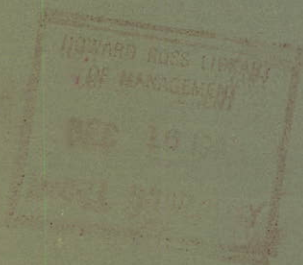




ONYX PETROLEUM EXPLORATION COMPANY LTD.

Annual Report
1979



Corporate Information

Corporate Profile

Onyx was incorporated in the Province of Alberta on November 10, 1976. The Company is active in oil and gas exploration and has established reserves in various areas of Alberta and British Columbia.

The Company's name was changed from Rangeco Oil & Gas Ltd. to Onyx Petroleum Exploration Company Ltd. on November 30, 1979.

Onyx shares are listed on the Alberta Stock Exchange.

Officers

D. G. Flanagan — President
A. R. Puzey — Exploration Manager
L. Waisberg — Secretary
P. H. Depper — Assistant Secretary

Bankers

Bank of Montreal
Calgary, Alberta

Auditors

Thorne Riddell & Co.
Calgary, Alberta

Share Listing

Alberta Stock Exchange

Board of Directors

D. G. Flanagan (Calgary, Alberta)
President of the Company
A. G. Hall (Calgary, Alberta)
Petroleum Consultant
H. A. Irving (Calgary, Alberta)
President, Irving Holdings Ltd.
R. G. Jennings (Calgary, Alberta)
Financial Consultant
L. Waisberg (Toronto, Ontario)
Partner, Goodman & Goodman

Solicitors

MacKimmie Matthews
Calgary, Alberta

Corporate Registrar and Transfer Agents

The Canada Trust Company

Head Office

1550 Daon Building
444 - 5 Avenue S.W.
Calgary, Alberta
T2P 2T8



President's Report

The year 1979 was a very active period for Onyx, both in exploration and development as well as corporate events. During the year the Company participated in 26 wells, resulting in 12 oil, 5 gas, and 9 dry, and expects an equally active year in 1980.

Details and maps of the various prospects are discussed separately throughout this report. Highlights for the year are the Company's participation in a significant gas discovery in the Pembina West area and continuous development of the Keystone oil field. In Pembina West, Onyx has a 35% interest in a Shunda gas well which was production tested over an extended period of time at rates in excess of 9 MMcf/d. The well is now shut in pending tie-in to marketing facilities. In Keystone the Company has an average 15% interest in 11 producing oil wells. A pipeline gathering system has now been installed which will enable production on a continuous basis regardless of weather or road conditions. The Company also participated in an oil well at Ferrier, a gas well at Judy Creek and a gas well at Holburn.

Subsequent to the year end, Onyx participated as to a 25% net interest in an oil well in the Brant area, approximately 40 miles southeast of Calgary. The well is currently undergoing extended production tests. Onyx and partners have interests in or options on approximately 19,000 acres around the well and plan additional drilling in the near future.

Also in the new year, the Company acquired a 15% interest in 1,920 acres in the Edson area. Subsequent to this purchase, another company reported a significant oil discovery approximately one-half mile from our lands. Drilling of this prospect will commence in early April.

Financial

Gross revenue for the year ended December 31, 1979 increased 93% to \$510,674 compared to 1978. The increase was as a result of higher production and prices from the Company's three producing properties in Verger, Gopher and Keystone. Cash flow increased from \$2,038 to \$196,352 while net income after taxes for 1979 was \$49,932 compared to a loss of \$45,586 in 1978. Working capital at December 31, 1979 was \$997,354 compared to a deficit of \$13,464 for 1978. The Company has no debt. Revenues are expected to increase considerably for 1980 with additional oil wells at Keystone and Ferrier being placed on production.

In September, 1979, Onyx completed a 2 for 1 rights issue at \$6.00 per share. The rights offering was over-subscribed and resulted in net proceeds to the Company of \$3,034,711 after expenses. Shareholders were given

two alternatives to subscribe for their new shares. Method 'A' was the conventional method while Method 'B' provided for investors to receive a flow through of tax deductions for the \$6.00 investment. Approximately two-thirds of the rights were subscribed pursuant to Method 'B'.

