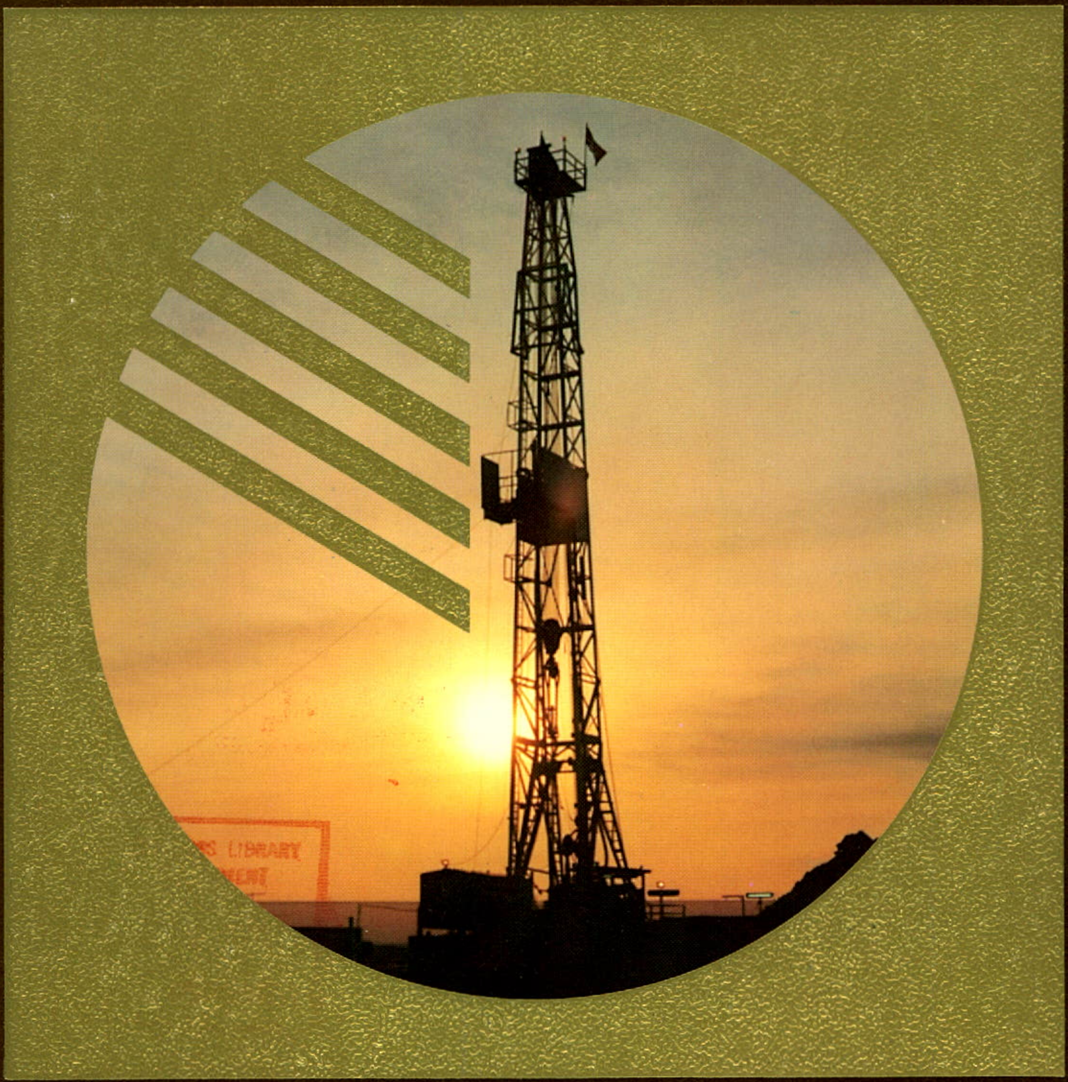
ONYX PETROLEUM EXPLORATION
COMPANY LTD.



annual
report
1981

Board of Directors

D. G. Flanagan (Calgary, Alberta)
President of the Company

J. M. Hallward (Montreal, Quebec)
Self Employed

H. S. Hartley (Calgary, Alberta)
President, Sea Hawk Resources Ltd.

D. C. Jones (Calgary, Alberta)
President, Carlton Resource Management Ltd.

L. Waisberg (Toronto, Ontario)
Partner, Goodman & Goodman

Officers and Senior Personnel

D. G. Flanagan - President
L. L. Hansen - Vice President - Finance
A. R. Puzey - Exploration Manager
O. G. J. Humeniuk - Land Manager
P. H. Depper - Secretary

Bankers

Bank of Montreal
Calgary, Alberta

Auditors

Thorne Riddell
Calgary, Alberta

Solicitors

MacKimmie Matthews
Calgary, Alberta

Share Listing

The Toronto Stock Exchange
The Alberta Stock Exchange

Corporate Registrar and Transfer Agents

The Canada Trust Company

Head Office
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 Otter

PRESIDENT'S REPORT

The year 1981 was very exciting and successful for Onyx. The size of the Company in terms of total net assets and net assets per share has almost doubled over the year as a result of several significant new oil discoveries and corporate acquisitions.

The exploration and development highlights were the successful oil development program at Edson and the new oil discoveries in the Golden area in northwestern Alberta. At Edson, the Company had interests in 8 dual zone producing oil wells at the end of the year with plans to drill an additional 15 wells in 1982. At Golden the Company had interests in 6 oil wells, all of which were placed on production in late 1981 and early 1982. An additional 10 wells are planned for drilling in 1982 in this area.

In October production commenced at Suffield where the Company has a 12% interest in four wells. The contracted rate is approximately 2 MMcf/d with increases in volumes expected next year. The Company's only remaining shut-in gas reserves of any significance are at West Pembina, which are expected to go on production in 1983 under the terms of a recently signed gas contract with ProGas Limited.

Financial

Gross revenues for the year ended December 31, 1981 increased by 12% to $650,056. Production revenues were up $113,788, or 22% over 1980, due to an upward price adjustment and increased production from our Edson properties. Continuing high interest rates throughout the year contributed to the operating loss of $656,074 and the negative cash flow of $465,574. New oil production from development programs currently underway is expected to increase substantially in 1982 and future years. Most of this increased production will attract new oil prices and earnings and cash flow are expected to increase significantly in 1982.

Corporate

On October 16, 1981, the Company reached an agreement to acquire Altoil Production Ltd., as well as the assets of Sea Hawk Resources Ltd., and Blue Horizon Resources Ltd., for 565,000 shares of Onyx. All of these companies were private Alberta oil and gas companies with assets consisting mostly of interests in properties in which Onyx already had an interest, such as Edson, Evi, Otter, Mud Lake and Carrot Creek.

