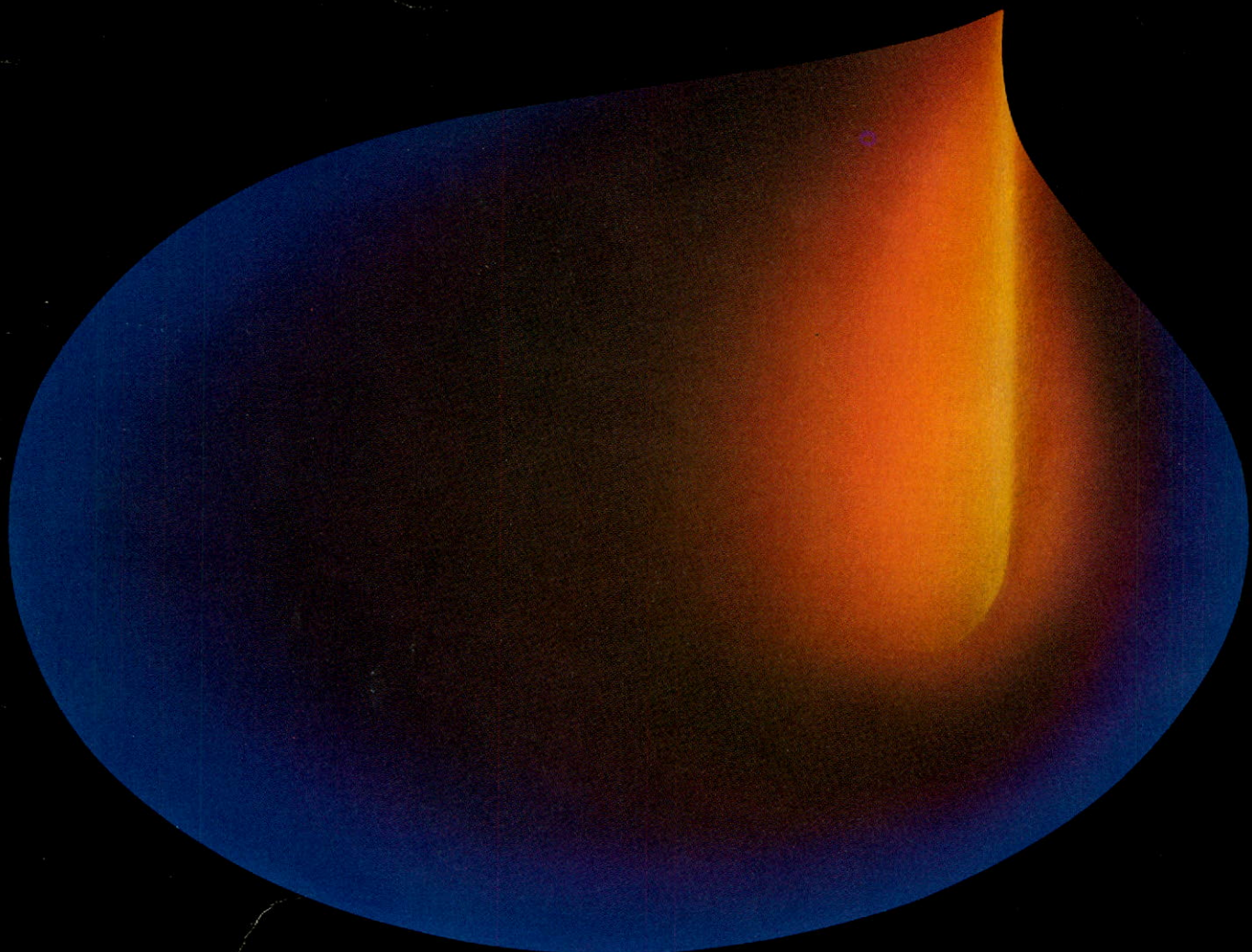


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PENN WEST PETROLEUM LTD.  
1981 ANNUAL REPORT

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### Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held in Salons A and B at the Holiday Inn, 8th Avenue and 6th Street S.W., Calgary, Alberta, June 3rd, 1982 at 3:00 p.m.

1982  
June 3rd  
3:00 p.m.

# Penn West Petroleum Ltd.

## Highlights

### Financial

	Year Ending Dec. 31, 1981	Year Ending Dec. 31, 1980
Gross Oil & Gas Sales	\$ 2,950,836	\$ 1,258,785
Total Revenue, net of royalties	\$ 2,278,098	\$ 943,261
Oil & Gas Sales, net of royalties	\$ 2,055,389	\$ 852,789
Investment Income	\$ 222,709	\$ 90,472
Net Earnings (Loss)	\$ (863,045)	\$ 151,321
Working Capital Generated from Operations	\$ 40,414	\$ 491,268
Additions to Property, Plant and Equipment	\$ 2,753,477	\$ 1,579,553
Working Capital	\$ 2,595,091	\$ 550,513
Long Term Debt	\$ 13,760,374	\$ -
Shareholder's Equity	\$ 22,112,811	\$ 6,592,476
Total Assets	\$ 39,351,898	\$ 7,760,304
Common Shares Outstanding	9,347,763	7,470,145
Number of Registered Common Shareholders	1,128	525
Class A Shares Outstanding	5,653,670	-
Number of Registered Class A Shareholders	328	-

### Operations

Production (Gross before royalties)		
Crude Oil (Bbls)	40,104	3,960
Barrels per day	110	11
Natural Gas (Mcf)	662,135	489,874
Mcf per day	1,814	1,342
Reserves (Gross Proven & Probable)		
Crude Oil (Bbls)	1,397,400	191,610
Natural Gas (Mmcf)	38,962	18,348
Drilling Activity		
Gross Wells Drilled	37	48
Net Wells Drilled	6.567	2.733
Net Wells Productive	3.572	2.305
Net Wells Dry	2.995	0.428