Corporate

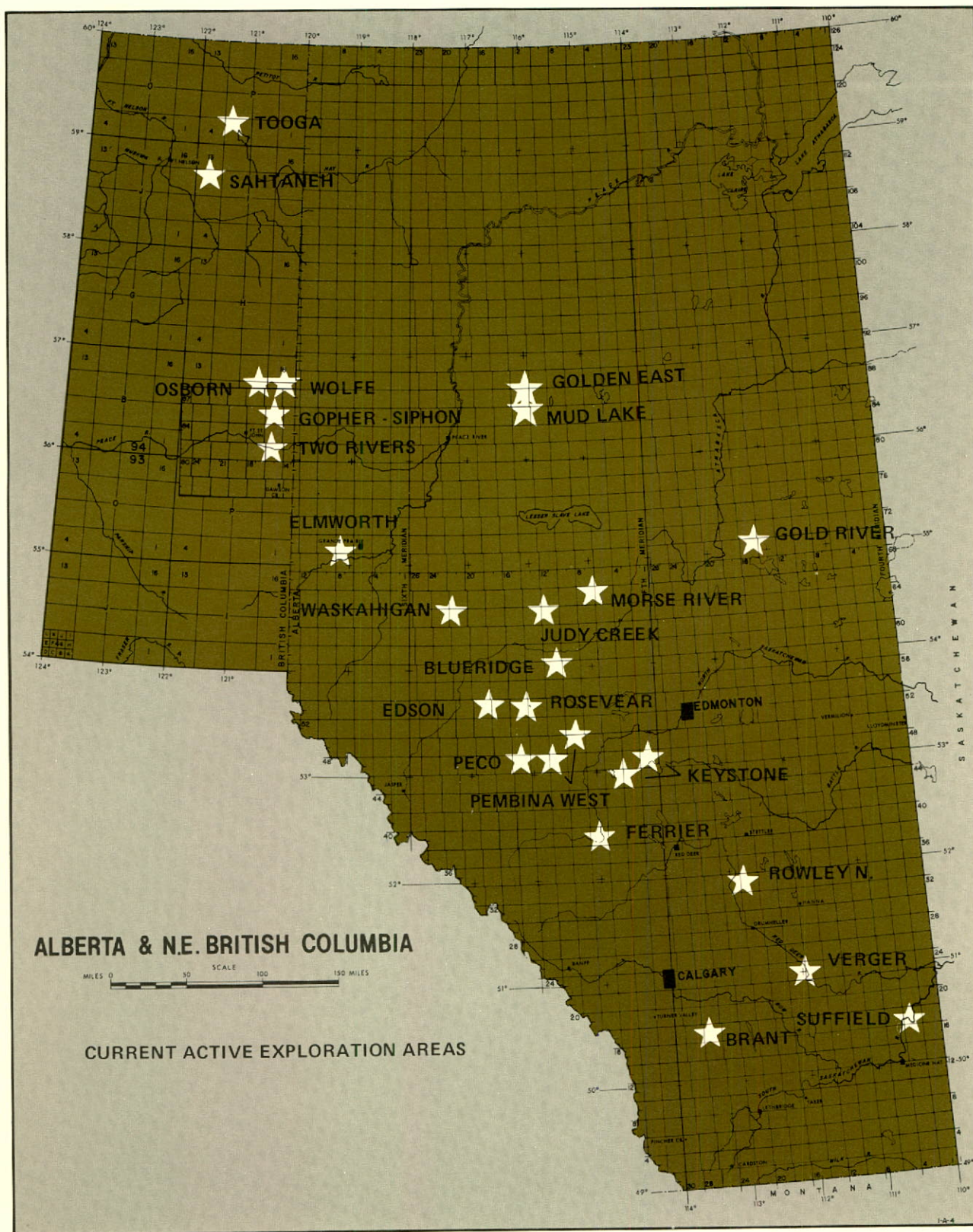
On June 20, 1979, the management agreement with Ranger Oil (Canada) Limited expired. Onyx is now a completely independent company operating on its own right and will continue to be active in oil and gas exploration, concentrating primarily in Alberta and B.C. The management agreement provided for Ranger to receive an annual fee of \$185,000 for administrative management beyond June 30, 1979. This fee will not now be payable. The agreement also provided for Ranger to pay 100% of all equipment costs during the exploration period, with the minimum amount being \$1.3 million. At December 31, 1979, \$780,000 was expended in this regard, leaving approximately \$520,000 uncommitted. Ranger has until June 30, 1980 to spend the remaining funds or make a cash payment to Onyx equal to the amount of the deficiency.

The corporate name was changed to Onyx Petroleum Exploration Company Ltd. from Rangeco Oil & Gas Ltd. on November 30, 1979. The directors felt it in the best interest of the Company to have our own identity as well as avoiding any confusion caused by the similarity in names with Ranger and its associated companies.

The board of directors would like to express their appreciation to Mr. Rob Jennings who is retiring from the board. Mr. Jennings has served on the board since the Company was formed.