In addition to the acquisition of these assets, an additional 619,644 shares were issued for cash amounting to a total of approximately $5 million. The proceeds of the issue were used to reduce the Company bank loan and to provide funds for the Company's 1982 exploration and development program. This private placement resulted in the issuance of 220,476 Common Shares at $7.25 per share and 399,168 Common Shares to be issued on a "flow through" basis at $8.50 per share. The "flow through" shares will be issued after all the proceeds are spent on exploration and drilling, which we forecast to be about mid-year. The total shares outstanding after the issuance of all of the shares will be 2,907,024.

1982 Projected Activities

As a result of our success in 1981, the Company has a very ambitious drilling program for 1982. We have budgeted for 26 wells, both exploration and development, for a total projected expenditure of approximately $6 million. At Edson we plan to drill 15 wells, 1 well in Carrot Creek, and 10 wells in the Golden area. Most of this drilling activity will take place in the first 6 months of the year. As of March 1, 1982 six of these wells have been drilled with the following results:

Edson - 3 dual zone oil wells - Onyx share 20%
Golden - 3 oil wells - Onyx share 7.5% to 37.5%

Onyx also completed a farmout of its interest in a 5760 acre Crown lease at Gold River. Onyx will retain a 17.5% working interest in these properties and to date two potential gas wells have been drilled at no cost to the company.

Except for the first well at Edson and the first two wells at Mud Lake, all of which were drilled prior to January 1, 1981, the oil being produced from the Edson and Golden areas is all "new" oil which qualifies for the New Oil Reference Price (NORP) in accordance with the recent Alberta-Federal Oil Pricing Agreement. The result of the new pricing schedule, together with the increased volumes, will have a dramatic effect on our oil and gas production revenue for 1982 and future years.

In addition to receiving the NORP prices for most of our oil production, the Company is also able to take full advantage of the Alberta Royalty Tax Credit which was amended effective September 1, 1981 to provide for a cash refund of 50% of royalties paid to the Alberta government up to a maximum of $2 million. The effect of this refund of royalty calculated on new oil is approximately $5.00 per barrel.

Given a reasonable degree of success in our development program, we are anticipating daily oil production at approximately 200 barrels in January, 1982, increasing by year end to approximately 550 barrels of which approximately 500 barrels will be "new" oil. Production revenue for 1982 is expected to reach approximately $3.5 million as compared to $633,900 in 1981.

Industry Comment

While the overall effects of the NEP and the Alberta-Federal Oil Pricing Agreement on the Canadian petroleum industry are negative, the impact of these policies on Onyx is favourable. For most companies the price schedule for old oil combined with the Petroleum and Gas Revenue Tax (PGRT), Incremental Oil Revenue Tax (IORT), provincial royalties, and income tax, does not leave much margin to provide funds for further exploration. Onyx however had very little old oil production and therefore was not seriously affected in this regard. Gas marketing continues to be a problem in Canada, especially for companies with shut-in gas reserves and substantial debt. We hope the Federal Government will recognize that Canada has a substantial surplus of gas reserves and will licence more exports.

Onyx has been very fortunate to be involved in the exploration and follow up development of oil reserves which qualify for the new price. While we doubt that world prices will reach the high levels predicted by the NEP, it is still interesting to put matters in perspective when comparing different companies' daily rates of oil production. Compare two extreme situations using 1982 prices. First, a company with old oil production, fully taxable and large enough to exceed the benefits of the new Alberta Royalty Tax Credits, would receive a net return of approximately $4 per barrel. Second, a company the size of Onyx with new oil and not yet in a taxable position, and subject to the full benefits of the Alberta Royalty Tax Credit, will net back approximately $30 per barrel. The difference in these extremes is approximately 7.5 times. In other words, our projected 500 barrels per day of new oil would generate the same benefits to Onyx as 3,750 barrels per day would to a fully taxed company with old oil.

In addition to the price differential, Onyx is a Canadian company with a Canadian Ownership Rating (COR) high enough to qualify for the maximum Petroleum Incentive Payments (PIP) available under the NEP. As a result we will receive in cash an amount equal to 20-35% of all exploration and development costs.

In conclusion, while we have serious reservations about certain aspects of the NEP, we have obviously benefited from it. As long as that continues we will continue to concentrate our activities in Canada.

Directors

In connection with our corporate acquisitions and financing, Mr. H. S. Hartley and Mr. D. C. Jones were appointed to our board to fill the vacancies created by the resignations of Mr. H. Irving and Mr. A. G. Hall. Mr. Hartley is the President of Sea Hawk Resources Ltd. and was previously President of Smith International Canada Ltd. Mr. Jones is the President of Carlton Resource Management Ltd. and was previously Chairman and Chief Executive Officer of Hudson's Bay Oil and Gas Company Limited.

We would like to take this opportunity to thank Mr. Irving and Mr. Hall for their valuable contribution to the Company. Their efforts are very much appreciated.

Dennis G. Flanagan
President

March 1, 1982

LAND

As of March 1, 1982 Onyx has an interest in 163,695 gross acres in Alberta and N.E. British Columbia as follows:

Location	Gross		Net	
Alberta	**Acres /**	**Hectares**	**Acres /**	**Hectares**
	6,400 /	2,560	1,120 /	448
Blueridge	640 /	256	104 /	42
Boundary Lake	3,206 /	1,282	867 /	347
Brant	4,480 /	1,792	1,120 /	448
Carcajou	4,160 /	1,664	1,158 /	463
Carrot Creek	5,920 /	2,368	1,184 /	474
Edson	8,640 /	3,456	756 /	303
Elmworth	4,160 /	1,664	331 /	132
Evi	320 /	128	102 /	41
Ferrier	160 /	64	40 /	16
Gilby West	5,760 /	2,304	1,008 /	403
Gold River	3,200 /	1,280	400 /	160
Golden South	2,560 /	1,024	832 /	333
Holburn	9,440 /	3,776	2,840 /	1,136
Judy Creek	5,744 /	2,298	822 /	329
Keystone	3,840 /	1,536	144 /	58
Loon Lake	640 /	256	141 /	56
Majeau Lake	5,120 /	2,048	320 /	128
Morse River	3,840 /	1,536	655 /	262
Mud Lake	1,600 /	640	224 /	90
Nevis	7,360 /	2,944	1,730 /	692
Otter	2,560 /	1,024	497 /	199
Peco	2,560 /	1,024	433 /	173
Pembina West	1,600 /	640	203 /	81
Rosevear	960 /	384	672 /	269
Rowley North	15,200 /	6,080	1,773 /	709
Suffield	160 /	64	19 /	8
Swan Hills	3,840 /	1,536	643 /	257
Swan Lake	13,694 /	5,478	2,755 /	1,102
Verger	6,720 /	2,688	432 /	173
Waskahigan				
	134,484	53,794	23,325	9,332
British Columbia				
Gopher	3,572 /	1,446	850 /	344
Osborn	2,058 /	833	360 /	146
Siphon	4,548 /	1,841	1,592 /	644
Tooga	16,712 /	6,763	1,410 /	571
Two Rivers	638 /	258	179 /	72
Wolfe	1,683 /	681	295 /	119
	29,211	11,822	4,686	1,896
GRAND TOTAL	163,695	65,616	28,011	11,228

PRODUCTION AND RESERVES

Production

Onyx's share of production before royalty was 220,620 Mcf of gas and 22,805 barrels of oil compared to 294,865 Mcf of gas and 12,681 barrels of oil in 1980. Both oil and gas production are expected to show a significant increase in 1982.

