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ONYX PETROLEUM EXPLORATION COMPANY LTD.



UNIVERSITY OF MICHIGAN LIBRARY
DEC 16 1981
ANN ARBOR MI 48106

annual report 1980

Cover Photo

Drilling Operations near
Brant, Alberta (45 miles
southeast of Calgary)

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
Calgary, Alberta

Share Listing

The Toronto Stock Exchange
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.
J. M. Hallward (Montreal, Quebec)
Self Employed
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

Effective June 1, 1981, The
Company's Address will be
2000 Daon Building
444 - 5 Avenue S.W.
Calgary, Alberta
T2P 2T8

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.

Onyx shares are listed on The Toronto Stock Exchange and the Alberta Stock Exchange.



Drilling at Edson



PRESIDENT'S REPORT



The year 1980 was very active and successful for the Company. The exploration highlight was a significant oil discovery and follow-up success at Edson. Also during the year the Company's shares were listed on The Toronto Stock Exchange, which provided a much broader exposure to investors.

At Edson a multi-zone oil well was drilled in Lsd 3-12-54-19 W5 followed by two additional successful oil wells. Each of these three wells have been completed as dual zone producers. The group, of which Onyx has a 15% working interest, plans to drill an additional 10 to 15 wells depending on the ongoing drilling success. Subsequent to drilling the initial well, the group

acquired an additional 3,040 acres of land and now has a total of 4,960 acres around the discovery well. Flow lines are being laid which will permit year round production, and construction of a main tank battery is about to commence. The Edson project will contribute significantly to the production revenues in 1981 and future years.

The Golden East area has been the scene of substantial exploration activities by the Company and the industry in general over this past winter. A significant oil discovery drilled adjacent to lands in which Onyx has an interest was recently announced by another company. Onyx has participated in 9 wells in this area, including 3 drilled in 1981, and has various interests in a total of 12,000 acres with additional land held under options. Results to date have been very encouraging, which will precipitate an active drilling program for the Company after freeze-up next winter.

At Keystone, 75 miles southwest of Edmonton, Onyx has an interest in 18 oil wells. During the year a pipeline gathering system was completed connecting the wells to a main tank battery which will permit production on a year round basis without having to shut down for road problems. Unitization of the field and installation of waterflood facilities are almost complete, and will be in operation this summer.

Oil production for 1981 should increase substantially over 1980 as a result of our recent exploration successes and the installation of permanent production facilities at Keystone. Gas production should increase slightly this year as a result of the Suffield gas field due to go on production late this summer.

Financial

Gross revenues for the year ended December 31, 1980 increased by 12% to \$579,732. Production revenues increased by approxi-



mately \$112,000 while interest income decreased by approximately \$50,000. Cash flow decreased slightly to \$184,917 from \$239,252 last year while net income after tax decreased to \$3,311 from \$49,932 last year. Increased expenses resulted from interest on borrowed funds amounting to \$50,125 and approximately \$50,000 general and administrative due largely to the cost of an oil and gas reserves evaluation prepared for the Company. Production revenue is expected to increase substantially for 1981 as a result of the Edson and Keystone properties.

Reserves

Proven and probable oil reserves at year end were more than double last year's as a result of the Edson wells. Proven oil reserves increased to 434,000 barrels while probable oil reserves increased to 778,179 barrels. Gas reserves remain at approximately 10 Bcf of proven gas. The Company's reserves were estimated by independent consulting engineers.

Corporate

On October 24, 1980, the Common shares of the Company were listed on The Toronto Stock Exchange. This listing has provided a broader exposure to investors as evidenced by the substantial increase in share trading. Since the listing, the shares have traded at prices ranging from \$7 3/4 to \$11 7/8. The Common shares are also listed on the Alberta Stock Exchange.

Restricted Return Shares Conversion

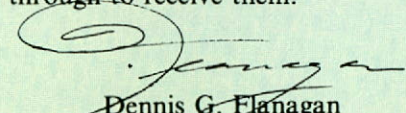
At a Special Meeting of Shareholders held on November 12, 1980, shareholders approved the right for holders of Restricted Return

shares to exchange them for Common shares prior to December 30, 1980 at a ratio of 3.5 Common shares for each \$100 Par Value Restricted Return share. The issue was very successful with 87% of the Restricted Return shares exchanged for Common, leaving only 6,552 Restricted Return shares still outstanding. The Company has no further plans to eliminate these remaining Restricted Return shares. A total of 1,722,415 Common shares are now issued and outstanding.