### Land Holdings (Undeveloped)

Gross Acres	24,262,734	22,664,086
Net Acres	275,877	235,552
Gross Royalty and Net Profits Interest (Acres)	569,127	23,382

### Range of Market Prices on Shares

Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Annual Share Volume
	High	Low	High	Low	High	Low	High	Low	
1981 Common	\$4.40	\$2.50	\$3.45	\$2.05	\$2.25	\$0.81	\$1.50	\$0.84	2,235,067
1981 Class "A"	\$ -	\$ -	\$ -	\$ -	\$1.20	\$0.69	\$1.05	\$0.49	181,670
1980 Common	\$ -	\$ -	\$ -	\$ -	\$2.50	\$1.65	\$3.75	\$1.85	1,685,681

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OF MANAGEMENT

MAY 18 1982

McGILL UNIVERSITY

## To the Shareholders:

In what was a most difficult environment for the oil and gas industry, Penn West Petroleum Ltd. in the past year, multiplied its Canadian asset base and reserves through acquisitions and exploration successes, expanded its activities in the United States, and participated in its first exploration program on its growing land interests in the major sedimentary basins in Australia. I think you will agree that with these steps, your Company has entered a new growth period facilitated by the diversity and stability gained during the year.

In 1981, Penn West acquired 100 percent of the shares of two companies: CMS Petroleum Corporation Limited, a private company with petroleum and natural gas interests throughout Western Canada, and Strom Resources Ltd., a public company whose shares had been traded on the Alberta Stock Exchange. As a result of the acquisitions, Penn West now holds varying working interests in 474 oil and gas wells in Canada and the United States, and net profits and royalty interests in a further 74 wells. Penn West, together with its two wholly owned subsidiaries, Strom Resources and CMS Petroleum, engaged in an active drilling program during the past year, participating in a total of 54 wells in Canada and the United States. This drilling resulted in 13 commercial oil wells, 25 commercial gas wells, and 16 dry holes.

An independent engineering analysis has estimated the Company's gross share of proven and probable reserves at 1,397,400 barrels of oil and 39 billion cubic feet of gas which are valued at an undiscounted present worth of \$470,139,000 or \$67,872,000 when discounted at 15 percent. These values which do not take into account recent incentive and royalty

reductions announced by the Alberta Government, will increase, together with cash flow as a consequence of the Alberta Economic Resurgence Plan.

The Company now holds undeveloped interests in 24,262,734 gross acres, and 275,877 net acres which have been independently evaluated at \$8,552,486. When taken together with net profits and royalty interests in Canada valued at \$835,016, Penn West's undeveloped land alone is valued at 63 cents per share.

We are more than pleased with our financial statements which reflect total assets of \$39,351,898 compared to \$7,760,304 in 1980, an increase of 407 percent. Revenue net of royalties for the period totalled \$2,278,098, an increase of 242 percent over the corresponding period in 1980. The revenue figure includes Strom Resources and CMS Petroleum for only 5 months and 4 months respectively, so the prognosis for a full year is very encouraging. The net loss for the period of \$863,045 compared to a profit of \$151,321 for the same period last year, is attributable to interest costs and depletion charges associated with the acquisitions of Strom Resources and CMS Petroleum. Investments in property, plant and equipment amounted to \$2,753,477, an increase of 74 percent over 1980, which reflects our continued aggressive approach to the industry. The net result of operations, additional financing and the two acquisitions shows an increase in working capital of \$2,044,578 compared to \$675,483 in 1980 and a total working capital balance at the year end of \$2,595,091.

By virtue of its one third interest in Springwest-Page Petroleum N.L., your Company now has interests in 116,000,000 acres located in a number of sedimentary basins of Australia, a promising and sparsely explored continent, with a politically stable environment. Australian oil production commands world prices subject only to government royalties of 10 to 12 percent before taxes. During 1981, Springwest-Page built and shipped a new drilling rig, largely financed by the Canadian Export Development Bank, to Australia. The rig is being managed by an international drilling company and returns 25 percent of its gross revenue to Springwest-Page. It is available for use by Springwest-Page when required, a very important consideration in a region where drilling rigs are in short supply.

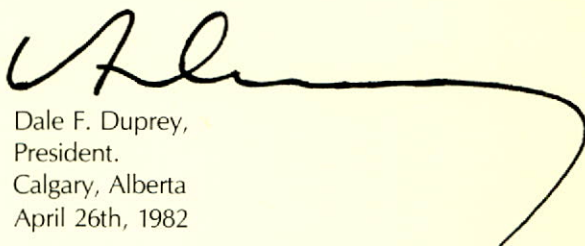
In spite of the recent uncertainty in the industry, your Company is optimistic about the upcoming year and feels confident that its healthy cash flow, its high Canadian ownership content which provides incentives under the National Energy Program, and the steps it has taken to diversify its land holdings and spread its risks, places Penn West in a strong position to accelerate its growth in a period of widespread industry disruption.

Last year's energy agreement between the Federal Government and Alberta, and the subsequent agreements with Saskatchewan and British Columbia, have removed, for at least five years, uncertainty with respect to product prices. Moreover, recent added incentives implemented by the provinces have cleared the way for an aggressive "new oil" development drilling program this year. The clear distress of many companies with shut in gas in Canada has been

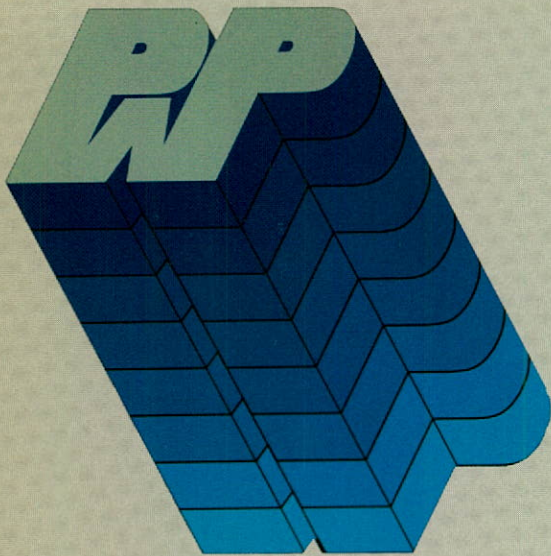


recognized by both levels of government, and following the upcoming National Energy Board hearings, we are optimistic that action will be taken to alleviate the problems these producers now face, either by increasing export quotas, or instituting a gas bank, or both.

