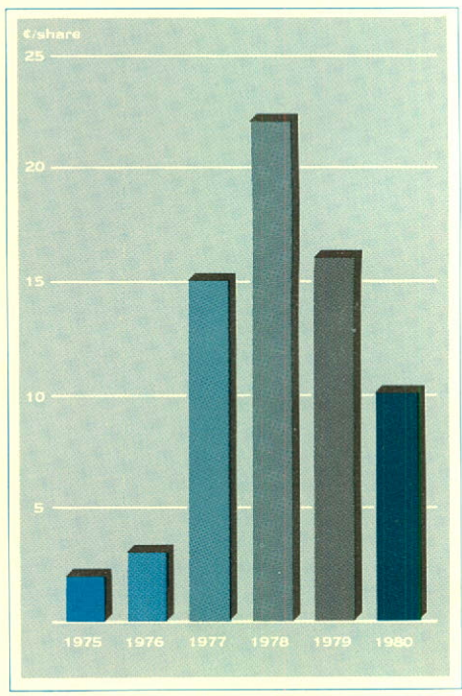
During fiscal 1980, Czar continued to use funds from drilling partnerships and joint ventures to carry out its ongoing exploration program. Of the funds raised in 1980, $38 MM came from Canadian limited partners and a Canadian financial institution, and $5 MM (U.S.) through a private placement limited partnership. For the first time in the Company's history, significant funding came from a corporation consisting primarily of United Kingdom investors. This corporation raised $10 MM, the proceeds of which were to be used exclusively for participation through Czar in all new prospects in Canada and the United States. In addition, in December, 1980 Czar Resources, Inc. also received proceeds of $20 MM (U.S.) from other European investors for exploration in the United States.

The Company has filed a preliminary prospectus with certain Securities Commissions and equivalent regulatory bodies in Canada with respect to a proposed issue of Common Shares and Common Share Purchase Warrants. The number of shares and warrants to be issued and the price of the shares and exercise price of the warrants have not yet been determined.

In 1981, Czar expects to continue to raise funds from Canadian investors through a new company, Aurora Czar Energy Company Ltd., a preliminary prospectus of which has been filed to raise a maximum of $40 MM through the issue of common and preference shares. Investors in this company will obtain tax deductions resulting from the exploration and development of oil and gas properties. The investors will also receive incentive grants provided for by the National Energy Program, and will have the added benefit of liquidity of



TOTAL REVENUE
(in millions of dollars)



EARNINGS PER SHARE
(in cents per share)

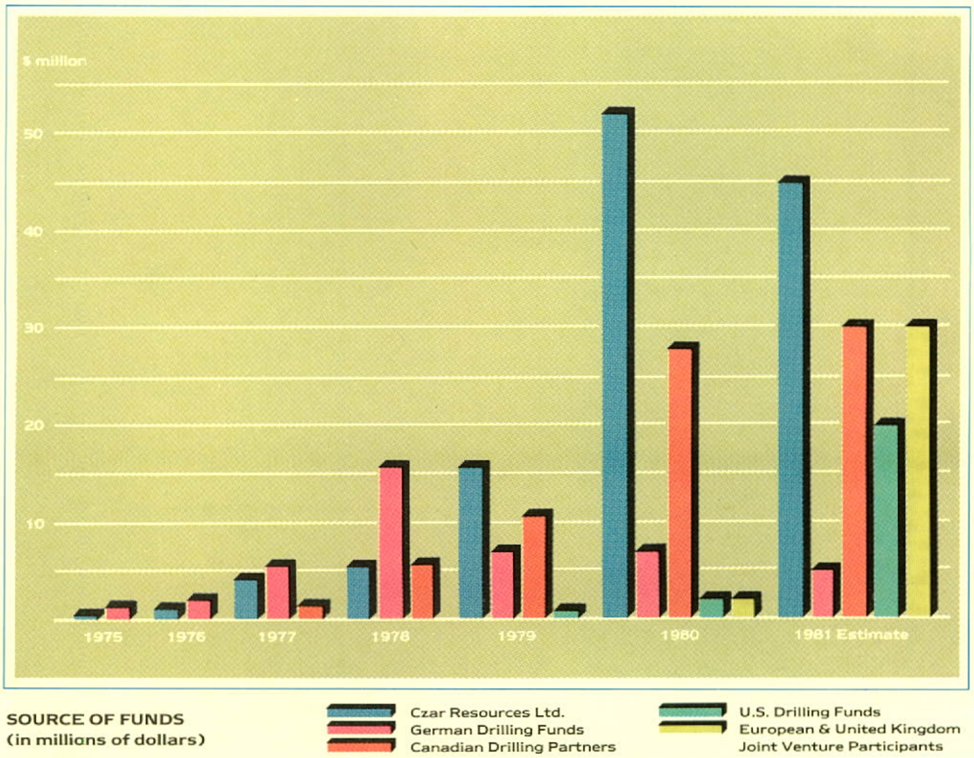
investment as common shares of the company will be publicly traded. This transaction must first have the approval of the limited partners of the four previous Aurora-Czar limited partnerships whose assets will form the base of the new company.