National Energy Policy

The Company is an active member of the Independent Petroleum Association of Canada (IPAC), and fully supports the public stand taken by it against the Federal Government's National Energy Policy. The NEP, as proposed, is having and will continue to have a devastating effect on the Canadian oil business, and is counter productive to the plan of Canadian self-sufficiency. In our view, it is absolutely necessary for Canadians that the Federal Government face reality and allow the prices for conventional domestic oil to increase to a more realistic level relative to world prices. The price we now receive for our oil is less than 50% of that paid to foreign countries for imported oil.

Onyx is more than 75% Canadian owned and therefore qualifies for the maximum grants available under the NEP. These grants, however, do not even come close to compensating us for the unrealistic prices we receive, let alone the bureaucratic jungle we will no doubt have to go through to receive them.

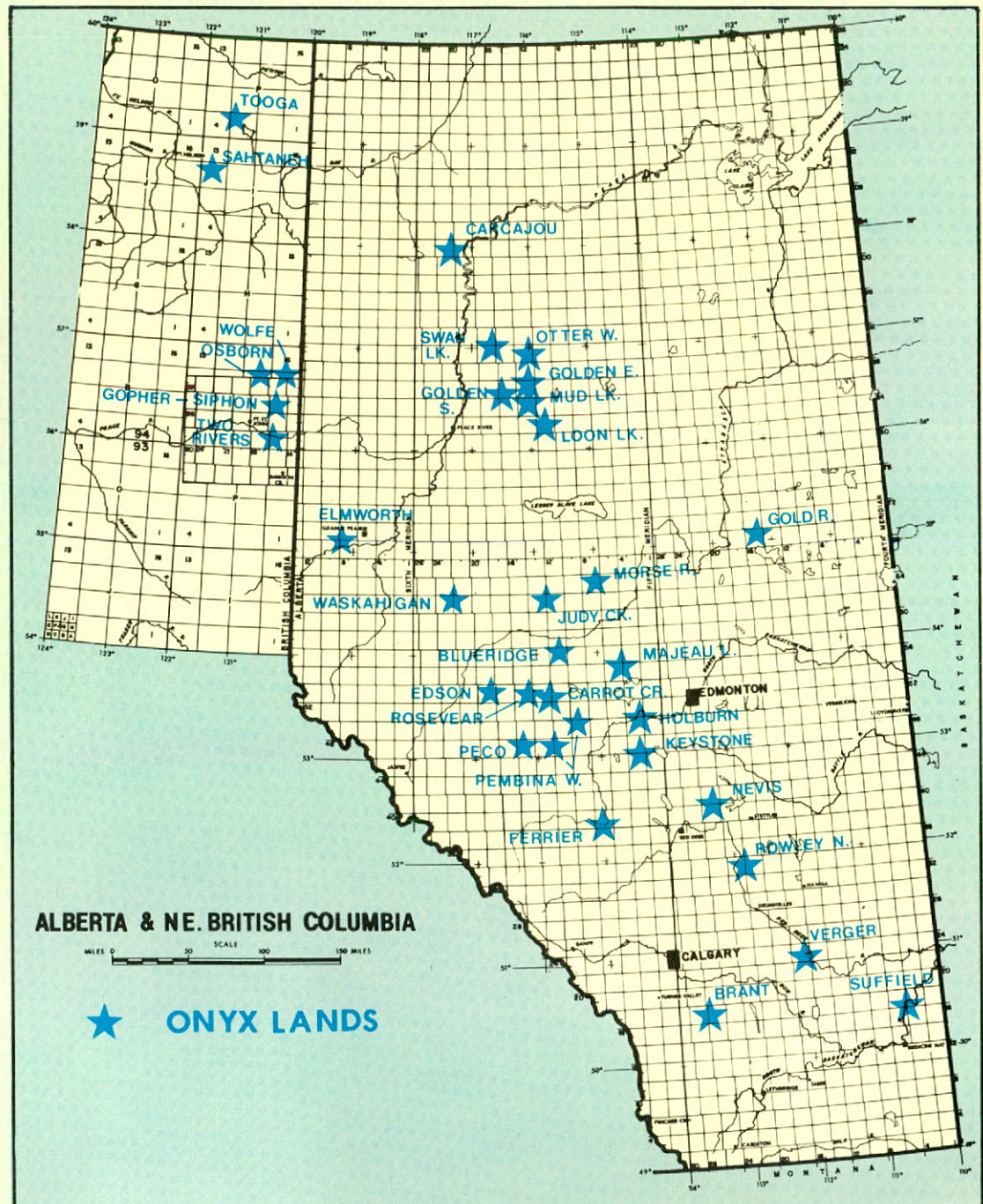

Dennis G. Flanagan
President

1981 April



EXPLORATION AND DEVELOPMENT HIGHLIGHTS

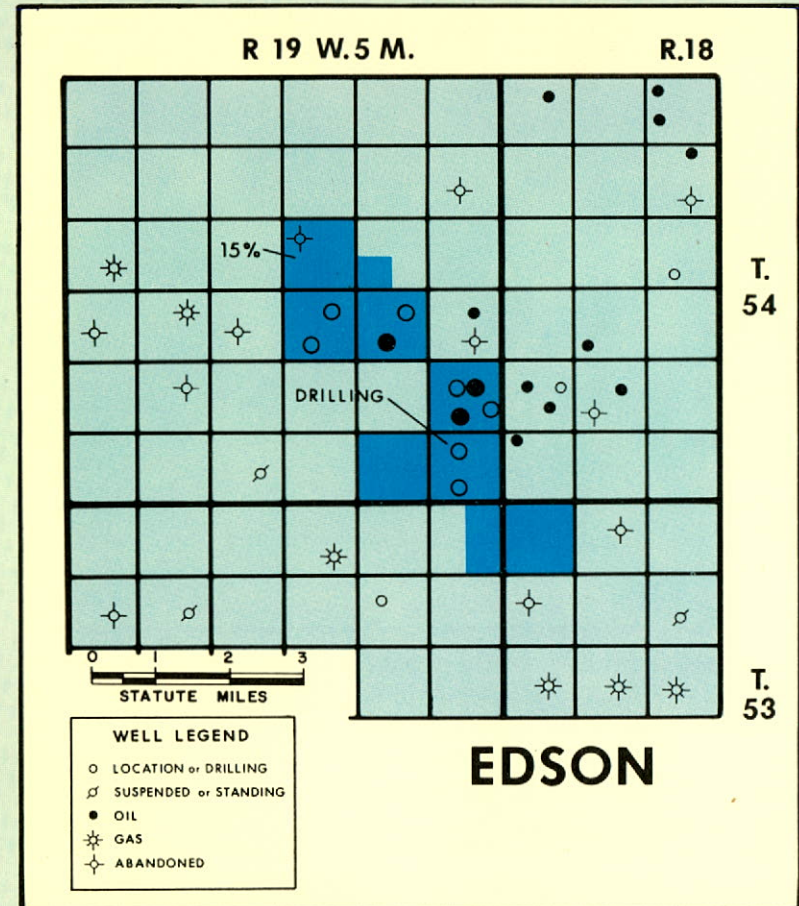
During the year the Company participated in 16 exploration wells, resulting in 5 oil, 1 gas and 10 abandonments. Since the year end Onyx has participated in a further 5 wells, resulting in 3 oil, 1 gas and 1 abandonment, and at the time of this report an additional 3 wells are drilling.





Edson

Onyx has a 15% interest in 4,960 acres at Edson. During the year a triple zone oil discovery was drilled in Lsd 3-12-54-19 W5M which has since been completed as a dual zone oil producer. Since the discovery, two additional wells have been drilled and also completed as dual zone producers. A major development program to drill the balance of the lands is planned to commence after break-up this spring. Depending on the ongoing success, a possible 10 to 15 wells are planned during the next two years. Construction of a gathering line from the existing three wells is already underway which will be connected to a main tank battery also being constructed. Engineering design work has commenced for a gas plant which will be constructed later this year. Solution gas produced with the oil has priority to markets and will generate substantial additional revenues once the plant is completed.