1981 was a very successful year in terms of exploration activity, increased revenue and asset growth. We are indebted to our directors for their advice and guidance, and look forward to continued achievements made possible through the efforts of our enthusiastic and dedicated staff, and the continued support of our shareholders.



Dale F. Duprey,  
President.  
Calgary, Alberta  
April 26th, 1982



## Penn West Petroleum Ltd.

Penn West Petroleum, Inc.  
 Springwest-Page Petroleums N.L.  
 Strom Resources Ltd.  
 CMS Petroleum Corporation Limited

## Acquisitions

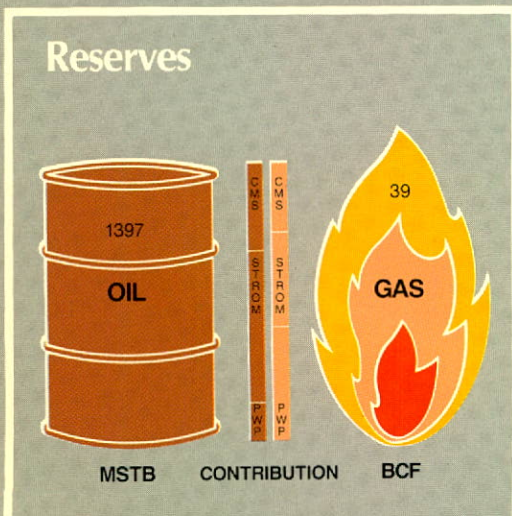
Penn West's pursuit of corporate acquisitions has resulted in the purchase of all the shares of Strom Resources Ltd. and CMS Petroleum Corporation Limited.

Strom Resources Ltd., an Alberta corporation whose shares had been listed on the Alberta Stock Exchange, had oil and gas interests in Alberta and British Columbia. Penn West initially acquired approximately 30 percent of the common shares from two senior officers of Strom, and subsequently acquired the balance of the outstanding shares by exchanging for each six Strom common shares, two Penn West common shares, eight Class "A" Penn West shares and one Penn West share purchase warrant. The share purchase warrants entitle holders thereof to purchase one Penn West common share at \$3.50 prior to July 31st, 1982 and at \$4.00 prior to July 31st, 1983.

CMS Petroleum Corporation Limited, formerly a private Canadian corporation, held interests in oil and gas wells located in Saskatchewan, Alberta and British Columbia and, in addition, held undeveloped land interests in South Dakota and Colorado, and had net profits interests in Federal lands in the Yukon Territories, the Arctic Islands and the Newfoundland Shelf. The offer to the principal shareholder of CMS was on the basis of approximately one third cash and two thirds Penn West Class "A" shares.

The two major acquisitions have resulted in Penn West now being more than three times larger than a year ago. Penn West, in the last year, more than doubled its gas reserves and increased its oil reserves sevenfold. With the current high demand for oil products, this improved oil reserve base becomes very important to the company. Penn West's cash flow is now sufficient both to service its bank debt and to allow for an aggressive exploration and development program. Other benefits have also been gained from reduced overhead costs which resulted from combining the offices and staff of Penn West, Strom and CMS.

In order to facilitate the acquisitions, Penn West created Class "A" shares which were part of the consideration in both purchases. The Class "A" shares which are listed on the Toronto and Vancouver Stock Exchanges are identical in every respect to the Common shares except that they carry no voting rights.



## International Ventures

Since the early days of exploration for petroleum and natural gas in Canada, the industry has been beset by imbalances of supply and demand and consequent fluctuations in product prices. More recently, Canadian Federal Government nationalism has prompted companies such as Penn West to diversify and expand their operations to the United States and overseas. A healthy and growing oil company must explore in politically stable arenas, where a competitive product price is relatively assured and where government intervention may be expected to be minimal.

Although Penn West has attained substantial growth through sound management of its assets and timely corporate acquisitions, the company is primarily an active explorer and developer and thus recognizes the need to spread its risk, seeking a balance between low risk, close-in acreage in the western provinces of Canada and in the United States, and participation in the huge permits of the sedimentary basins of Australia.

The international exposure which your Company enjoys will become increasingly important if domestic

energy disputes continue and if the United States begins to voice its concern regarding Canada's foreign investment restrictions. In this respect, we expect to see more North American investment in Australia in particular, which inevitably would result in an increase in the value of our Australian interests.

Penn West's expansion into the international oil and gas industry has occurred through a wholly owned subsidiary in the United States and a one third owned affiliate in Australia:

- Penn West Petroleum, Inc., a wholly owned subsidiary of Penn West Petroleum Ltd. holds land interests in Montana, North Dakota, Kansas and Texas in the United States. The Company has production income from all the aforementioned states except Montana.
- Springwest-Page Petroleum N.L. has fully staffed, integrated operations in Brisbane, in the State of Queensland, Australia, and holds interests in onshore and offshore permits in all of the Australian states except Tasmania. Springwest-Page has varying interests in substantial gas reserves on these permits.



## Oil and Gas Reserves

The Company has proven reserves and probable additional reserves in Saskatchewan, Alberta, British Columbia, North Dakota, Kansas and Texas.

The following table provides a summary of the Company's oil and gas reserves as of December 31, 1981 as determined by the independent petroleum consulting firm Martin Petroleum Consulting Ltd., (formerly MTA Engineering Ltd.) along with comparative 1980 estimates.