Czar Resources, Inc. has filed a preliminary prospectus with the Securities and Exchange Commission in the United States to raise a maximum of $20 MM (U.S.) through a public limited partnership.

For the year ended October 31, 1980, Czar's production revenue increased 125% from $3.0 MM in 1979 to $6.7 MM in 1980. This was due to an increase in the number of wells the Company placed on stream in Canada, but more significantly, to the contribution by its United States operation of $2.5 MM. This revenue was derived mainly from twelve oil wells in the Austin Chalk play of Texas. The Company's cash flow from operations increased from $.43 per share in 1979 to $.46 per share in 1980.

In March of 1980, the Company raised net proceeds of $24 MM through an issue of 1,500,000 common shares. These funds and the Company's operating bank line of credit were used to finance Czar's land acquisition and extensive drilling activities. Czar participated in substantially all wells it drilled in 1980, at a cost for drilling and equipping expenses of approximately $36 MM. In addition, Czar spent approximately $16 MM in 1980 on acquisition of acreage, part of which will be billed, along with carrying costs, to its drilling fund partners as wells are drilled on this acreage. The Company also acquired, at a cost of $2 MM, varying interests in wells and acreage in the Birch area of British Columbia from one of its drilling fund partners.

Net earnings decreased to $1,034,573 from $.16 per share to $.10 per share because of higher interest expense on Czar's bank borrowings, higher depletion and depreciation charges on the substantially larger depletable fixed asset base, and a larger number of common shares outstanding.



SOURCE OF FUNDS
(in millions of dollars)

Consolidated Balance Sheet

as at October 31, 1980

ASSETS

	1980	1979
CURRENT ASSETS		
Accounts receivable		
—trade	$ 13,436,331	$ 6,252,672
—drilling programs	16,874,506	4,421,485
Inventory of supplies, at lower of cost and net realizable value	2,422,455	929,704
	32,733,292	11,603,861
FIXED ASSETS		
Petroleum and natural gas leases and rights including exploration, development and equipment thereon, at cost	79,976,114	27,629,456
Accumulated depletion and depreciation	3,485,091	1,226,608
	76,491,023	26,402,848
	$109,224,315	$38,006,709

Approved by the Board:

Director

Director

LIABILITIES

	1980	1979
CURRENT LIABILITIES		
Bank indebtedness (note 2)	$ 47,693,636	$ 7,233,073
Accounts payable and accrued liabilities	17,745,779	9,602,547
Drilling advances	814,127	299,600
Current portion of long-term debt	—	1,000,000
	66,253,542	18,135,220
LONG-TERM DEBT	—	2,916,667
DEFERRED INCOME TAXES	2,176,750	2,260,029

SHAREHOLDERS' EQUITY

	1980	1979
CAPITAL STOCK (note 3)		
Authorized		
600,000 First Preference Shares with a par value of $25 each, issuable in series		
15,000,000 Common Shares without nominal or par value		
Issued		
7-1/2% Cumulative, Redeemable, Convertible, First Preference Shares, Series A	—	7,950,000
9,613,553 Common Shares	36,228,940	3,064,336
RETAINED EARNINGS (note 3)	4,565,083	3,680,457
	40,794,023	14,694,793
	$109,224,315	$38,006,709

Consolidated Statement of Earnings

Year Ended October 31, 1980

	1980	1979
REVENUE		
Production	$6,703,575	$2,974,890
Principal and interest from property dispositions	1,490,260	1,286,532
Management fees	361,105	342,298
Other	329,839	118,466
	8,884,779	4,722,186
EXPENSES		
Production	1,002,821	271,417
General and administrative	1,438,610	549,911
Interest on long-term debt	223,514	262,081
Other interest	2,165,252	430,585
Depletion and depreciation	2,302,395	766,326
	7,132,592	2,280,320
Earnings before income taxes	1,752,187	2,441,866
INCOME TAXES		
Current (recovery)	(55,587)	(129,526)
Deferred	773,201	1,116,528
	717,614	987,002
NET EARNINGS	$1,034,573	$1,454,864
EARNINGS PER COMMON SHARE, after deduction of dividends on First Preference Shares, Series A (note 4)	$.10	$.16