DENNIS G. FLANAGAN
President

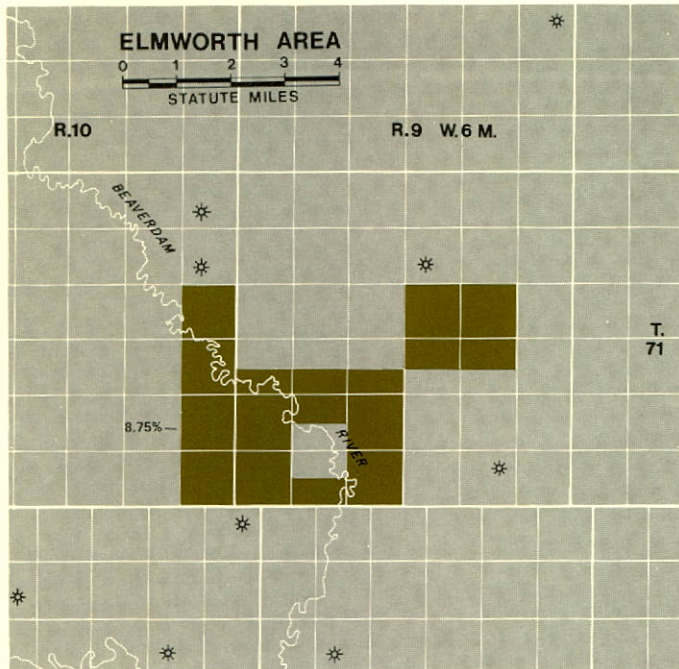
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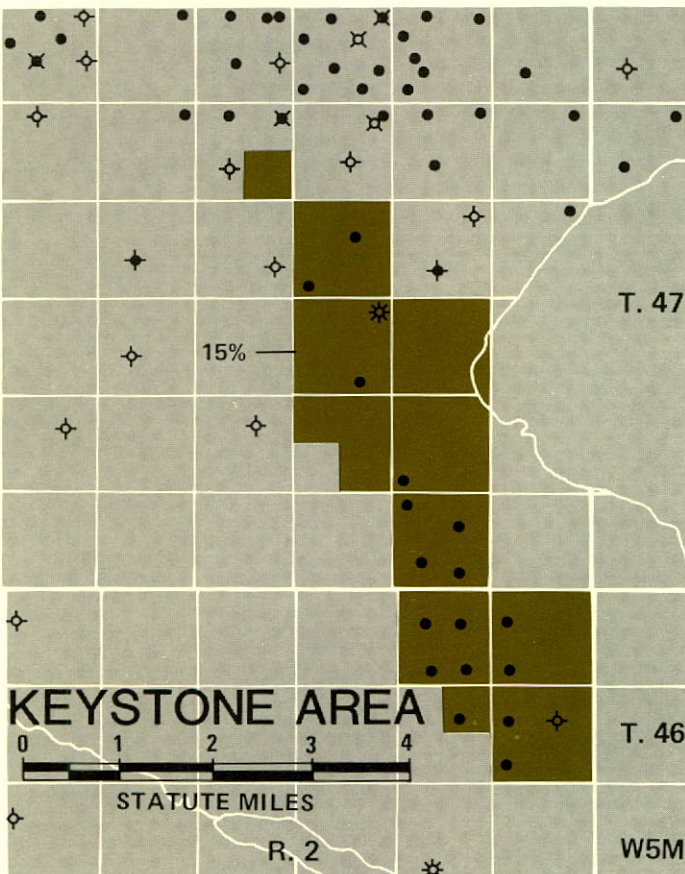
Exploration and Development Highlights

During the year the Company participated in 26 wells, resulting in 12 oil, 5 gas, and 9 dry. A summary of 1979 activities as well as drilling plans so far in 1980 are as follows.



Elmworth

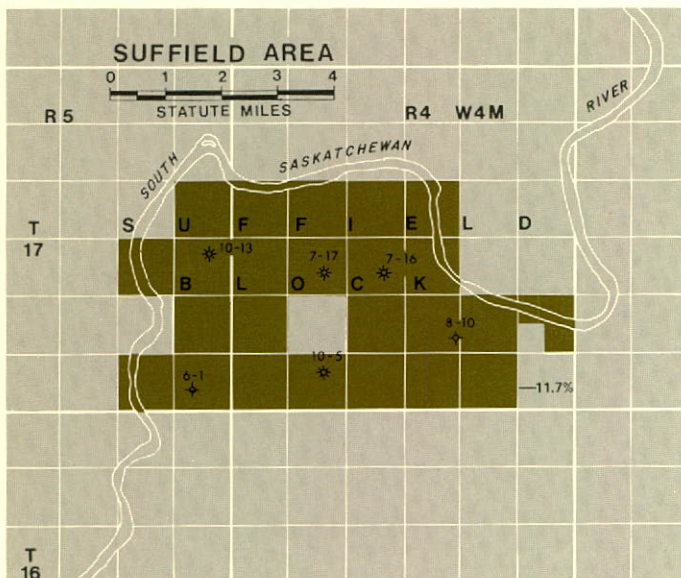
Onyx has a net 8.75% interest in an 8,640 acre licence in the Elmworth area. Two wells are planned for drilling as soon as possible this summer. It is expected that gas from this area will be marketable early next year if additional export approvals are approved.