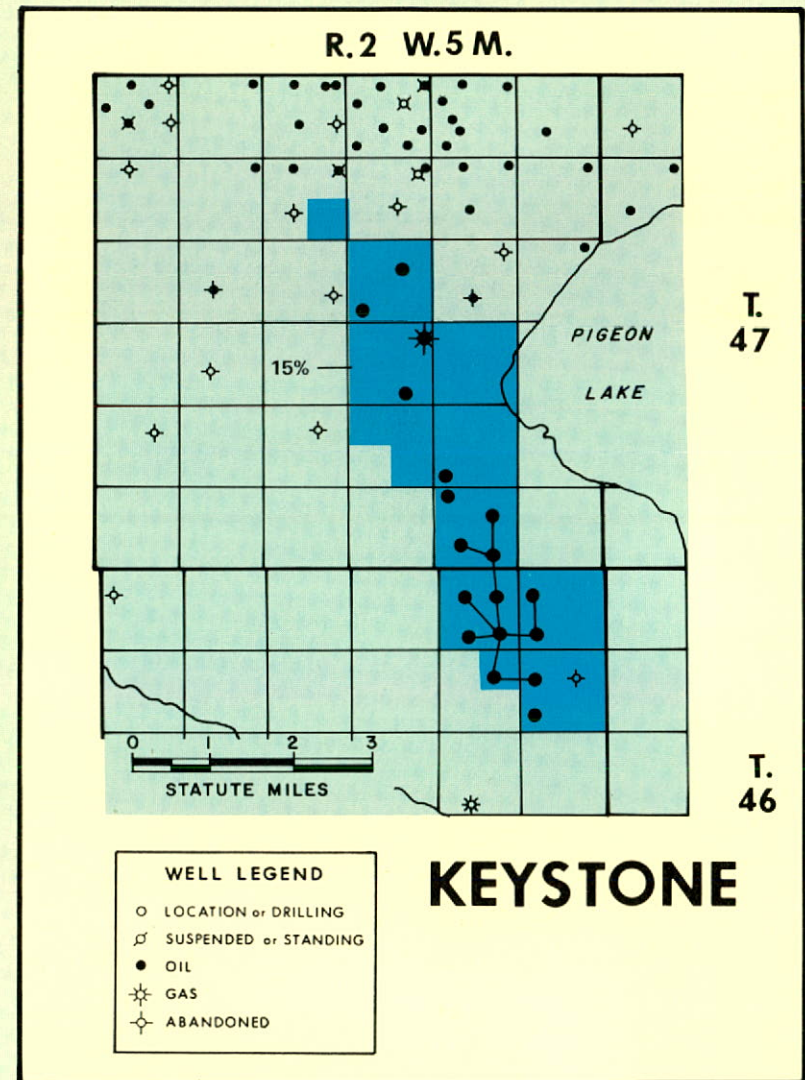


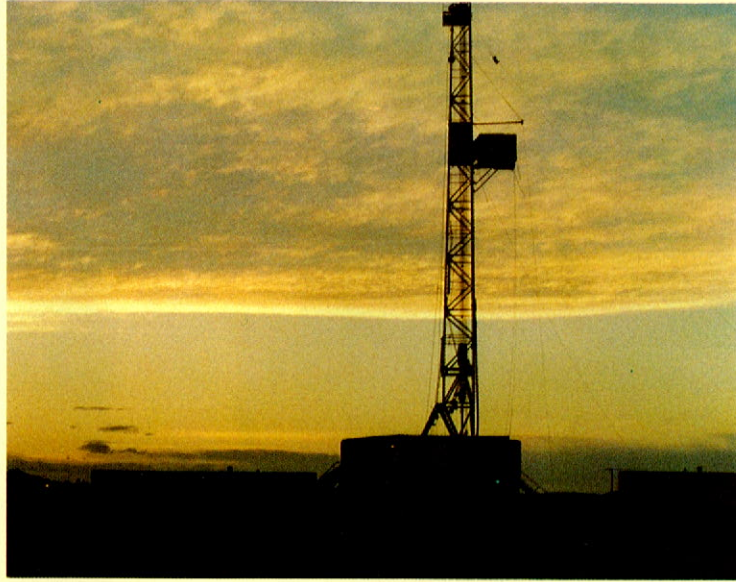


Keystone

Onyx has an interest in 18 oil wells at Keystone. No new wells were drilled during the year, however, permanent production facilities were installed so that production will not be interrupted by bad weather or road bans. The southern 11 wells are now tied in to the main tank terminal in Lsd 2-35-46-2 W5 and plans to unitize this portion of the field are almost complete. Two water source wells have been drilled and permission to commence a waterflood secondary recovery scheme has been obtained from the Energy Resources Conservation Board. The waterflood project is expected to be in operation early this summer. Some infill drilling may be required at a later date. Production from the unit area is expected to average approximately 400 barrels per day with increases expected next year after the waterflood takes effect.

Onyx's interest in this area is approximately 15%.