### Reserves

	1981 Reserves		1980 Reserves	
	Gross	Net	Gross	Net
Crude Oil (Bbls)				
Proven	996,400	765,300	90,051	61,073
Proven & Probable	1,397,400	1,092,600	191,610	125,999
Natural Gas (Mmcf)				
Proven	32,960	24,464	13,753	9,838
Proven & Probable	38,962	30,383	18,348	13,284

### Crude Oil & Natural Gas Discounted Future Net Cash Flow Before Income Tax

	Undiscounted	10%	15%	20%
1980 Proven	\$ 43,886,006	\$ 15,470,685	\$10,808,473	\$ 8,141,361
Proven & Probable	\$ 62,788,096	\$ 21,117,361	\$14,394,125	\$10,658,529
1981 Proven	\$409,597,000	\$ 85,815,000	\$56,062,000	\$40,876,000
Proven & Probable	\$470,139,000	\$104,062,000	\$67,872,000	\$49,123,000



## Drilling Activity

During 1981 the Company participated in the drilling of 37 wells in Western Canada and the United States. In addition, 17 wells were drilled on land in which the Company holds an interest, at no cost to the Company. The results of our 1981 drilling activities are shown on the following table:

### 1981 Drilling Results

	Gross Working Interest Wells					Total
	Alberta	Sask.	B.C.	Kansas	Texas	
Gas	13	-	-	-	-	13
Oil	6	1	-	2	3	12
Dry	12	-	-	-	-	12
	31	1	-	2	3	37

	Royalty and Net Profit Wells					Total
	Alberta	Sask.	B.C.	Kansas	Texas	
Gas	12	-	-	-	-	12
Oil	-	-	1	-	-	1
Dry	4	-	-	-	-	4
	16	-	1	-	-	17
<b>Total</b>	<b>47</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>54</b>

The 1981 drilling activity includes the wells drilled by Penn West Petroleum Ltd. along with its two wholly owned subsidiaries, Strom Resources Ltd. and CMS Petroleum Corporation Limited.

## Land Holdings

A report by Supplementary Land Services Ltd. has determined as at February 1, 1982 the fair market value of the Company's net acreage in undeveloped lands at \$8,552,486. The report estimates the fair market value of the royalty interests and net profit interests of the Company in undeveloped lands at \$835,016.

The following table is a comparative summary of these undeveloped land holdings:

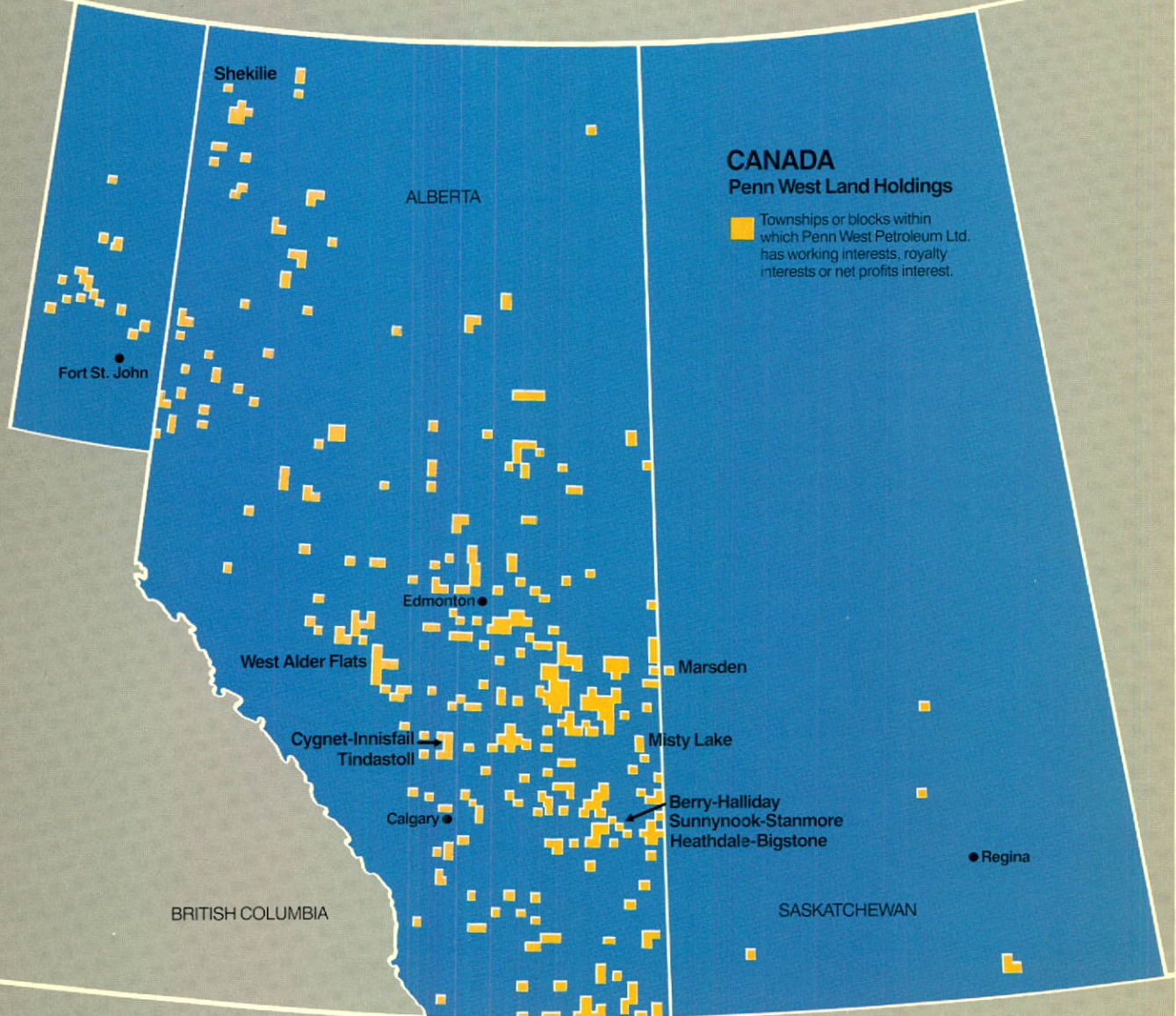
### Undeveloped Petroleum and Natural Gas Rights