Keystone

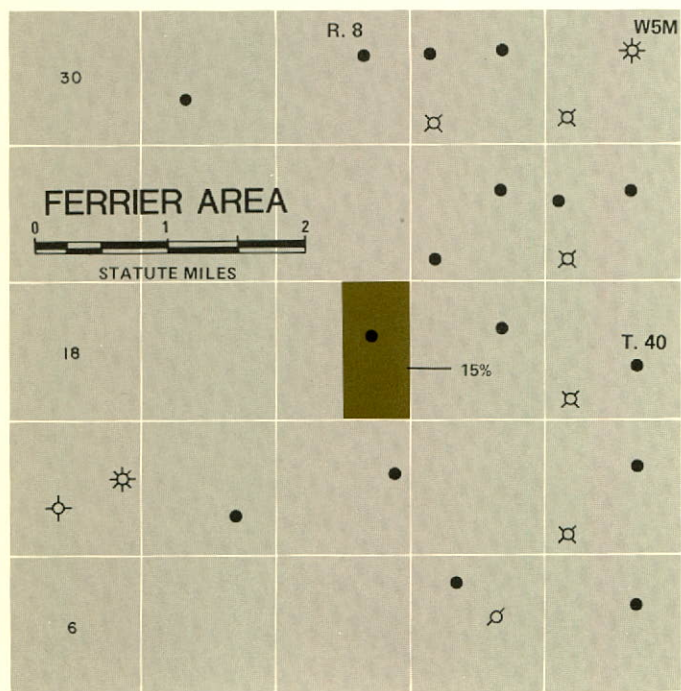
Onyx now has participated in 18 wells at Keystone, 11 of which are currently producing oil. A gathering system has just been completed connecting the southernmost 11 wells to a tank battery in Sec. 35-46-2 W5M. This system will facilitate the field being produced on a year-round basis regardless of weather and road conditions. Onyx has an average 15% interest in the field. Anticipated increases in production from this field will add considerably to the Company's cash flow during 1980 and subsequent years. Production is projected to average approximately 300 barrels per day during 1980 from the field.

Exploration and Development Highlights (continued)



Suffield

Onyx has a net 11.67% interest in four gas wells in the Suffield area. A contract to market the gas has been signed with Pan-Alberta Gas Ltd. for an average daily rate of 7.15 MMcf/d. Marketing of this gas is expected to commence in early 1981, and should generate approximately \$400,000 per year additional net cash flow to the Company. The well in Lsd 7-17-17-4 W4M has a calculated absolute open flow of 38 MMcf/d.



Holburn

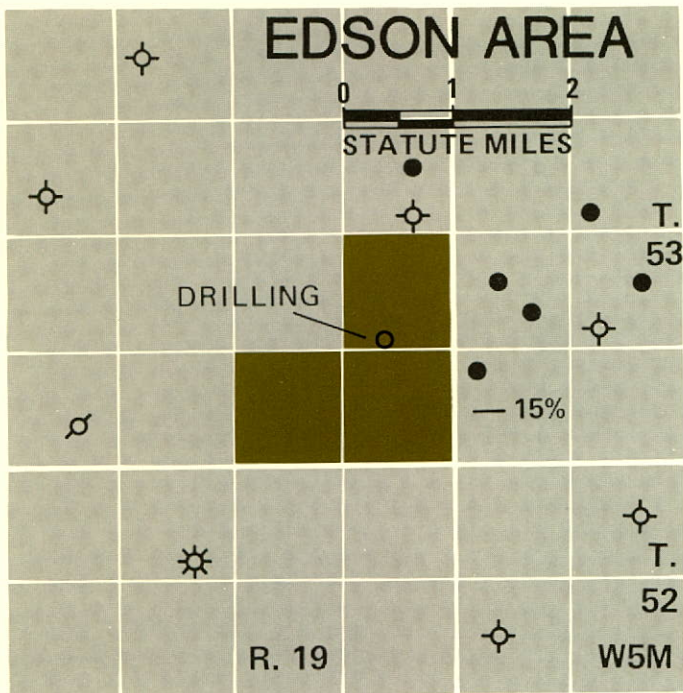
Onyx participated in one gas well and one dry hole on this prospect. The well in 7-4-51-2 W5M tested gas at a rate of 1.2 MMcf/d and is currently shut in pending connection to marketing facilities. Onyx's share in this well is 40%. The Company had a 25% interest in the 5-8-51-2 W5M well which was dry and abandoned.