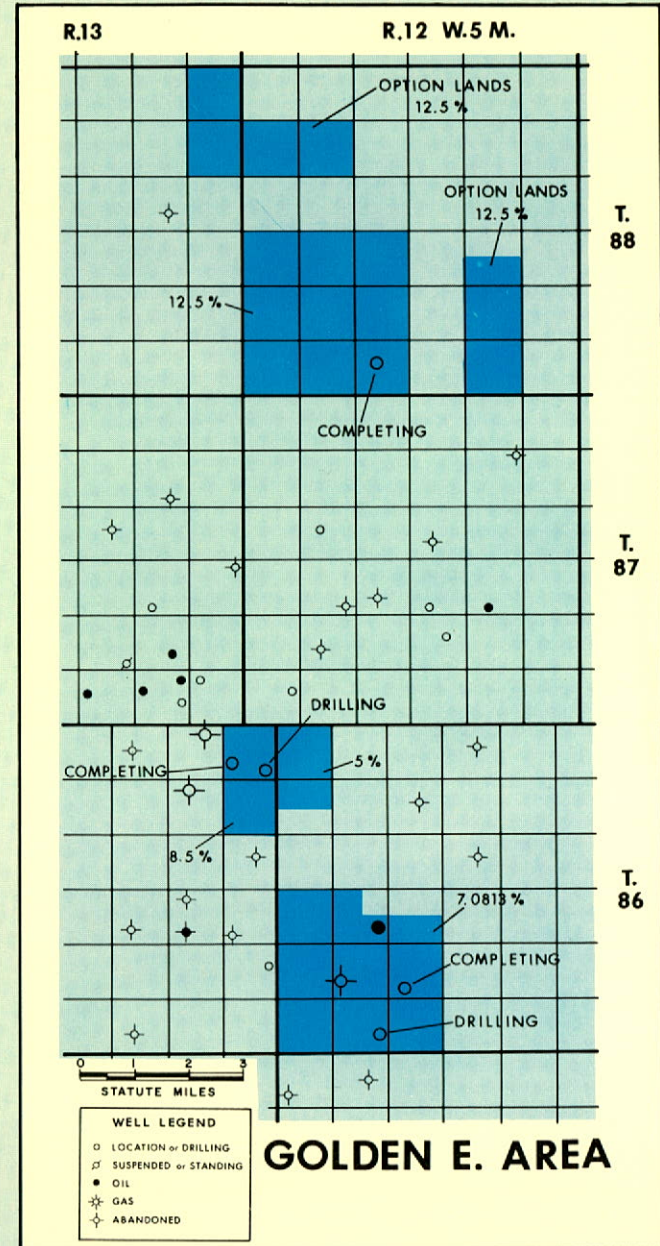




Golden Area

The Golden area has recently become very active in oil exploration. The area is generally muskeg country and with few exceptions, drilling operations take place only during the winter months. Alberta Government land sales in this area have generated considerable interest as evidenced by prices paid in recent months. Several oil discoveries have been made including one announced recently located adjacent to lands in which Onyx has an interest. During the past 18 months, Onyx participated in 9 exploration wells in this area with very encouraging results. The Company now has various interests in 12,000 acres of land and interests in options on an additional 4,140 acres.

To date the Company has interests in 4 oil wells and 1 gas well, with another 2 wells currently drilling. A substantial development program is planned for next winter on these prospects.





Suffield

Onyx has a net 11.67% interest in 4 gas wells in the Suffield area. A gas gathering system is being installed so that gas sales can commence in September of this year. A gas contract with Pan-Alberta Gas Ltd. is in effect and sales to them will start out at a reduced rate of approximately 2 million cubic feet per day. The well in Lsd 7-17-17-4 W4 had a calculated absolute open flow of 38 million cubic feet per day.