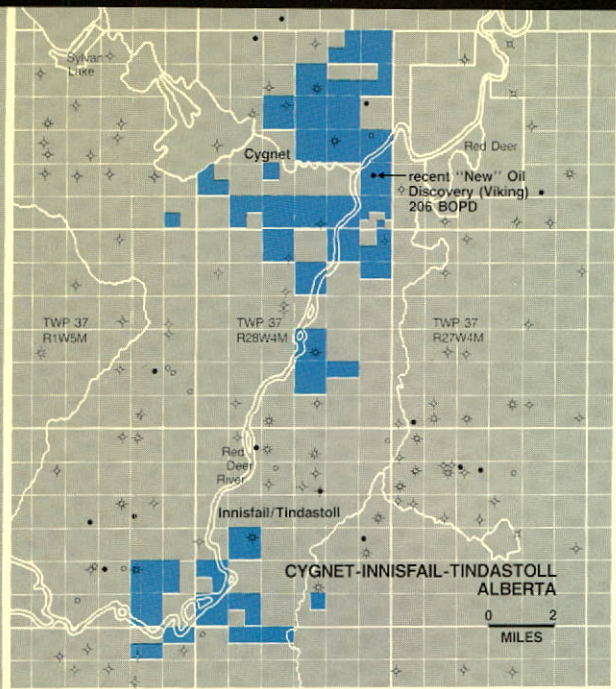
Area	Total (1981)		Total (1980)	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Working Interests				
Alberta	492,119	49,296	394,258	28,765
British Columbia	32,642	2,415	22,274	1,177
Saskatchewan	23,345	11,761	480	12
Montana	123,450	11,102	125,260	10,840
Texas	2,539	320	2,774	607
Kansas	16,625	16,625	17,000	17,000
North Dakota	3,640	364	3,640	364
Queensland, Australia	22,999,247	183,994	22,098,400	176,787
	23,693,607	275,877	22,664,086	235,552
Royalty & Net profit Interests				
Alberta	78,017		16,480	
British Columbia	491,110		6,902	
	596,127		23,382	
<b>Total</b>	<b>24,262,734</b>	<b>275,877</b>	<b>22,687,468</b>	<b>235,552</b>

# Operations Canada

Operations carried on in Canada during 1981 by Penn West Petroleum Ltd. and its two wholly owned subsidiaries, Strom Resources Ltd. and CMS Petroleum Corporation Limited, resulted in the drilling of 49 wells. This drilling resulted in 25 gas wells, 6 oil wells and 16 dry holes in Alberta, one oil well in Saskatchewan and one oil well in British Columbia.

In addition to its producing properties, Penn West together with its subsidiaries owns interests in 128 shut in gas wells in Western Canada. The majority of these wells have been committed to gas contracts, conditional upon export approval by the National Energy Board. A substantial increase in cash flow is expected to begin in November 1983, when these wells commence production.





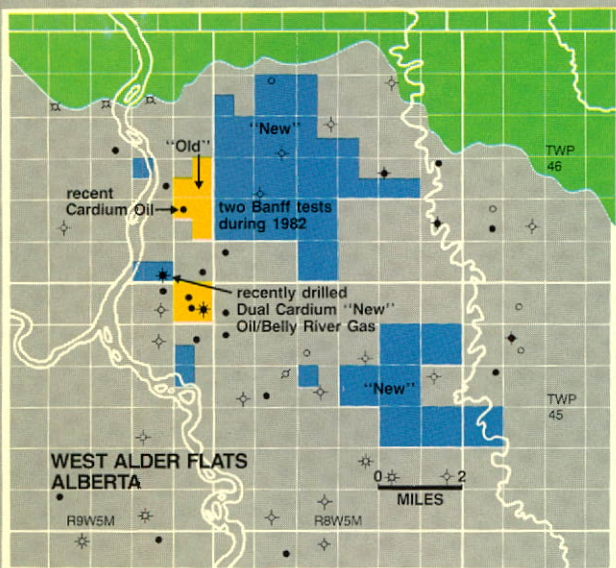
## Alberta

### Cygnet, Innisfail and Tindastoll Areas.

Six wells were drilled on Company lands in this area during 1981, resulting in 4 gas wells, one oil well and one dry hole. Three of the gas wells were drilled at no cost to the Company.

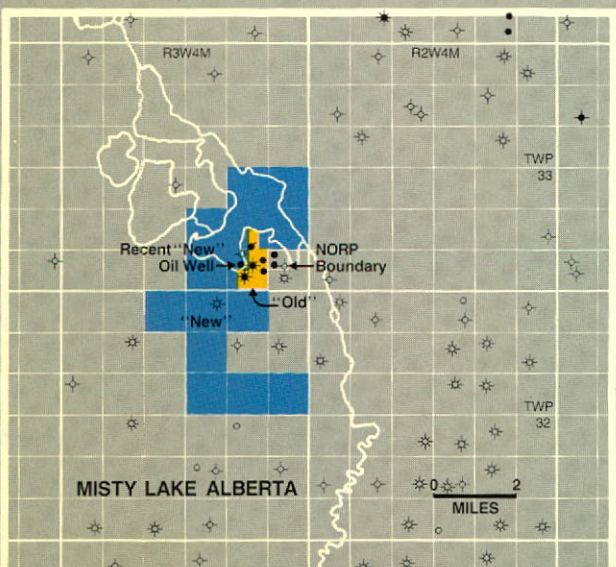
Penn West participated as to a 16.67 percent working interest in the "new oil" discovery well drilled in Lsd. 11-12-38-28 W4M. This well is capable of producing 200 barrels of oil per day, however, the well's production allowable is expected to be approximately 31 barrels per day. The well began producing on January 1, 1982. The gas reserves underlying five gas wells on the lands in which the Company has interests have been dedicated to gas contract which, pending export approval, would commence deliveries in late 1983.