Reserves

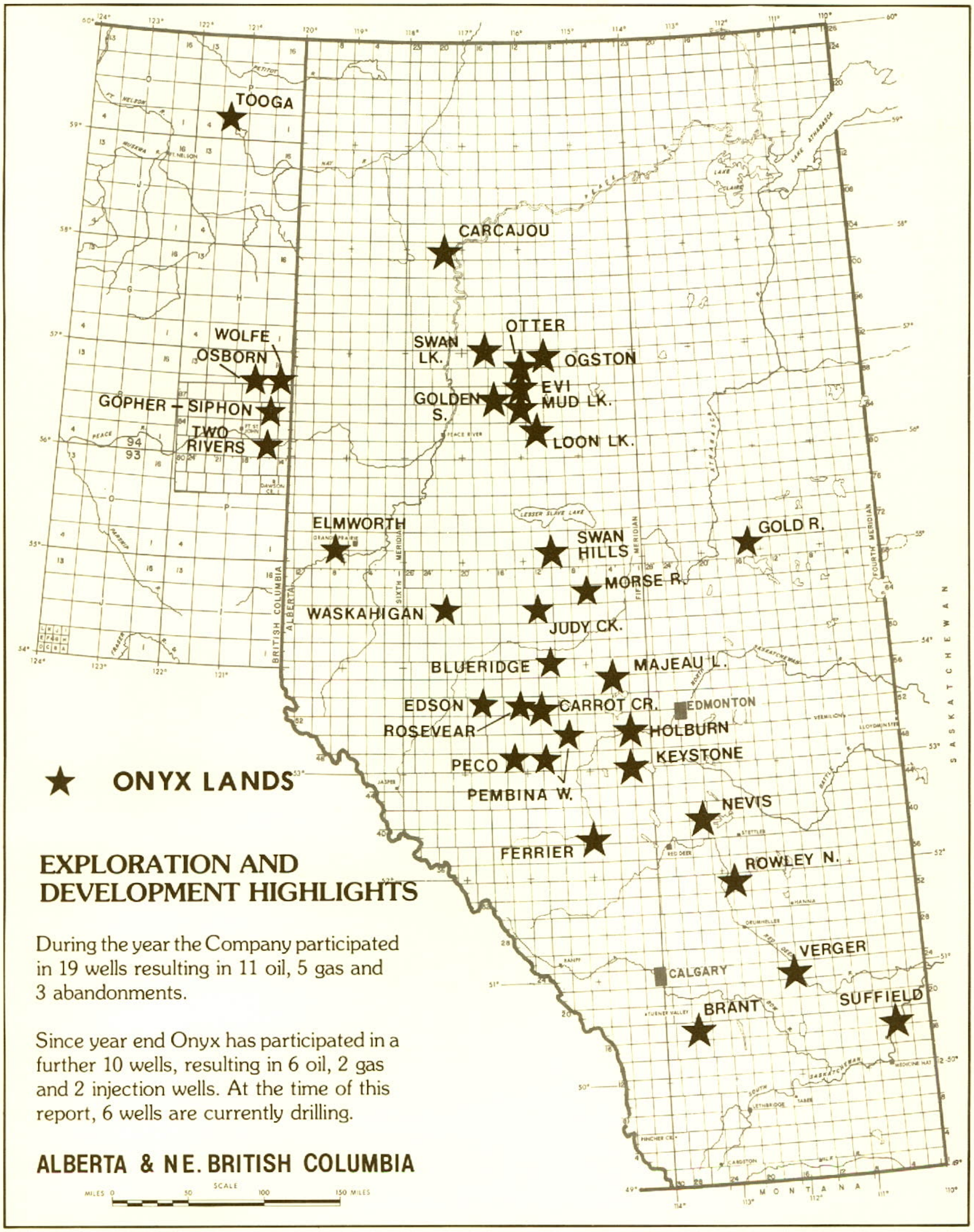
The Company's share of gross oil and gas reserves at December 31, 1981 as estimated by independent consulting engineers is as follows:

Proven

Oil 1,137,000 barrels
Gas 13.470 billion cu. ft.

Probable

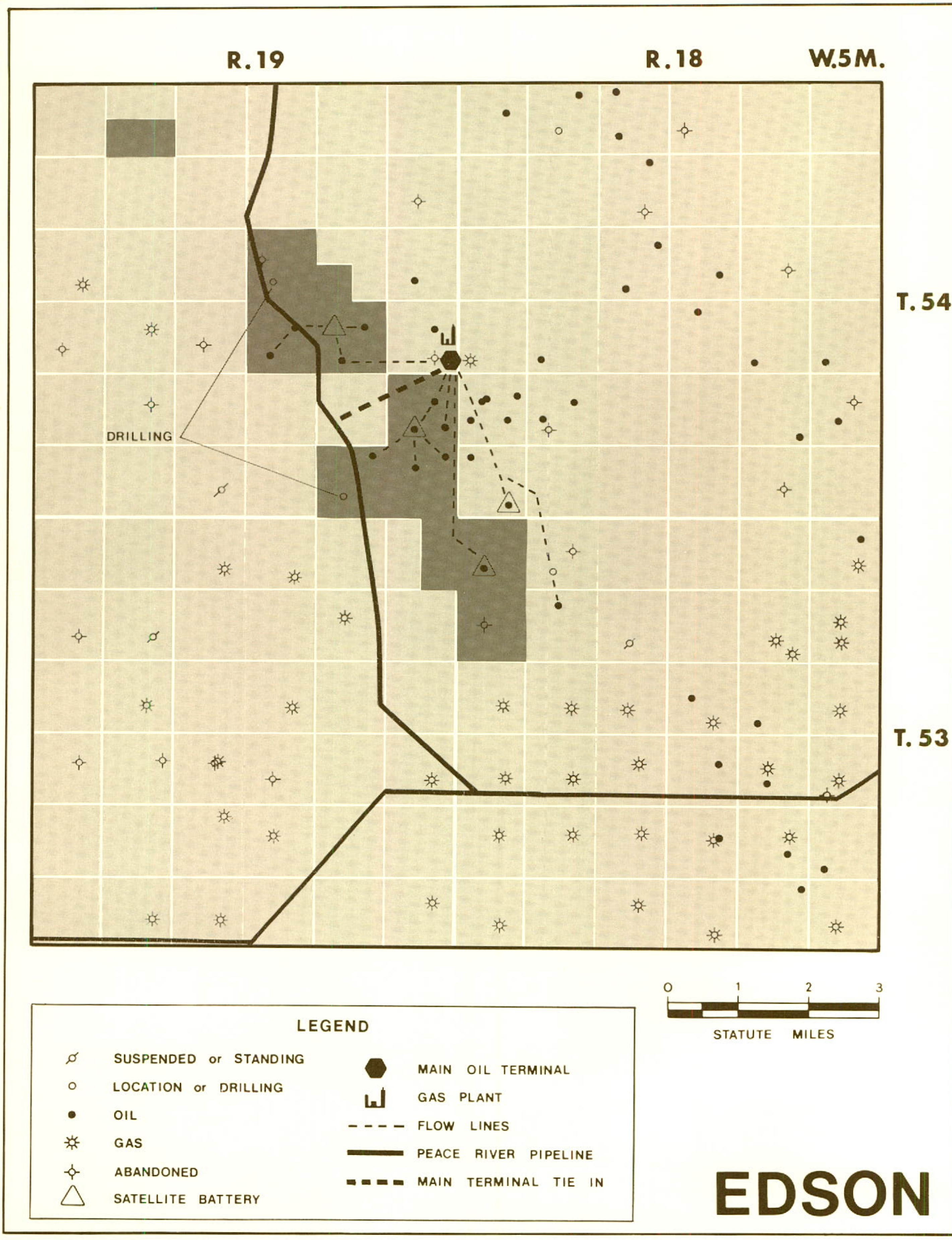
Oil 414,000 barrels
Gas .736 billion cu. ft.