Consolidated Statement of Retained Earnings

Year Ended October 31, 1980

	1980	1979
BALANCE AT BEGINNING OF YEAR	$3,680,457	$2,740,381
Net earnings	1,034,573	1,454,864
	4,715,030	4,195,245
Dividends on First Preference Shares, Series A	149,947	219,072
Expenses of issue of First Preference Shares, Series A, net of deferred income taxes of $290,400	—	295,716
	149,947	514,788
BALANCE AT END OF YEAR	$4,565,083	$3,680,457

Consolidated Statement of Changes in Financial Position

Year Ended October 31, 1980

	1980	1979
WORKING CAPITAL DERIVED FROM		
Operations		
Net earnings	$ 1,034,573	$ 1,454,864
Items not requiring working capital	3,075,596	1,873,149
	4,110,169	3,328,013
Issue of long-term debt	—	1,541,667
Issue of Common Shares for cash, net of share issue expenses	24,503,624	362,980
Issue of First Preference Shares, Series A, for cash, net of share issue expenses	—	7,413,884
	28,613,793	12,646,544
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	52,390,570	16,267,359
Reduction of long-term debt	2,916,667	—
Dividends on First Preference Shares, Series A	149,947	219,072
Redemption of First Preference Shares, Series A, for cash	145,500	—
	55,602,684	16,486,431
DECREASE IN WORKING CAPITAL POSITION	(26,988,891)	(3,839,887)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	(6,531,359)	(2,691,472)
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$(33,520,250)	$(6,531,359)

Notes to Consolidated Financial Statements

Year Ended October 31, 1980

1. Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of Czar Resources Ltd. and its wholly-owned subsidiaries, Czar Developments Ltd. and Czar Resources, Inc.

b) Foreign Currency Translation

The accounts of the foreign subsidiary are translated to Canadian dollars on the following basis:

(i) current assets and current liabilities at the rate of exchange in effect as at the balance sheet date;

(ii) fixed assets at the rate of exchange in effect at the date on which the respective assets were acquired; and

(iii) revenue and expenses (excluding depreciation and depletion which are translated at the same rate as the related assets) at the average rate of exchange for the year.

c) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized by cost center. A separate cost center is established for each country in which the Company operates, presently Canada and the United States. Costs include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing property, costs of drilling both productive and non-productive wells and related overhead expenditures. Such costs are depleted by cost center using the composite unit of production method based upon estimated proven developed reserves. In calculating depletion, natural gas reserves are converted to equivalent units of crude oil based on the relative net sales value of each product.

Under certain drilling programs, a significant portion of the consideration for the sale of properties by the Company to limited partnerships is payable to the Company by instalments over a period approximating 26 years. Principal and interest payments, in the aggregate, may not exceed a fixed percentage of net revenue from the wells drilled. Unpaid principal instalments total $52,376,456 at October 31, 1980 (1979 - $49,146,812). Such principal and interest payments will be recorded in the accounts of the Company as and when received.

All of the Company's exploration and development activities related to petroleum and natural gas are conducted with others; the accounts reflect only the Company's proportionate interest in such activities.

d) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the composite unit of production method based on estimated proven developed reserves of each cost center. Depreciation of other equipment is provided on a straight-line basis at rates which are estimated to amortize the cost of the assets over their useful lives.

Notes to Consolidated Financial Statements

Year Ended October 31, 1980

2. Bank Indebtedness

Bank indebtedness is secured by an assignment of accounts receivable and certain petroleum and natural gas properties and revenue interests therein. The Company has agreed with its Canadian banker that it will not encumber any of its assets or dispose of any of its petroleum or natural gas properties, other than to its joint venture participants in the normal course of business, without, in each case, the consent of the bank.

3. Capital Stock

a) First Preference Shares, Series A

Changes in issued First Preference Shares, Series A were:

	Number of Shares	Consideration
Issued for cash in 1979	320,000	$ 8,000,000
Converted to Common Shares	(2,000)	(50,000)
Balance at October 31, 1979	318,000	7,950,000
Converted to Common Shares	(312,180)	(7,804,500)
Redeemed for cash	(5,820)	(145,500)
Balance at October 31, 1980	—	$ —

Retained earnings include a Capital Redemption Reserve Fund in the amount of $145,500 as required under the Alberta Companies Act in respect of the redemption of the 5,820 First Preference Shares, Series A, which fund is not available for the payment of dividends.

b) Common Shares

On March 28, 1980 the authorized capital of the Company was increased from 10,000,000 to 15,000,000 Common Shares without nominal or par value.