The Company has working interests in 18,222 gross acres and in 2,731 net acres in this area and drilling is planned in 1982 to further evaluate Penn West's holdings.



### West Alder Flats Area.

Penn West participated in the drilling of 2 wells in this area in 1981. The 13-12-46-9 W5M well was drilled prior to the Federal-Provincial pricing agreement and an application has been filed to have this well classified as "new oil". A follow up development well to the 13-12 well is scheduled. The 2-2-46-9 W5M well is a dual Belly River gas and Cardium "new oil" well which is being completed. Additional follow up development drilling is anticipated. The Company has varying interests in 15,840 gross acres in this area, with two more deep test wells to be drilled on Company acreage in 1982, at no cost to Penn West.



### Misty Lake Area

The Company has a 34.6 percent working interest in 8,960 gross acres in this area and is the operator of four wells which are currently producing a total of 100 barrels of oil per day.

Potential exists for additional development wells which would be outside of the present NORP boundaries and would therefore qualify for new oil prices. The first well in this development program has resulted in a "new oil" well, drilled in December, 1981 on Lsd. 11-2. This well commenced production in March, 1982 at a rate of 50 barrels of oil per day. Further development drilling is planned.

## Berry, Halliday, Sunnynook, Heathdale, Cessford and Bigstone Areas.

Penn West has an interest in 89,769 gross acres in this area. The Company has various working interests in 30 wells, 3 of which are currently producing. One additional well is expected to be on stream by mid 1982. The remaining 26 gas wells are shut in pending gas markets.

The Company's shut in gas reserves have been dedicated to gas contracts and it is expected that the shut in wells will commence production in November, 1983, adding approximately \$1,000,000 per year to Penn West's cash flow.

### Shekilie Area

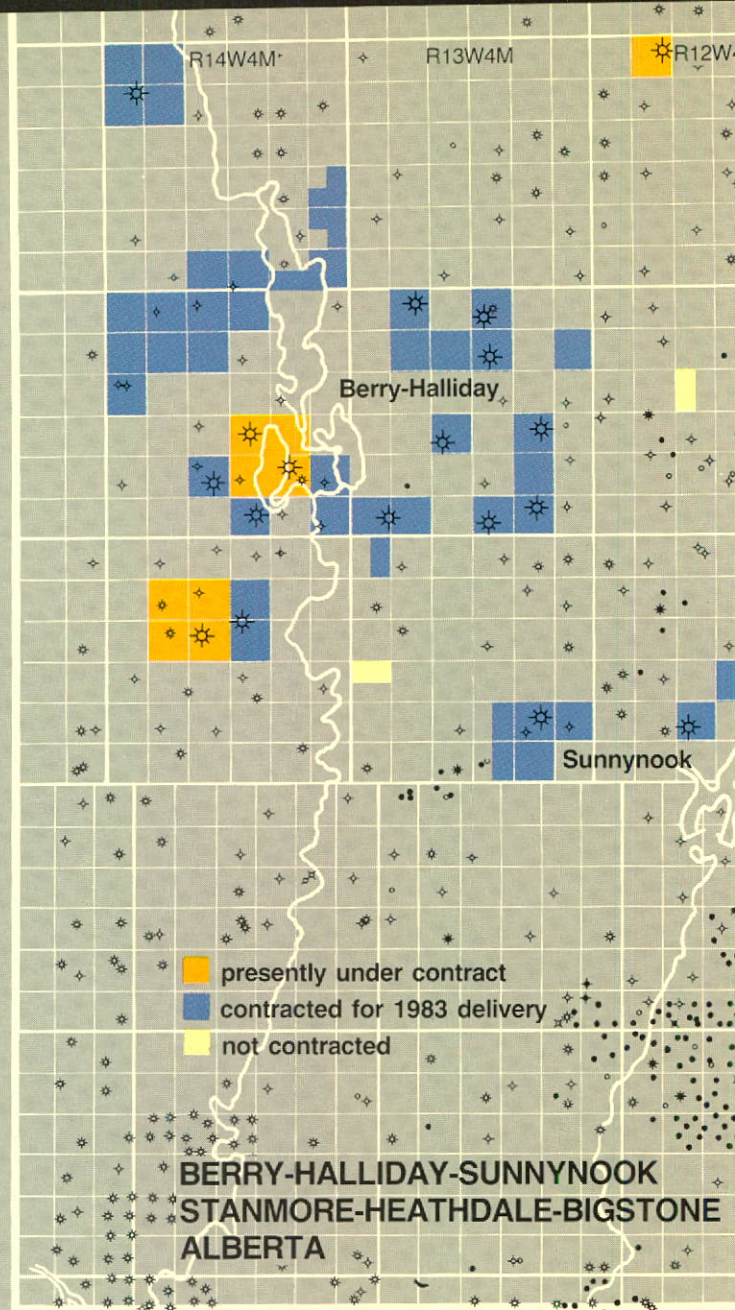
Penn West holds an 8 percent working interest in 480 acres in an area of heavy drilling activity in north western Alberta. The land is currently under a seismic option agreement in which an eight mile seismic program is being run to delineate one or more Keg River pinnacle reef pools. Interpretation of previous data obtained from seismic run on the lands showed evidence of three reef developments on the acreage. The option agreement provides for a well to be commenced during the second quarter of 1982.