EXPLORATION AND DEVELOPMENT HIGHLIGHTS

During the year the Company participated in 19 wells resulting in 11 oil, 5 gas and 3 abandonments.

Since year end Onyx has participated in a further 10 wells, resulting in 6 oil, 2 gas and 2 injection wells. At the time of this report, 6 wells are currently drilling.



R.19
R.18
W.5M.
T.54
T.53
DRILLING
0
1
2
3
STATUTE MILES
LEGEND
SUSPENDED or STANDING
LOCATION or DRILLING
OIL
GAS
ABANDONED
SATELLITE BATTERY
MAIN OIL TERMINAL
GAS PLANT
FLOW LINES
PEACE RIVER PIPELINE
MAIN TERMINAL TIE IN
EDSON

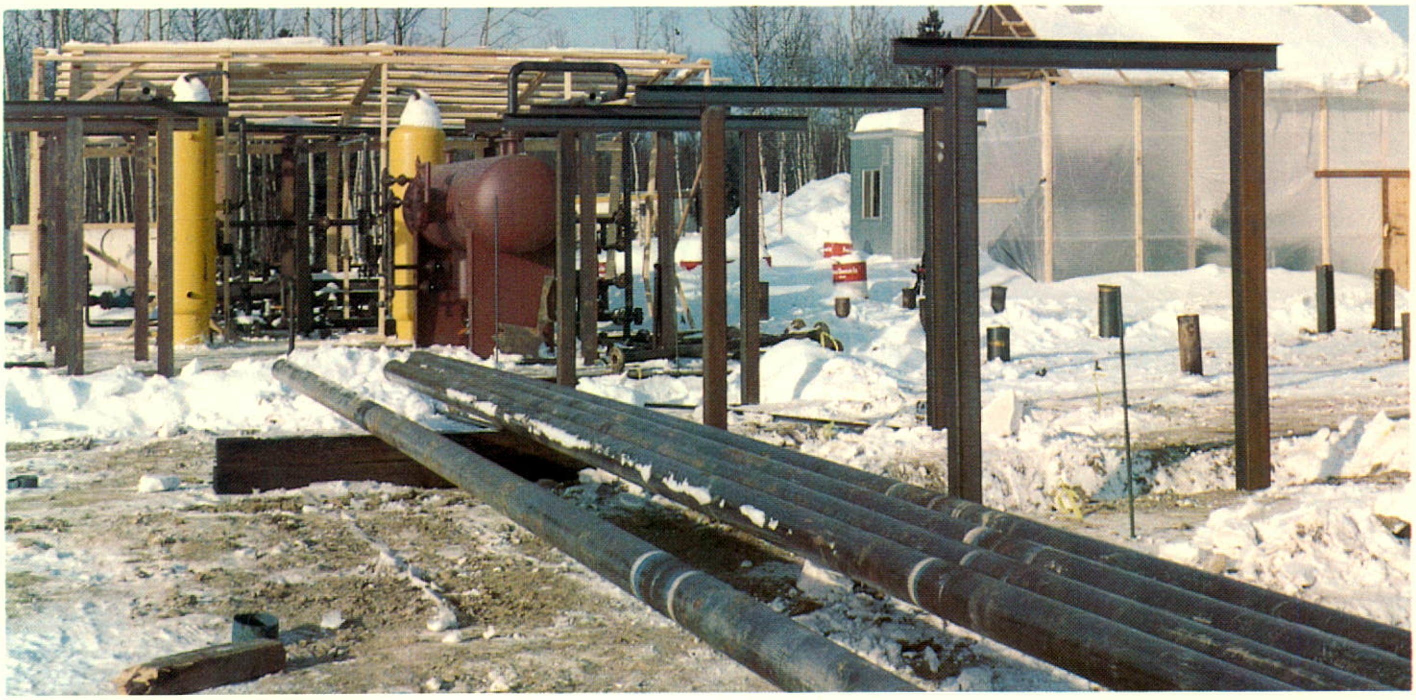
EXPLORATION AND DEVELOPMENT

Edson

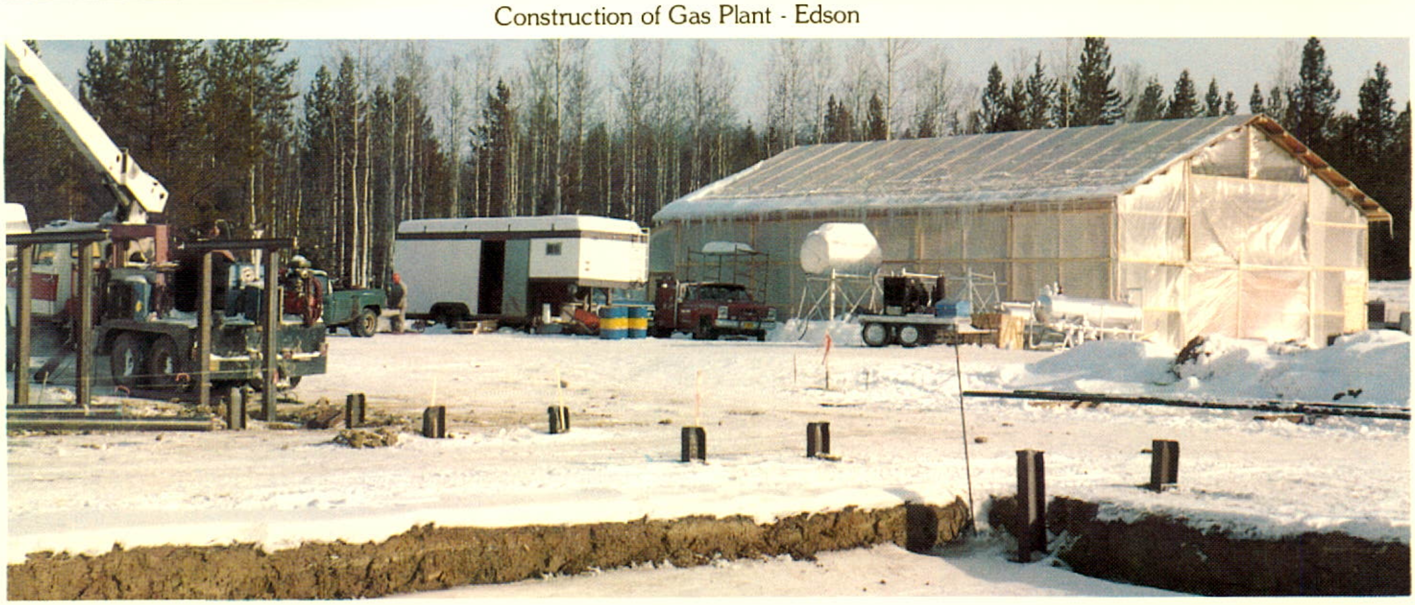
During the year an additional 5 development wells were drilled and completed as dual zone oil producers. Subsequent to the year end 3 more wells have been drilled, bringing the total to 11 wells. In addition, a further 12 wells are scheduled for drilling this year of which two are currently