Carrot Creek

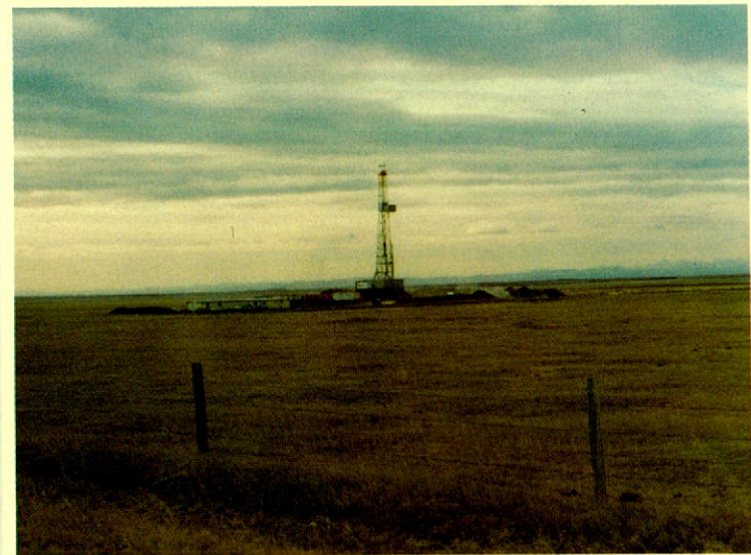
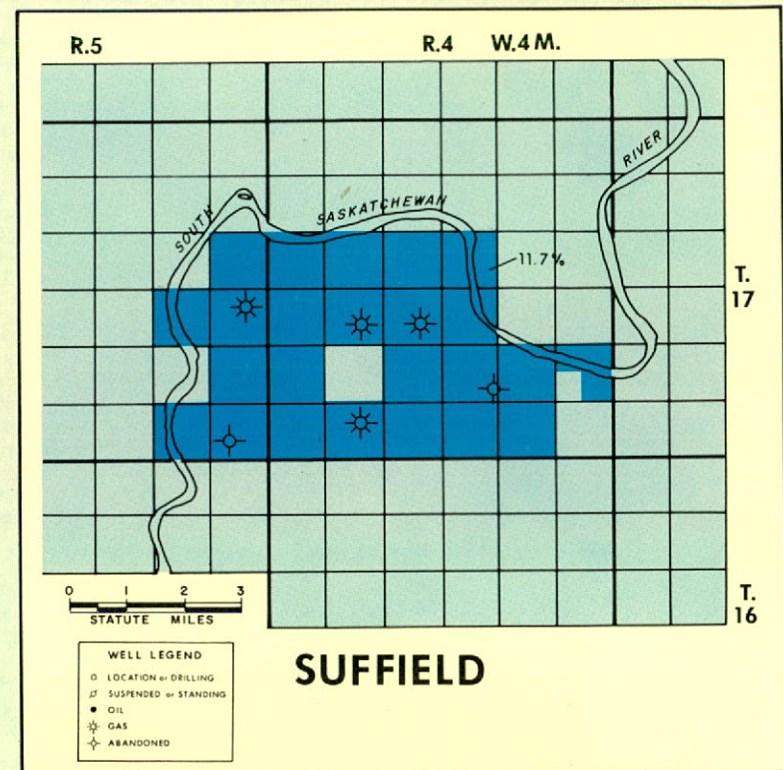
The Company is participating in a well currently drilling in the Carrot Creek area 30 miles East of Edson. By participating in the well Onyx will earn a net 12½% interest in 640 acres with options to earn the same interest in another 1,240 acres. The well also offsets Crown lands which have been posted for sale. The lands being drilled are under contract to a major gas purchaser and if commercial gas is encountered, it is intended to connect the well to marketing facilities this fall.

Pembina West

Onyx has a 35% interest in a Shunda gas well drilled in 1979 on Lsd 5-33-47-12 W5. This well flowed over 9 MMcf/d over an extended period of time. The well is currently shut-in pending connection to marketing facilities.

Elmworth

The first well drilled on this prospect was dry and abandoned. A second test will probably be drilled next winter, depending on gas marketing conditions. Onyx has an 8.75% interest in this 8,640 acre licence.





LAND

As at March 15, 1981, Onyx has an interest in 178,480 gross acres in Alberta and N.E. British Columbia as follows:

Area	Gross Acres	Net Acres
Alberta		
Suffield	15,200	1,773
Verger	13,760	2,778
Keystone	5,920	888
Peco	2,560	497
Blueridge	8,480	1,484
Rowley North	960	672
Pembina West	2,560	406
Gold River	5,760	2,016
Elmworth	8,640	756
Rosevear	1,600	202
Waskahigan	8,160	478
Judy Creek	9,760	2,520
Brant	3,840	987
Holburn	3,200	992
Majeau Lake	640	141
Thunder Lake	640	368
Ferrier	320	48
Mud Lake	5,600	394
Edson	4,960	744
Swan Lake	3,840	500
Loon Lake	3,200	96
Golden	12,000	1,137
Golden South	3,200	340
Carcajou	4,480	1,120
Carrot Creek	640	80
Morse River	5,120	320
Nevis	1,600	200
B.C.		
Gopher	2,905	905
Siphon	4,549	1,592
Two Rivers	638	223
Wolfe	1,705	300
Osborn	2,083	365
Sahtaneh	2,560	150
Tooga	33,000	2,785
	<u>178,480</u>	<u>27,863</u>