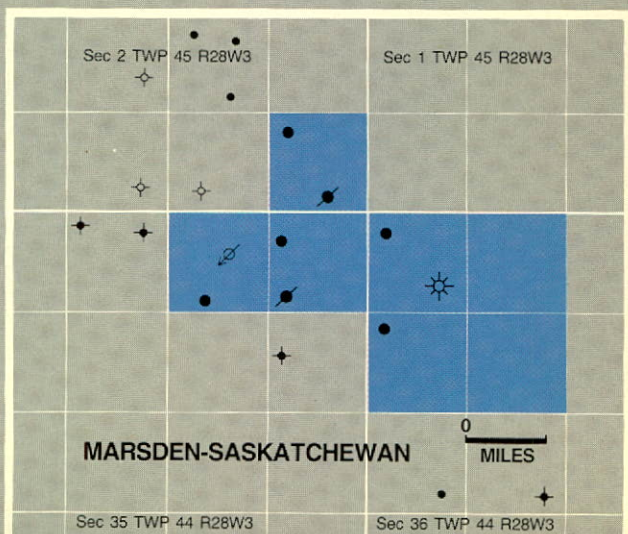
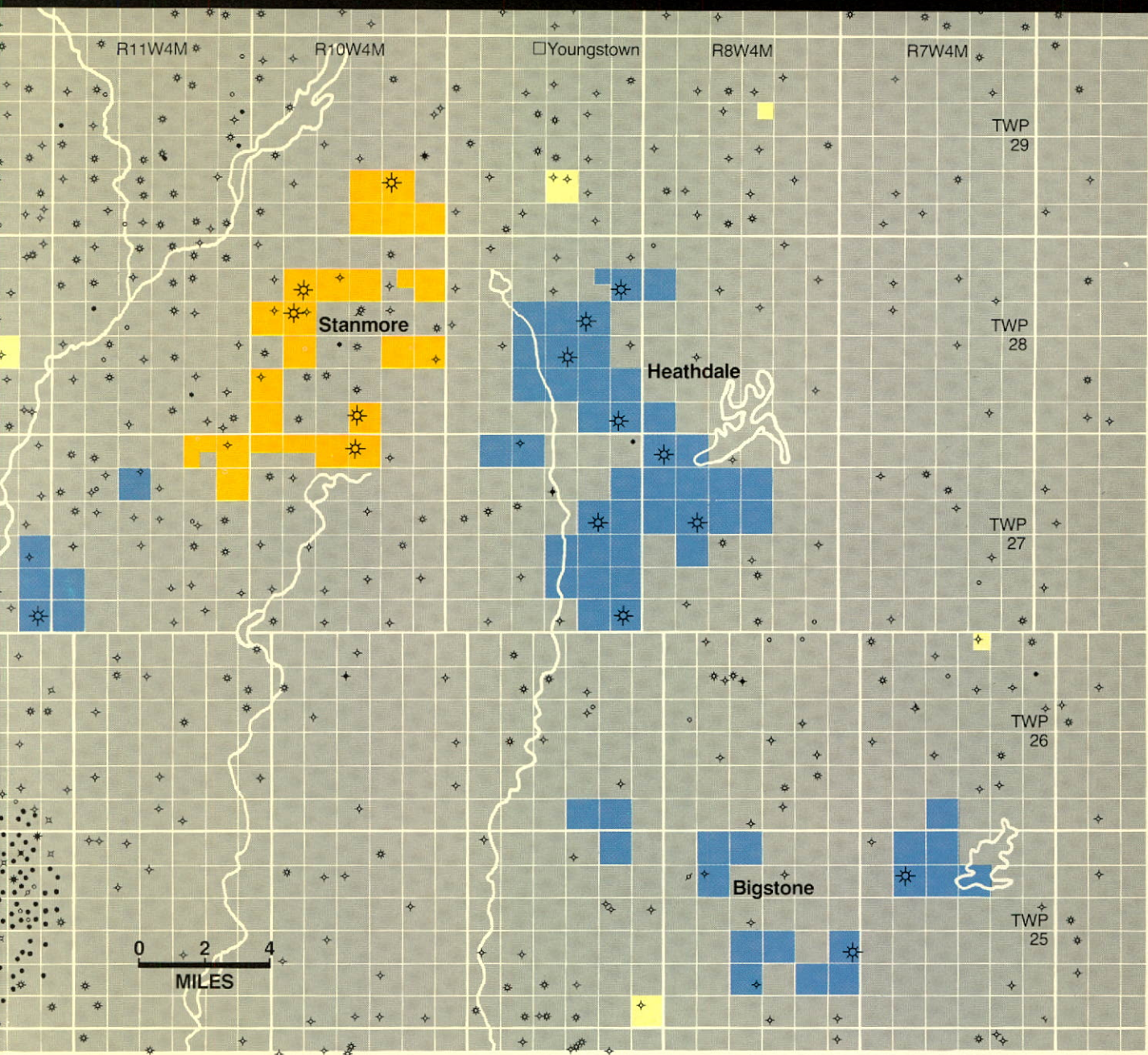
## Saskatchewan

### Dina-Marsden Area

The Company holds a 72.68 percent working interest in this heavy oil producing area of west central Saskatchewan. The lands contain 5 capable oil wells, one gas well, one water disposal well and 2 suspended wells. The oil wells were shut in in 1974 due to economic conditions at that time. One well was tested during December 1980 and January 1981 at approximately 17 barrels of oil per day. The remaining wells are scheduled to be tested in early 1982 and it is anticipated that the combined capabilities of the 5 wells will be in the order of 100 barrels of oil per day.

Pursuant to the Federal-Saskatchewan Government agreement whereby wells which have been shut in for three years or longer are eligible for new oil prices, the economics of recommencing operations in the area have become very attractive. There is potential for at least 5 infill development drilling locations on these lands, production from which would also bring new oil prices.