Red Earth-Golden

During the first quarter of 1980, the Company participated in the drilling of four exploration prospects in this area. One well is a potential gas well and the other three were dry and abandoned. Onyx's working interest in these prospects varied between 5 and 21%.

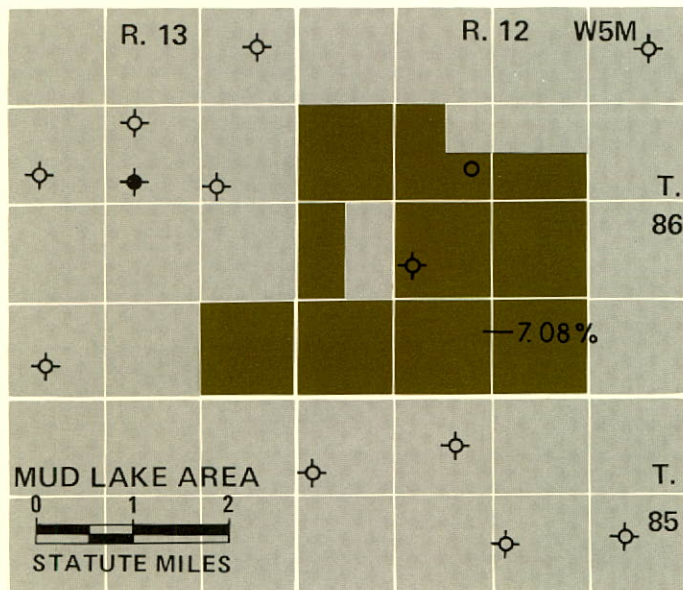
Ferrier

Onyx participated as to a 15% interest in an oil well drilled this winter at Ferrier. The well has been completed and is currently producing approximately 60 barrels of oil per day. The Company expects to participate in additional drilling in this area during 1980.



Edson

In early 1980, Onyx acquired a 15% interest in 1,920 acres in the Edson area. Subsequent to this acquisition, another company reported a significant oil discovery offsetting these lands. The first exploratory test is currently drilling on Lsd 3-12-54-19 W5M.



Mud Lake

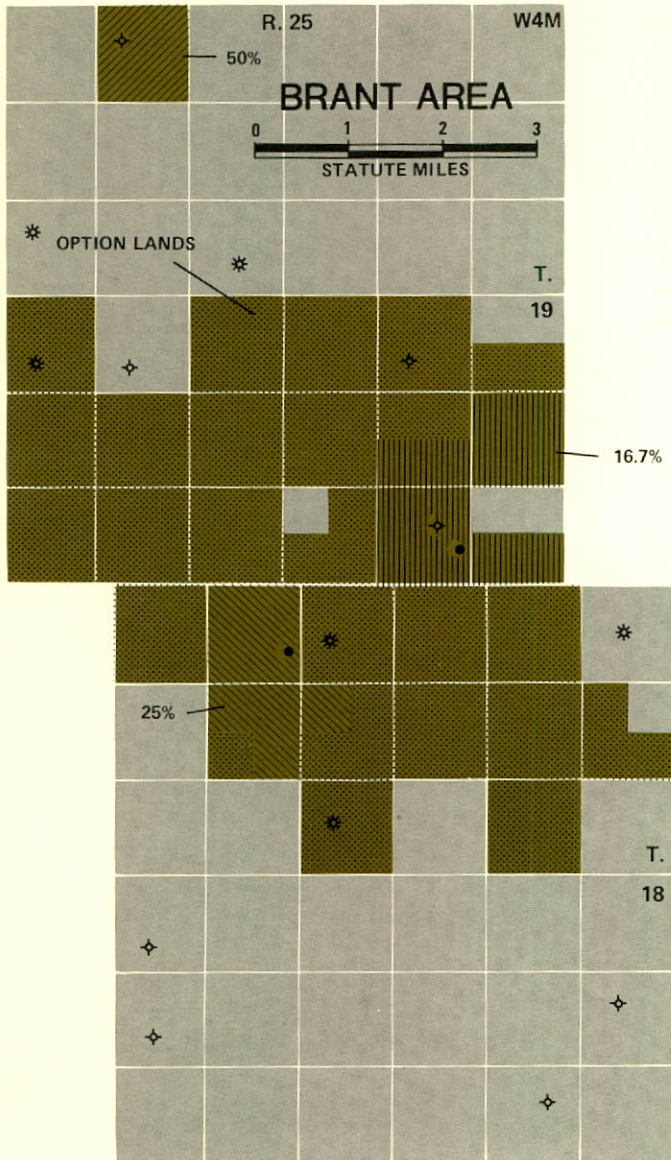
On April 9, 1980, Onyx acquired a 7.08% interest in 2,240 acres at the Alberta Crown Lease Sale. The Company now has an interest in 5,600 acres in this area and has participated in two wells. The well in Lsd 8-17-86-12 W5M has not yet been completed but encountered encouraging indications of oil. Additional drilling on these lands will commence after spring break-up.