drilling. So far, hydrocarbons have been encountered in as many as four separate zones with each well completed in a combination of any two of them.

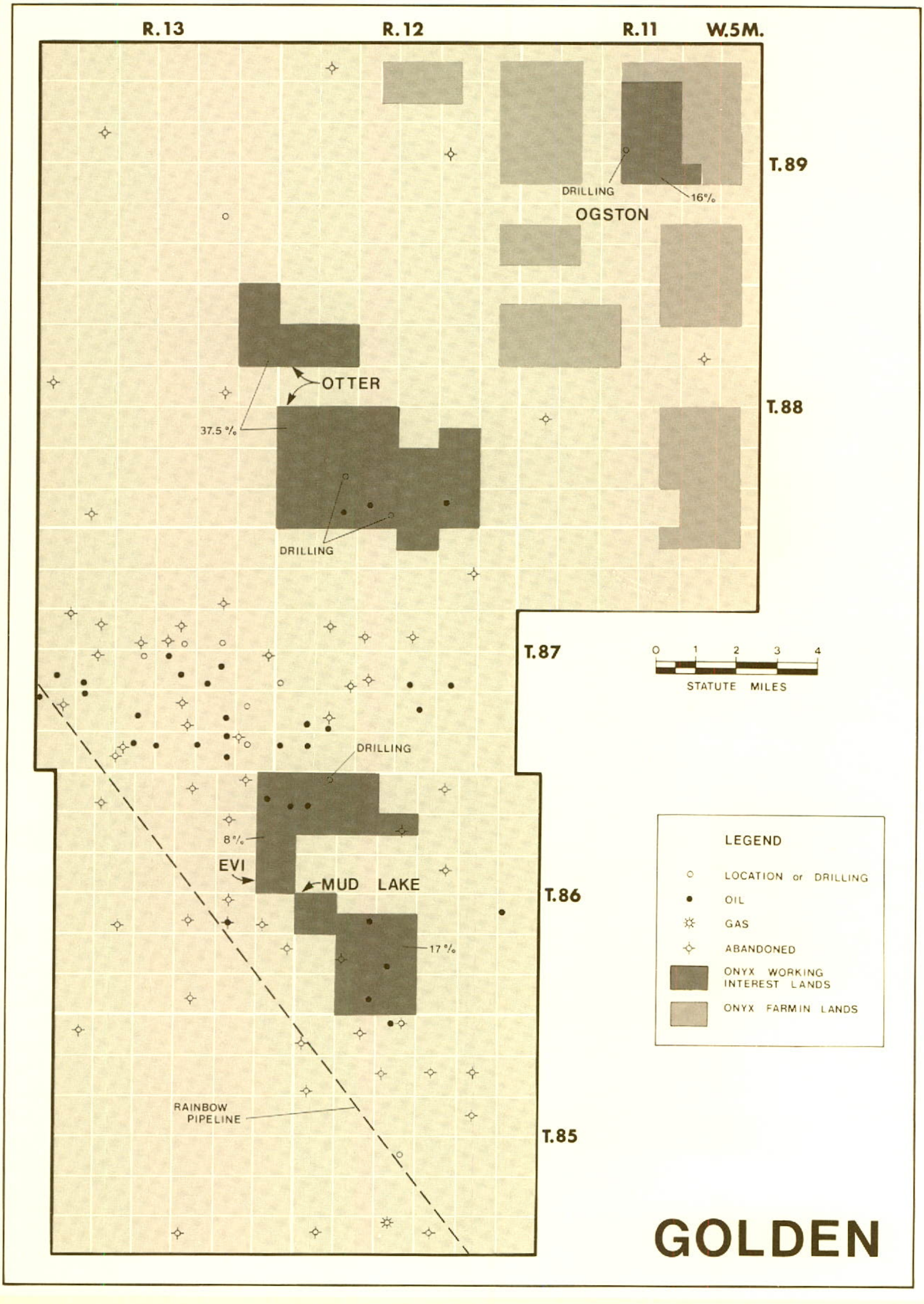
Construction of a large oil terminal is almost complete and construction of a gas processing facility should be completed by June, 1982. The oil terminal will have the capacity to process 2,000 barrels per day of oil, and the gas plant 5 million cubic feet per day, with room for expansion if necessary. On February 25, 1982 the pipeline tie-in to the Peace River Oil Pipe Line was completed, which will permit production on a year round basis regardless of weather and road problems. It is expected that the Edson project will have production at the rate of 2,000 barrels per day by the year end, together with gas sales at a rate of 3 to 4 MMcf/d.

Onyx has a 20% interest in the project. All of the production except for the first well qualifies for new oil prices.