Changes in issued Common Shares were:

	Number of Shares	Consideration
Balance at October 31, 1978	7,122,600	$ 2,651,356
Issued for cash on exercise of stock options	96,870	362,980
Issued on conversion of First Preference Shares, Series A	5,000	50,000
Balance at October 31, 1979	7,224,470	3,064,336
Issued for cash less applicable share issue expenses of $1,070,301 (net of deferred income taxes of $856,480)	1,500,000	24,804,699
Issued for cash on exercise of stock options	108,644	555,575
Issued on conversion of First Preference Shares, Series A	780,439	7,804,330
Balance at October 31, 1980	9,613,553	$36,228,940

Notes to Consolidated Financial Statements

Year Ended October 31, 1980

c) At October 31, 1980 directors, officers, employees and one other person held options to purchase 448,310 Common Shares of the Company at prices ranging from $4.17 to $16.43 per share. Such options are exercisable from time to time to October 1985.

d) Subsequent to October 31, 1980 options were granted to senior officers and employees of Czar Resources, Inc. to purchase 18,000 Common Shares at an exercise price of $14.51 expiring January 19, 1986.

Reference is made to note 9.

4. Earnings Per Common Share

Earnings per Common Share computations are based upon the weighted average number of Common Shares outstanding during the year.

5. Commitments and Contingent Liabilities

Lease commitments in respect of office and premises and other equipment at October 31, 1980 aggregate approximately $6,340,000, and for each of the five years ending October 31, 1985 are: 1981 — $640,000; 1982 — $765,000; 1983 — $1,287,000; 1984 — $1,245,000; and 1985 — $996,000.

Commitments in respect of long-term drilling rig contracts at October 31, 1980 aggregate approximately $10,650,000 and for each of the two years ending October 31, 1982 are: 1981 — $9,144,000; 1982 — $1,506,000.

Certain limited partnerships which entered into joint ventures with the Company are required, beginning in 1981, to retire in each year up to a maximum of 10% of the limited partnerships' interests initially issued by the limited partnerships. The Company is required to purchase an interest in the assets of the limited partnerships to enable the limited partnerships to finance these obligations. The maximum obligation of the Company in 1981 in respect of such requirement is approximately $2,000,000.

6. Segmented Information

The Company has a single line of business, which is the exploration for and the development and production of oil and gas. Information about the Company's operations by geographic segment is as follows:

	Canada	United States	Total
Identifiable assets at October 31, 1980	$88,221,319	$21,022,996	$109,224,315
Production	$ 4,245,525	$ 2,458,050	$ 6,703,575
Principal and interest from property dispositions	1,429,654	60,606	1,490,260
	$ 5,675,179	$ 2,518,656	$ 8,193,835
Operating profit	$ 3,068,713	$ 1,819,906	$ 4,888,619
Other revenue			690,944
			5,579,563
General corporate expense			1,438,610
Interest expense			2,388,766
			3,827,376
Earnings before income taxes			$ 1,752,187

Notes to Consolidated Financial Statements

Year Ended October 31, 1980

7. Related Party Transactions

A significant shareholder, director and senior officer of the Company is a majority shareholder of a corporation which is the general partner of certain limited partnerships and the manager of certain other companies which have entered into joint ventures with the Company for the exploration and development of properties. At October 31, 1980 the said limited partnerships and companies were indebted to the Company in the aggregate amount of $13,833,365. In the year ended October 31, 1980 the charges made by the Company to such limited partnerships and companies totalled $31,730,352.

8. Statutory Information

During the year the Company paid remuneration of $545,153 to its senior officers (including the five highest paid employees). Three of the directors are also officers and received no remuneration in their capacity as directors. One director received remuneration of $4,000.

In 1980 the Company established a Management Compensation Plan by which gross overriding royalties are granted to employees. The gross overriding royalties are granted on all wells drilled after March 30, 1980 to a maximum of 2.5% of the Company's share of gross revenue.

9. Subsequent Events

The Company has filed a preliminary prospectus with certain Securities Commissions and equivalent regulatory bodies in Canada with respect to a proposed issue of Common Shares carrying the right to receive Common Share Purchase Warrants. The number of shares and warrants to be issued and the price of the shares and exercise price of the warrants have not yet been determined.

Reference is made to note 3.

Auditors' Report

To the Shareholders of
Czar Resources Ltd.

We have examined the consolidated balance sheet of Czar Resources Ltd. as at October 31, 1980 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 October 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 13, 1981

Thorne Riddell
Chartered Accountants

ABBREVIATIONS

Throughout this report standard oil and gas abbreviations have been used. Their explanation is as follows:

AOF	Absolute Open Flow
Bcf	Billion Cubic Feet
BOPD	Barrels of Oil Per Day
LPG	Liquified Petroleum Gas
Mcf	Thousand Cubic Feet
MMcf	Million Cubic Feet

CZAR RESOURCES LTD.

Printed in Canada