Pembina West

Onyx has a 35% interest in a Shunda gas well drilled in 1979 on Lsd 5-33-47-12 W5M. This well flowed over 9 MMcf/d over an extended period of time. The well is currently shut-in pending connection to marketing facilities.

The Company has an 11.7% interest in a Cadomin gas condensate well drilled in Lsd 7-3-48-13 W5M. This well is currently being production tested in order to establish the commercial viability of producing the liquids and re-injecting the gas until such time as the gas becomes marketable.

Exploration and Development Highlights (continued)



Brant

In March, 1980, Onyx participated in an oil well in the Brant area of Alberta. The well Sabine Onyx et al Brant 8-2-19-25 W4M was drilled to a depth of 1870 metres and is currently being production tested. Onyx and partners have interests in 3,840 acres and options to earn up to an additional 14,800 acres by further drilling. The first well, Sabine et al Brant 8-32-18-25 W4M, which was drilled in late 1979, encountered encouraging oil shows and is currently suspended pending additional completion work. Further drilling is expected in the near future. Onyx's interest in the area varies between 16²/₃% and 50%.



Land

As at March 31, 1980

As at March 31, 1980, Onyx has an interest in 168,778 gross acres in Alberta and N.E. British Columbia as follows:

<u>Area</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Alberta		
Suffield	15,200	1,773
Verger	13,836	2,793
Keystone	8,000	1,080
Peco	2,560	497
Blueridge	8,480	1,484
Rowley North	960	672
Pembina West	2,560	388
Gold River	5,760	2,016
Elmworth	8,640	756
Rosevear	1,600	202
Waskahigan	8,160	600
Judy Creek	9,760	2,520
Brant	3,840	806
Holburn	3,200	1,024
Majeau Lake	640	192
Thunder Lake	640	256
Ferrier	320	48
Mud Lake	5,600	394
Edson	1,920	288
Swan Lake	3,840	500
Loon Lake	3,840	115
Golden East	4,480	246
B.C.		
Gopher	10,407	2,047
Siphon	4,549	1,592
Two Rivers	638	223
Wolfe	1,705	300
Osborn	2,083	365
Sahtaneh	2,560	300
Tooga	33,000	2,785
	<u>168,778</u>	<u>26,262</u>

Production and Reserves

Production

Onyx's share of production after deducting lease royalty was 264,629 Mcf of gas and 4,428 barrels of oil compared to 247,426 Mcf of gas and 1,223 barrels of oil in 1978. Gas production was from the Verger and Gopher properties. Oil production was all from Keystone, which produced only intermittently throughout the year. Oil production is expected to increase considerably in 1980 with the permanent gathering system installed at Keystone and the Ferrier well on production.

Reserves

The Company's share of estimated recoverable oil and gas reserves at December 31, 1979 are as follows:

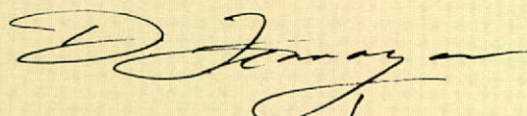
Proven gas	9.50	billion cu. ft.
Probable additional gas	1.83	billion cu. ft.
Proven oil	236,000	barrels
Probable oil	128,000	barrels