Construction of Gas Plant - Edson




R.13
R.12
R.11
W.5M.
T.89
T.88
T.87
T.86
T.85
DRILLING
16%
OGSTON
OTTER
37.5 %
DRILLING
DRILLING
8 %
EVI
MUD LAKE
17 %
RAINBOW
PIPELINE
0 1 2 3 4
STATUTE MILES
LEGEND
LOCATION or DRILLING
OIL
GAS
ABANDONED
ONYX WORKING INTEREST LANDS
ONYX FARMIN LANDS
GOLDEN

Golden

The Golden area northeast of Peace River was one of the most active new oil exploration plays in Alberta during 1981 and into 1982. Onyx is participating in the area in four separate projects as follows:

Evi

Two successful Gilwood oil wells were drilled in the spring of 1981, and were completed for production in December, 1981. The 5-36-86-13 W5M well tested at a rate of 750 barrels of oil per day. The second well, 1-36-86-13 W5M was not tested due to the early spring break up. As of March 1, 1982, one additional well was drilled and one was drilling.

Plans are to devolop this field as quickly as possible in order to build permanent production facilities and possibly to tie-in to the Rainbow pipeline 3.5 miles west. Onyx has 7.5% to 10.5% interest in 4160 gross acres. An all weather road to Evi is now complete which will provide access to the area in the summer and, as a result, two additional wells are planned for drilling after spring breakup.

Production from the initial two wells will qualify as NORP oil, although they will be restricted by government allowables to approximately 50 barrels per day per well.

Mud Lake

Onyx has a 16 1/3% interest in two oil wells plus an 18 2/3% interest in a third well, with an average 17% interest in 3360 acres of land. All three of these wells were completed for production in early 1982 and produce at an average rate of 50 barrels per day each. The first two wells produce old oil while production from the third and any subsequent wells will qualify as NORP oil. Additional development wells are planned for this area during the year. The new road built to Evi can also be used to service the Mud Lake project.

Otter

In the spring of 1981 Onyx participated in a wildcat oil discovery which tested 180 barrels of oil per day. This well was completed for production in early 1982 and produces at an average daily rate of 80 barrels.

The first development well drilled in Lsd. 7-5-88-12 W5M in early 1982 is being completed as an oil well and production is expected to commence in early March.

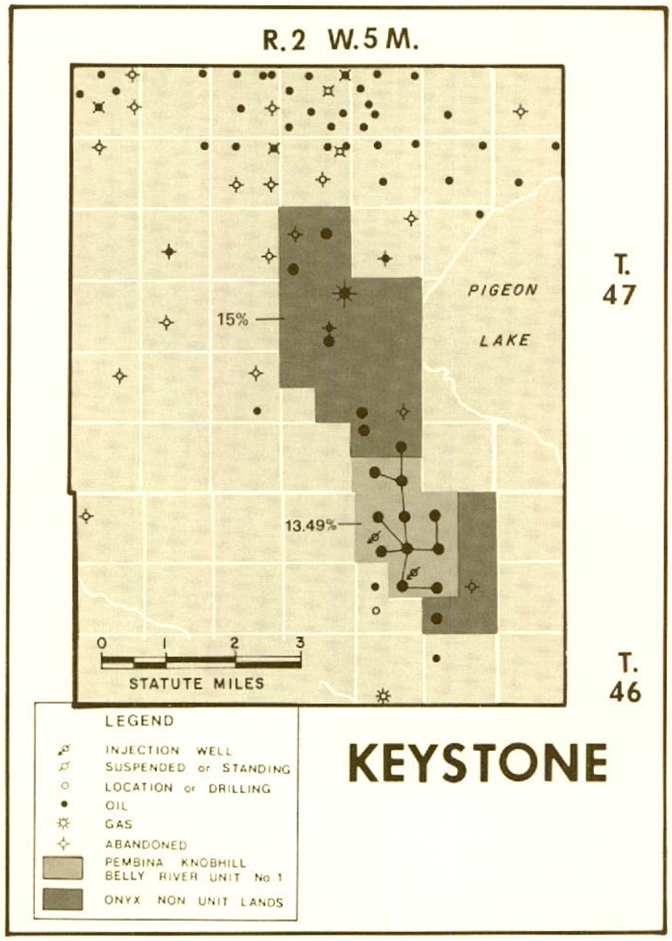
A step out well, two miles east of the discovery, drilled in early 1982 to earn additional lands, has been cased as a potential oil well.

The fourth and fifth wells are currently drilling.

Onyx has interests of 18 3/4% to 37 1/2% in 11,200 acres of land in this project. Depending on the results of the wells currently drilling, several more wells could be drilled in 1982.

Ogston

In December, 1981, Onyx negotiated a farmout on 22,400 acres of land in the Ogston area. The agreement provides for Onyx and its partners to drill a minimum of four wells and conduct a detailed seismic program. Some of the seismic is already complete and the first well has commenced drilling. The group has two years to complete the four-well program and will earn 50% interest in 2,560 acres for each well drilled, with options to earn additional lands on the same basis over a period of three years. Onyx will be paying 32% to 42% of the costs to earn 16% to 21% of the interests after payout.



Keystone

Onyx has an interest in 18 oil wells at Keystone. No new wells were drilled during the year. 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 W5M and plans to unitize this portion of the field are almost complete. Two water source wells and two injection 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. 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%.

Carrot Creek

Onyx has an average 28% interest in 4,160 acres at Carrot Creek and drilled one oil well in 1981. The well is currently producing at approximately 30 barrels per day. Additional wells may be drilled in 1982 if the original well will sustain a high enough production rate to make the project commercial. The first well was drilled subsequent to January 1981 and therefore production qualified as NORP oil.

A second prospect at Carrot Creek, approximately 6 1/2 miles southeast was drilled in late 1981. This well is currently suspended.

Gold River

Subsequent to year end, two successful gas wells were drilled on Onyx lands in the Lac La Biche - Gold River area. These wells were drilled at no cost to the Company in exchange for the farmee earning 50% of our interest. Onyx will retain a 17.5% interest in these wells and 5760 acres.