PRODUCTION AND RESERVES

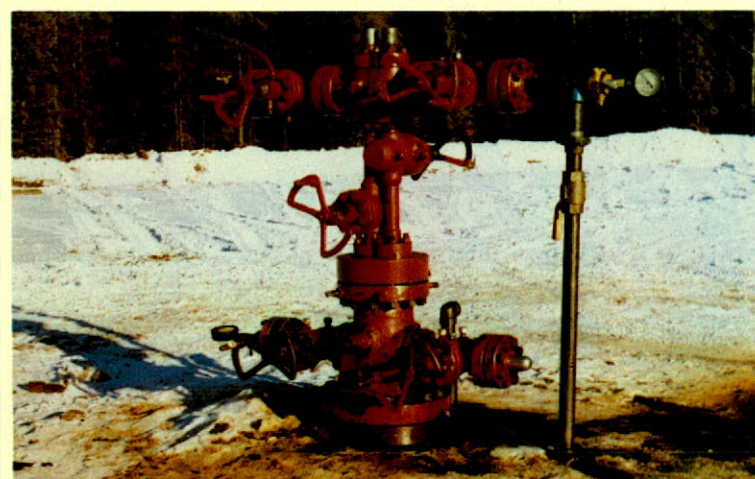
Production

Onyx's share of production after deducting lease royalty was 189,431 Mcf of gas and 10,007 barrels of oil compared to 264,629 Mcf of gas and 4,428 barrels of oil in 1979. Gas production decreased at Verger and Gopher this year due to marketing and downtime at Gopher for installation of compression facilities. Gas production in 1981 should increase marginally with Suffield expected to commence in September, 1981. Oil production should increase substantially in 1981 with the Edson and Golden areas now on production.

Reserves

The Company's share of gross oil and gas reserves at December 31, 1980 as estimated by independent consulting engineers, is as follows:

Proven	
Oil	434,000 barrels
Gas	9.995 billion cu. ft.
Probable	
Oil	778,000 barrels
Gas	.744 billion cu. ft.







ONYX PETROLEUM EXPLORATION COMPANY LTD.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1980



ONYX PETROLEUM EXPLORATION COMPANY LTD.

BALANCE SHEET

As at December 31, 1980

Assets	1980	1979	Liabilities	1980	1979
Current Assets			Current Liabilities		
Cash and short-term deposits	\$ 286,575	\$2,098,167	Accounts payable	\$ 629,320	\$1,143,420
Accounts receivable	229,817	63,457	Royalties payable to subscribers	32,831	20,850
	<u>516,392</u>	<u>2,161,624</u>		<u>662,151</u>	<u>1,164,270</u>
Fixed Assets (note 1)			Bank Production Loan (note 2)	<u>1,300,000</u>	<u>—</u>
Resource properties	528,852	157,351			
Exploration and development costs	5,440,981	2,922,153			
Production equipment, at cost	303,332	54,667			
Other equipment, at cost	17,993	17,843			
	<u>6,291,158</u>	<u>3,152,014</u>			
Accumulated depletion and depreciation	299,606	160,300			
	<u>5,991,552</u>	<u>2,991,714</u>			
Deferred Income Tax Benefits	57,200	64,100			
	<u>\$6,565,144</u>	<u>\$5,217,438</u>			
			Shareholders' Equity		
			Capital Stock (note 3)		
			Authorized		
			52,100 Restricted Return shares of		
			\$100 par value		
			3,000,000 Common shares of no par		
			value		
			Issued		
			6,552 (1979 - 52,100) Restricted		
			Return shares	655,200	5,210,000
			1,722,415 (1979 - 1,563,018) Common	7,733,875	3,179,075
			shares	<u>8,389,075</u>	<u>8,389,075</u>
			Accumulated Reduction in Carrying Value		
			of Exploration and Development Costs		
			(note 1)	(4,374,293)	(4,374,293)
				<u>4,014,782</u>	<u>4,014,782</u>
			Contributed Surplus (note 4)	586,404	—
			Retained Earnings	1,807	38,386
				<u>4,602,993</u>	<u>4,053,168</u>
				<u>\$6,565,144</u>	<u>\$5,217,438</u>

Approved by the Board

D. J. ... Director

Arthur G. Hall Director



ONYX PETROLEUM EXPLORATION COMPANY LTD.