Balance Sheet

As at December 31, 1979

Assets		<u>1979</u>	<u>1978</u>
			(note 3)
Current Assets			
Cash and short-term deposits		\$2,098,167	\$ 53,331
Accounts receivable		63,457	18,974
		<u>2,161,624</u>	<u>72,305</u>
Fixed Assets (notes 2 and 3)			
Resource properties		157,351	1
Exploration and development costs		2,922,153	1,047,826
Production equipment, at cost		54,667	44,431
Other equipment, at cost		17,843	8,730
		<u>3,152,014</u>	<u>1,100,988</u>
Accumulated depletion and depreciation		160,300	53,580
		<u>2,991,714</u>	<u>1,047,408</u>
Deferred Income Tax Benefits (note 2)		64,100	103,800
		<u>\$5,217,438</u>	<u>\$1,223,513</u>
Liabilities			
Current Liabilities			
Accounts payable		\$1,143,420	\$ 62,929
Royalties payable to subscribers		20,850	22,840
		<u>1,164,270</u>	<u>85,769</u>
Shareholders' Equity			
Capital Stock (note 4)			
Authorized			
250,000 Restricted return shares of \$100 par value			
3,000,000 Common shares of no par value			
Issued and to be issued			
52,100 (1978 — 27,942) Restricted return shares		5,210,000	2,794,200
1,563,018 (1978 — 1,042,012) Common shares		3,179,075	101,464
		<u>8,389,075</u>	<u>2,895,664</u>
Accumulated Reduction in Carrying Value of Exploration and Development Costs (notes 2 and 3)		(4,374,293)	(1,746,374)
		<u>4,014,782</u>	<u>1,149,290</u>
Retained Earnings (Deficit)		38,386	(11,546)
		<u>4,053,168</u>	<u>1,137,744</u>
		<u>\$5,217,438</u>	<u>\$1,223,513</u>

Approved by the Board



Director



Director

Statement of Earnings

Year Ended December 31, 1979

	<u>1979</u>	<u>1978</u> (note 3)
Revenue		
Oil and gas sales, net of royalties and mineral taxes	\$402,608	\$246,767
Interest and other income	108,066	17,460
	<u>510,674</u>	<u>264,227</u>
Expenses		
Operating	139,817	105,578
General and administrative	136,605	148,311
Depletion	102,000	44,500
Depreciation	4,720	3,124
	<u>383,142</u>	<u>301,513</u>
Earnings (loss) before income taxes	<u>127,532</u>	<u>(37,286)</u>
Income Taxes (note 2)		
Current	42,900	11,300
Deferred	39,700	—
Alberta Royalty Tax Credit	(5,000)	(3,000)
	<u>77,600</u>	<u>8,300</u>
Net Earnings (Loss)	<u>\$ 49,932</u>	<u>\$(45,586)</u>
Net Earnings (Loss) Per Common Share , based on weighted average number of common shares outstanding (note 5)	<u>\$ —</u>	<u>\$ (.04)</u>

Auditors' Report

To the Shareholders of
Onyx Petroleum Exploration Company Ltd.
(formerly Rangeco Oil & Gas Ltd.)

We have examined the balance sheet of Onyx Petroleum Exploration Company Ltd. as at December 31, 1979 and the statements of earnings, retained earnings (deficit), 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 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, after giving retroactive effect to the change in accounting for the carrying value of exploration and development costs as described in note 3, on a basis consistent with that of the preceding year.

Calgary, Canada
February 8, 1980

Thorne Riddell & Co.
Chartered Accountants

Statement of Retained Earnings (Deficit)

Year Ended December 31, 1979

	<u>1979</u>	<u>1978</u>
Retained Earnings (Deficit) at Beginning of Year		
As previously reported	\$(93,546)	\$ 26,540
Adjustment resulting from change in accounting policy (note 3)	82,000	7,500
As restated	(11,546)	34,040
Net Earnings (Loss)	<u>49,932</u>	<u>(45,586)</u>
Retained Earnings (Deficit) at End of Year	<u>\$ 38,386</u>	<u>\$(11,546)</u>

Statement of Changes in Financial Position

Year Ended December 31, 1979

	<u>1979</u>	<u>1978</u>
Working Capital Derived from		
Operations	\$ 196,352	\$ 2,038
Realization of income tax benefits from application of share issue expenses	42,900	11,300
Issue of common shares (note 4)	3,126,036	—
Issue of restricted return shares (note 4)	2,415,800	2,431,300
	<u>5,781,088</u>	<u>2,444,638</u>
Working Capital Applied to		
Fixed assets	4,678,945	2,442,855
Share issue expenses	91,325	—
	<u>4,770,270</u>	<u>2,442,855</u>
Increase in Working Capital Position	1,010,818	1,783
Working capital deficiency at beginning of year	(13,464)	(15,247)
Working Capital (Deficiency) at End of Year	<u>\$ 997,354</u>	<u>\$ (13,464)</u>

Notes to Financial Statements

Year Ended December 31, 1979

1. Change of Name

On November 30, 1979, the name of the Company was changed from Rangeco Oil & Gas Ltd. to Onyx Petroleum Exploration Company Ltd.