Pembina West

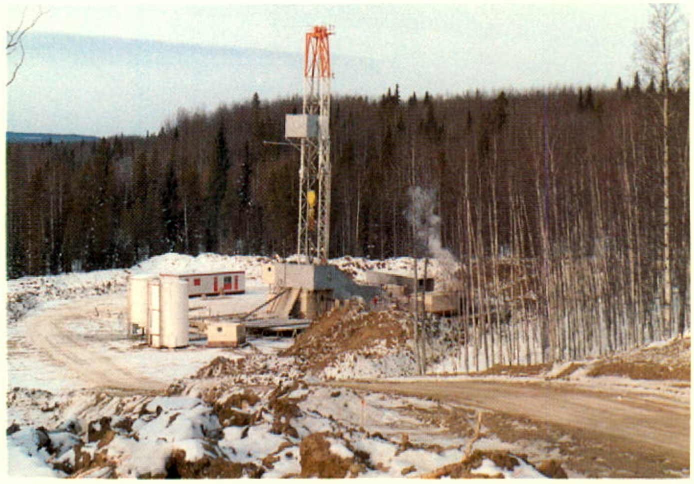
Onyx has a 35% interest in a Shunda gas well drilled in 1979 on Lsd. 5-33-47-12 W5M. This well flowed over 9 MMcf/d over an extended period of time. The well is currently shut-in pending connection to marketing facilities, which is expected to occur in 1983.

EDSON

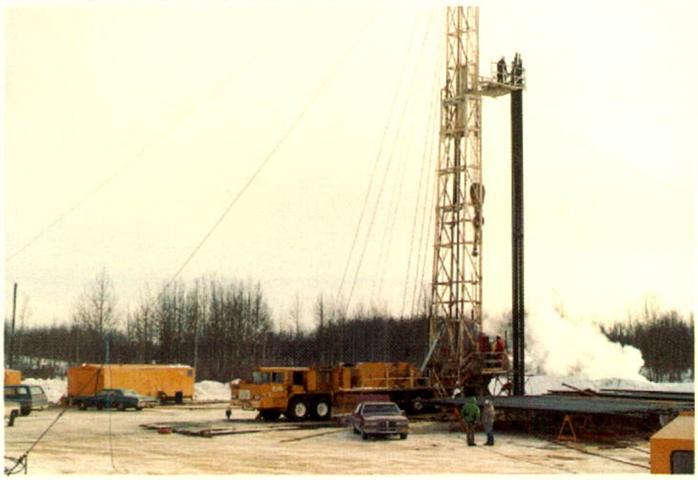
The pictures below show a typical sequence of events at our development program at Edson, from building a lease road, through to producing a well into large storage tanks at our Edson terminal where the oil is then pumped into the Peace River Pipe Line system.

These wells take approximately 30 days from the commencement of drilling until they are completed and placed on permanent production. Fortunately, production from Edson qualifies for the new oil price as these wells cost in the order of $1 million each to drill and complete. Onyx has plans to participate in the drilling of 15 additional wells at Edson during 1982.

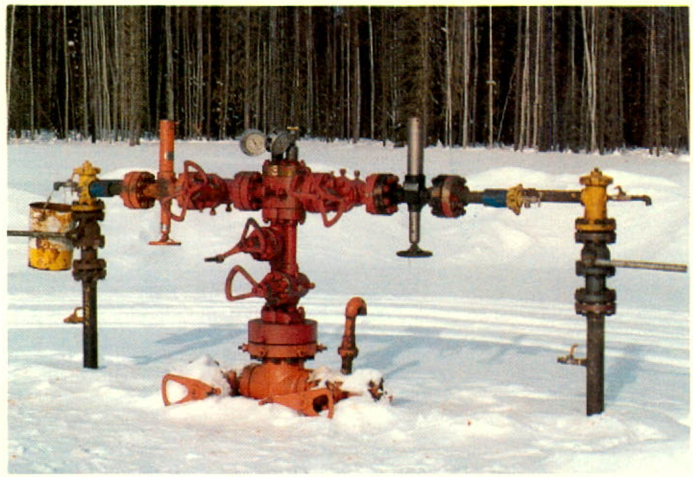
Building a road to a new location



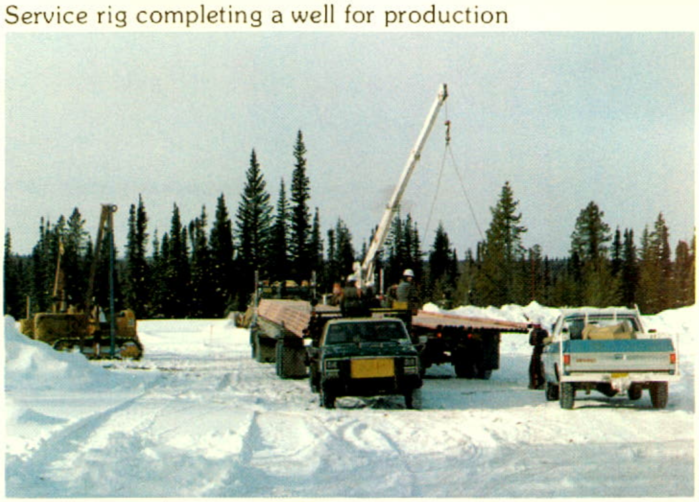
Drilling of a new well



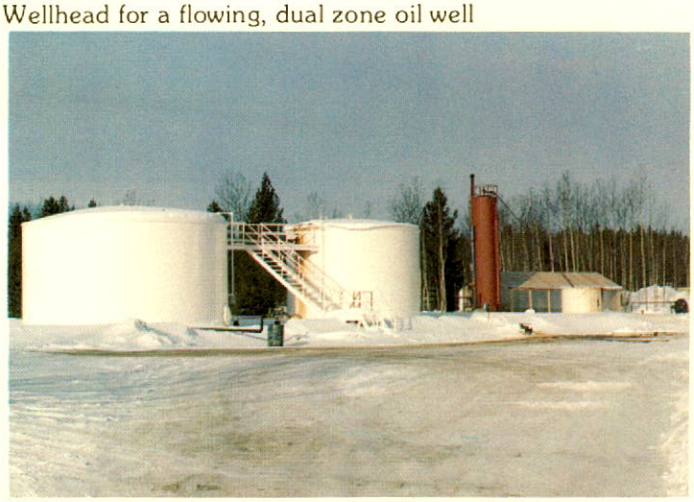
Service rig completing a well for production



Wellhead for a flowing, dual zone oil well



Offloading coated line pipe for a flowline from the satellite battery to the main terminal.



3000 barrel storage tanks at the main terminal connected to the Peace River Pipe Line.