STATEMENT OF EARNINGS

Year Ended December 31, 1980

	1980	1979
Revenue		
Oil and gas sales, net of royalties and mineral taxes	\$520,069	\$407,608
Interest and other income	<u>59,663</u>	<u>108,066</u>
	<u>579,732</u>	<u>515,674</u>
Expenses		
Operating	148,884	139,817
General and administrative	195,806	136,605
Interest	50,125	—
Depletion	121,432	102,000
Depreciation	<u>17,874</u>	<u>4,720</u>
	<u>534,121</u>	<u>383,142</u>
Earnings before income taxes	45,611	132,532
Deferred Income Taxes	<u>42,300</u>	<u>82,600</u>
Net Earnings (note 5)	<u>\$ 3,311</u>	<u>\$ 49,932</u>

STATEMENT OF RETAINED EARNINGS

Year Ended December 31, 1980

	1980	1979
Balance at Beginning of Year	\$ 38,386	\$(11,546)
Net Earnings	<u>3,311</u>	<u>49,932</u>
	41,697	38,386
Expenses incurred on conversion of Restricted Return shares, net of applicable income tax benefits of \$35,400 (note 3)	<u>39,890</u>	—
Balance at End of Year	<u>\$ 1,807</u>	<u>\$ 38,386</u>



ONYX PETROLEUM EXPLORATION COMPANY LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1980

	1980	1979
Working Capital Derived From		
Operations	\$ 184,917	\$ 239,252
Bank production loan	1,300,000	—
Contributed surplus (note 4)	586,404	—
Issue of Common shares	—	3,126,036
Issue of Restricted Return shares	—	2,415,800
	<u>2,071,321</u>	<u>5,781,088</u>
Working Capital Applied to		
Fixed assets	3,139,144	4,678,945
Share issue expenses	75,290	91,325
	<u>3,214,434</u>	<u>4,770,270</u>
Increase (Decrease) In Working Capital Position	(1,143,113)	1,010,818
Working capital (deficiency) at beginning of year	997,354	(13,464)
Working Capital (Deficiency) At End Of Year	<u><u>\$(145,759)</u></u>	<u><u>\$ 997,354</u></u>

AUDITORS' REPORT

To the Shareholders of
Onyx Petroleum Exploration Company Ltd.

We have examined the balance sheet of Onyx Petroleum Exploration Company Ltd. as at December 31, 1980 and the 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 financial statements present fairly the financial position of the Company as at December 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 27, 1981

Thorne Riddell
Chartered Accountants



ONYX PETROLEUM EXPLORATION COMPANY LTD.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 1980

1. 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 entitled subscribers to the income tax deductions resulting from such expenditures and, accordingly, such deductions were 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 benefits of the income tax deductions which would have otherwise been available to the Company.

(b) 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. Depreciation of production equipment is provided on a straight-line basis at a rate of 7% per annum.

(c) 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.

(d) 1979 Comparative Figures

Certain of the 1979 accounts have been reclassified to conform with the financial statement presentation adopted for 1980.

2. Bank Production Loan

The bank production loan is evidenced by a demand promissory note, bears interest at the bank's prime lending rate plus 1% and is secured by the Company's interest in certain oil and gas properties. The loan is repayable out of future production proceeds and, accordingly, is not expected to require the use of existing working capital; therefore, no portion of the loan has been reclassified to current liabilities.

3. Capital Stock

(a) Common Shares

Changes in the Company's outstanding Common stock during 1980 were as follows:

	Shares	Amount
Balance December 31, 1979	1,563,018	\$3,179,075
Issued on conversion of 45,548 Restricted Return shares (see (b) below)	<u>159,397</u>	<u>4,554,800</u>
Balance December 31, 1980	<u>1,722,415</u>	<u>\$7,733,875</u>



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 1980, the Company cancelled 197,900 authorized but unissued Restricted Return shares and reduced its authorized Restricted Return share capital from 250,000 to 52,100 shares.

During 1980, holders of Restricted Return shares were granted the right, at any time prior to the close of business on December 30, 1980, to convert each Restricted Return share to 3.5 Common shares of the Company; of the 52,100 Restricted Return shares then outstanding, 45,548 were converted to Common shares.

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, 1980, 75,000 Common shares of the Company were reserved for issue on exercise of options outstanding under the Company's key employee incentive share option plan, exercisable from time to time to November 1986 at prices ranging from \$5.85 to \$8.70 per share.

4. Contributed Surplus

Under the terms of a management agreement with Ranger Oil Limited which expired on June 30, 1979, Ranger was required to pay 100% of all well-site equipment costs on jointly-held properties during the initial exploration period of the Company. If the total expenditures for well-site equipment to June 30, 1980 amounted to less than \$1,300,000, Ranger was required to make a capital contribution to the Company equal to the amount of such deficiency. During 1980, the Company received a capital contribution of \$586,404 in respect of the deficiency.

5. Earnings Per Share

For purposes of earnings per share computation, net earnings 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. Statutory Information

Remuneration paid during 1980 to directors and senior officers (including all employees) of the Company amounted to \$149,350.