2. Accounting Policies

(a) Fixed Assets

The Company follows the "full-cost" method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include resource property costs and exploration and development expenditures (see below).

Certain resource properties were acquired at a cost of approximately \$7 million on behalf of subscribers out of share subscription funds received in 1977, and have been assigned to the Company at no cost. Accordingly, they are carried in the accounts of the Company at a nominal value of \$1.

Exploration and development costs include expenditures incurred by subscribers in return for restricted return and certain common shares of the Company. This arrangement entitles subscribers to the income tax deductions resulting from such expenditures and, accordingly, such deductions are not available to the Company. The carrying value of exploration and development costs has been reduced (by a charge to shareholders' equity) by an amount equal to the value of these income tax deductions.

(b) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based upon the earnings reported in the accounts. Current income taxes of \$42,900 and \$11,300 have been charged against earnings for the years ended December 31, 1979 and 1978, respectively; such taxes otherwise payable have been eliminated by the application of share issue expenses.

(c) Depletion and Depreciation

Capitalized property, exploration and development costs are depleted using the unit of production method based on estimated recoverable oil and gas reserves as determined by Company engineers. Depreciation of production equipment is provided on a straight-line basis at a rate of 7% per annum.

(d) Joint Ventures

Substantially all the Company's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

3. Change in Accounting Policy

Prior to 1979, exploration and development expenditures incurred by subscribers in return for restricted return shares were carried in the balance sheet of the Company at an amount equal to such expenditures.

Effective January 1, 1979, the Company retroactively changed its method of accounting for these expenditures to the policy described in note 2(a). This change in accounting had the effect of increasing net earnings for the year ended December 31, 1979 by \$136,500 and reducing the loss for the year ended December 31, 1978 by \$74,500. The 1978 accounts have been restated from those previously reported to give effect to this accounting change. The cumulative effect to January 1, 1978 of \$7,500 has been credited to retained earnings at that date.

4. Capital Stock

(a) Common Shares

Changes in the Company's outstanding common stock during 1979 were as follows:

	<u>Shares</u>	<u>Amount</u>
Balance December 31, 1978	1,042,012	\$ 101,464
Issued and to be issued under rights offering		
For cash (i)	181,491	1,040,521
For exploration and development expenditures (ii)	339,515	2,037,090
Balance December 31, 1979	<u>1,563,018</u>	<u>\$3,179,075</u>

(i) net of share issue expenses of \$91,325 less applicable income tax benefits of \$42,900.

(ii) to be issued upon the expenditure of subscribers' funds totalling \$2,037,090 on Canadian exploration and development in the Company's oil and gas exploration program, of which \$1,703,253 had been expended at December 31, 1979; the balance of the funds has been expended subsequent to that date.

No dividends may be paid on common shares until dividends aggregating \$100 per restricted return share have been paid. Thereafter, dividends may be paid on common shares provided that an amount equal to any such dividends is applied to the redemption of restricted return shares.

(b) Restricted Return Shares

During 1979, the Company issued 24,158 restricted return shares to subscribers in consideration of the subscribers having incurred \$2,415,800 of exploration and development expenditures (see note 2).

The holders of restricted return shares have voting rights, limited dividend entitlements, and priority over common shareholders in case of liquidation, dissolution or winding-up. The shares are redeemable under certain circumstances at the option of the Company at a redemption price of \$100 per share.

(c) Key Employee Incentive Share Option Plan

As of December 31, 1979, 75,000 common shares of the Company were reserved under a key employee incentive share option plan of which options to purchase 30,000 shares were outstanding, exercisable from time to time to October, 1985 at prices of \$5.85 and \$6.10 per share.

5. Earnings Per Share

For purposes of earnings per share computation, net earnings for the year ended December 31, 1979 have been allocated to the restricted return shares in accordance with the dividend priorities attaching to each class of shares of the Company. No earnings will be allocated to the common shares until cumulative earnings amount to \$100 per restricted return share.

6. Contingent Asset

Pursuant to the terms of a management agreement which expired on June 30, 1979, Ranger Oil (Canada) Limited was required to pay 100% of all well-site equipment costs on jointly-held properties during the initial exploration period of the Company. Such costs amounted to \$780,000 at December 31, 1979. If the total expenditures for well-site equipment to June 30, 1980 are less than \$1,300,000, Ranger Oil (Canada) Limited is to make a capital contribution to the Company equal to the amount of such deficiency.

7. Statutory Information

Remuneration paid during 1979 to directors and senior officers (including all employees) of the Company amounted to \$94,700.



ONYX PETROLEUM EXPLORATION COMPANY LTD.