ONYX PETROLEUM EXPLORATION COMPANY LTD.
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1981

ASSETS

	1981	1980
Current Assets		
Cash	$ 130,793	$ 286,575
Accounts receivable	1,111,116	229,817
	1,241,909	516,392
Share Subscription Funds (note 4)	3,392,928	—
Fixed Assets		
Resource properties (note 1)	5,380,919	528,852
Exploration and development costs	8,057,977	5,440,981
Production equipment, at cost	977,057	303,332
Other equipment, at cost	61,275	17,993
	14,477,228	6,291,158
Accumulated depletion and depreciation	536,705	299,606
	13,940,523	5,991,552
Deferred Income Tax Benefits	—	57,200
	$18,575,360	$6,565,144

LIABILITIES

	1981	1980
Current Liabilities		
Accounts payable	$ 1,946,724	$ 662,151
Bank Production Loan (note 3)	3,500,000	1,300,000

SHAREHOLDERS' EQUITY

	1981	1980
Capital Stock (note 4)		
Authorized		
6,552 Restricted Return shares of $100 par value		
10,000,000 Preferred shares of $10 par value		
10,000,000 Common shares of no par value		
Issued		
6,190 (1980 - 6,552) Restricted Return shares	619,000	655,200
2,507,856 (1980 - 1,722,415) Common shares	13,533,524	7,733,875
	14,152,524	8,389,075
To be issued		
399,168 Common shares	3,392,928	—
Accumulated Reduction in Carrying Value of Exploration and Development Costs	(4,374,293)	(4,374,293)
	13,171,159	4,014,782
Contributed Surplus (note 4)	611,744	586,404
Retained Earnings (Deficit)	(654,267)	1,807
	13,128,636	4,602,993
	$ 18,575,360	$ 6,565,144

Approved by the Board

Director

Director

ONYX PETROLEUM EXPLORATION COMPANY LTD.

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1981

	1981	1980
Revenue		
Oil and gas sales, net of royalties, mineral taxes and petroleum and gas revenue tax	$ 633,857	$ 520,069
Interest and other income	16,199	59,663
	650,056	579,732
Expenses		
Operating	210,571	148,884
General and administrative	337,131	195,806
Interest	567,928	50,125
Depletion	175,800	121,432
Depreciation	61,300	17,874
	1,352,730	534,121
Earnings (loss) before income taxes	(702,674)	45,611
Deferred Income Taxes (Reduction)	(46,600)	42,300
Net Earnings (Loss)	$ (656,074)	$ 3,311
Loss Per Common Share, based on weighted average number of shares outstanding	$ (.37)	$ —

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

YEAR ENDED DECEMBER 31, 1981

Retained Earnings at Beginning of Year	$ 1,807	$ 38,386
Net earnings (loss)	(656,074)	3,311
	(654,267)	41,697
Expenses incurred on conversion of Restricted Return shares	—	39,890
Retained Earnings (Deficit) at End of Year	$ (654,267)	$ 1,807

ONYX PETROLEUM EXPLORATION COMPANY LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1981

	1981	1980
Working Capital Derived From		
Operations	$ —	$ 184,917
Bank production loan	2,200,000	1,300,000
Issue of Common shares (note 4)	5,903,449	—
Contributed surplus	—	586,404
	8,103,449	2,071,321
Working Capital Applied To		
Operations	465,574	—
Fixed assets	3,828,435	3,139,144
Acquisition of subsidiaries (note 2)	4,357,636	—
Purchase of Restricted Return shares (note 4)	10,860	—
Share issue expenses	—	75,290
	8,662,505	3,214,434
Decrease in Working Capital Position	(559,056)	(1,143,113)
Working capital (deficiency) at beginning of year	(145,759)	997,354
Working Capital Deficiency at End of Year	$ (704,815)	$ (145,759)

AUDITORS' REPORT

To the Shareholders of
Onyx Petroleum Exploration Company Ltd.

We have examined the consolidated balance sheet of Onyx Petroleum Exploration Company Ltd. as at December 31, 1981 and the consolidated 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 consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 19, 1982

Thorne Riddell
Chartered Accountants

ONYX PETROLEUM EXPLORATION COMPANY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1981

1. Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Onyx Petroleum Exploration Company Ltd. (the "Company") and its subsidiaries, Altoil Production Ltd., 252044 Alberta Ltd., 276894 Alberta Ltd. and 276895 Alberta Ltd., from October 16, 1981 (see note 2).

(b) Oil and Gas Operations

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 and depleted using the unit of production method based on estimated recoverable oil and gas reserves.

Fixed assets include resource properties which were acquired in prior years on behalf of share subscribers at a cost of approximately $7 million, and which 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.

(c) Depreciation

Depreciation of production and other equipment is provided on a straight-line basis at rates of 7% and 20% per annum, respectively.

(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.

2. Business Combinations

During the year, the Company issued 16,250 shares, 48,750 shares, 60,000 shares and 440,000 shares of its Common share capital in exchange for all the outstanding shares of Altoil Production Ltd., 252044 Alberta Ltd., 276894 Alberta Ltd. and 276895 Alberta Ltd., respectively, privately-held companies engaged in oil and gas exploration and production in Western Canada. These business combinations have been accounted for as purchases and the results of operations of each company have been included in the consolidated financial statements since October 16, 1981, the effective date of acquisition.

The net assets acquired, comprised solely of oil and gas properties and equipment, and the purchase consideration are summarized as follows:

Altoil Production Ltd.	$ 123,825
252044 Alberta Ltd.	371,475
276894 Alberta Ltd.	457,200
276895 Alberta Ltd.	3,352,800
	4,305,300
Acquisition costs	52,336
	$4,357,636

3. Bank Production Loan

The bank production loan is evidenced by a demand promissory note, bears interest at the bank's prime lending rate plus 1/2% 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.

4. Capital Stock

(a) Authorized Capital

In June 1981, the authorized share capital of the Company was amended by:

(i) the creation of 10,000,000 Preferred shares with a par value of $10 each;

(ii) an increase in Common share capital to 10,000,000 shares; and

(iii) a decrease in Restricted Return share capital to 6,552 shares.

(b) Common Shares

Changes in the Company's outstanding Common stock during 1981 were as follows:

	Shares	Amount
Balance December 31, 1980	1,722,415	$ 7,733,875
Adjustment	(35)	(700)
Shares issued		
For shares of subsidiaries (note 2)	565,000	4,305,300
For cash by way of private placement	220,476	1,598,849
Reversal of unrealized deferred tax benefits applicable to prior years' share issue expenses	—	(103,800)
Balance December 31, 1981	2,507,856	$13,533,524

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.

(c) Share Subscriptions

In December 1981, the Company entered into agreements to issue a total of 399,168 Common shares in consideration of the share subscribers incurring $3,392,928 of future expenditures in the Company's oil and gas exploration and development program, the cash for which had been advanced to the Company as of December 31, 1981.

(d) Key Employee Incentive Share Option Plan

As of December 31, 1981, 170,000 Common shares of the Company were reserved for issue under the Company's key employee incentive share option plan, of which options to purchase 97,000 shares are outstanding, exercisable from time to time to June 1987 at prices ranging from $5.85 to $9.00 per share.

(e) Restricted Return Shares

During 1981, the Company purchased and cancelled 362 Restricted Return shares for $10,860 cash. The difference ($25,340) between the par value amount of the shares and the purchase price has been credited to contributed surplus.

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.

5. Statutory Information

Remuneration paid during 1981 to directors and senior officers (including all employees) of the Company amounted to $311,500.

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