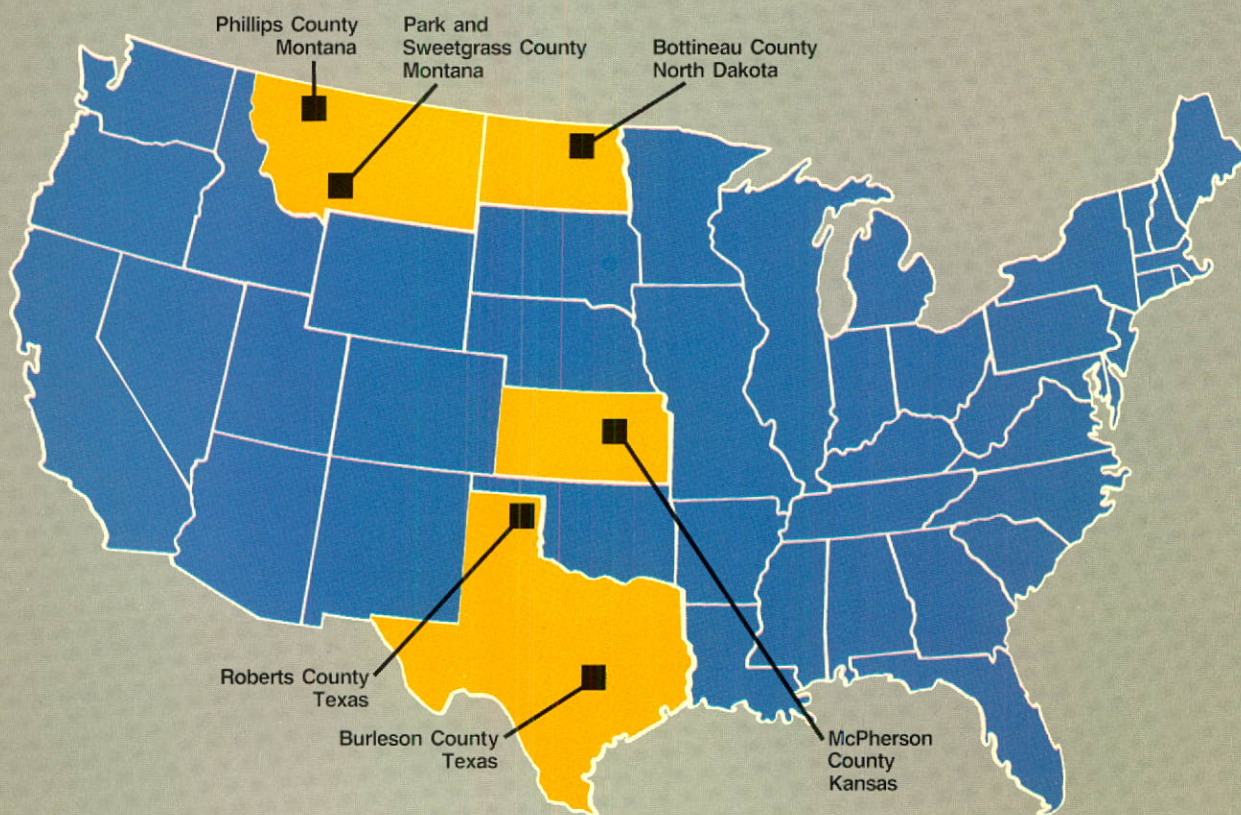


## Operations United States

Penn West participated in the drilling of 5 wells in the United States during 1981, resulting in 2 oil wells in Kansas and 3 oil wells in Texas. Of the 2 Kansas wells, one is a commercial producer and the second has been suspended due to the inadequacy of water disposal facilities to economically handle the large water production volumes. Alternate disposal facilities are being investigated. In Texas, 2 wells are

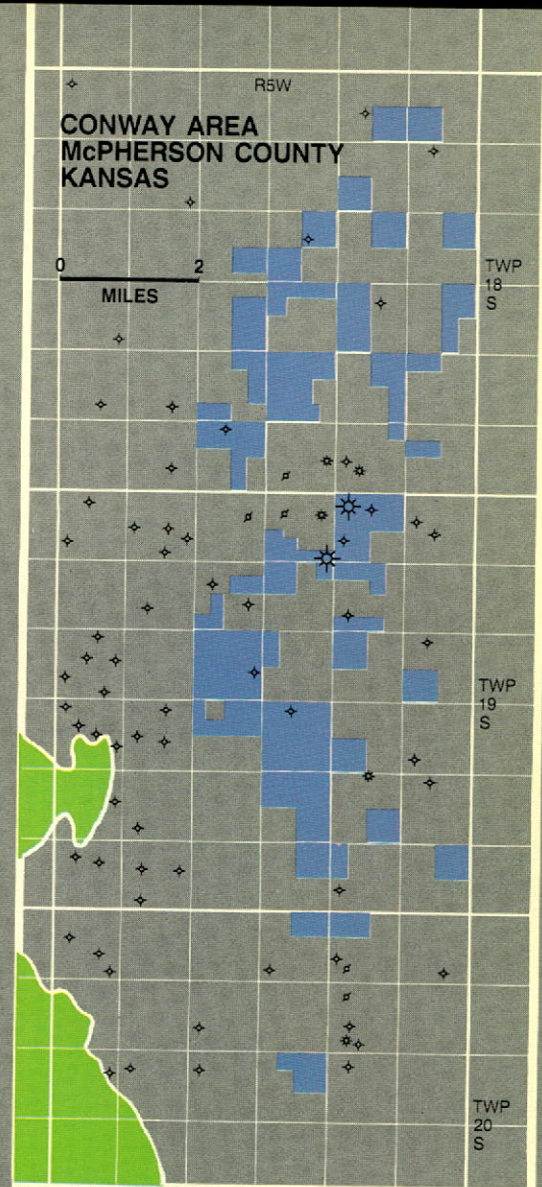
producing and one well is being reworked in an attempt to obtain economic production from the well.

The Company's land position was increased in Kansas during the reporting period and Penn West now owns 9,300 acres in an oil prospect area in McPherson and Saline Counties, and an additional 7,325 acres in a shallow gas prospect in the Conway area of McPherson County.



### Conway Area—McPherson County, Kansas

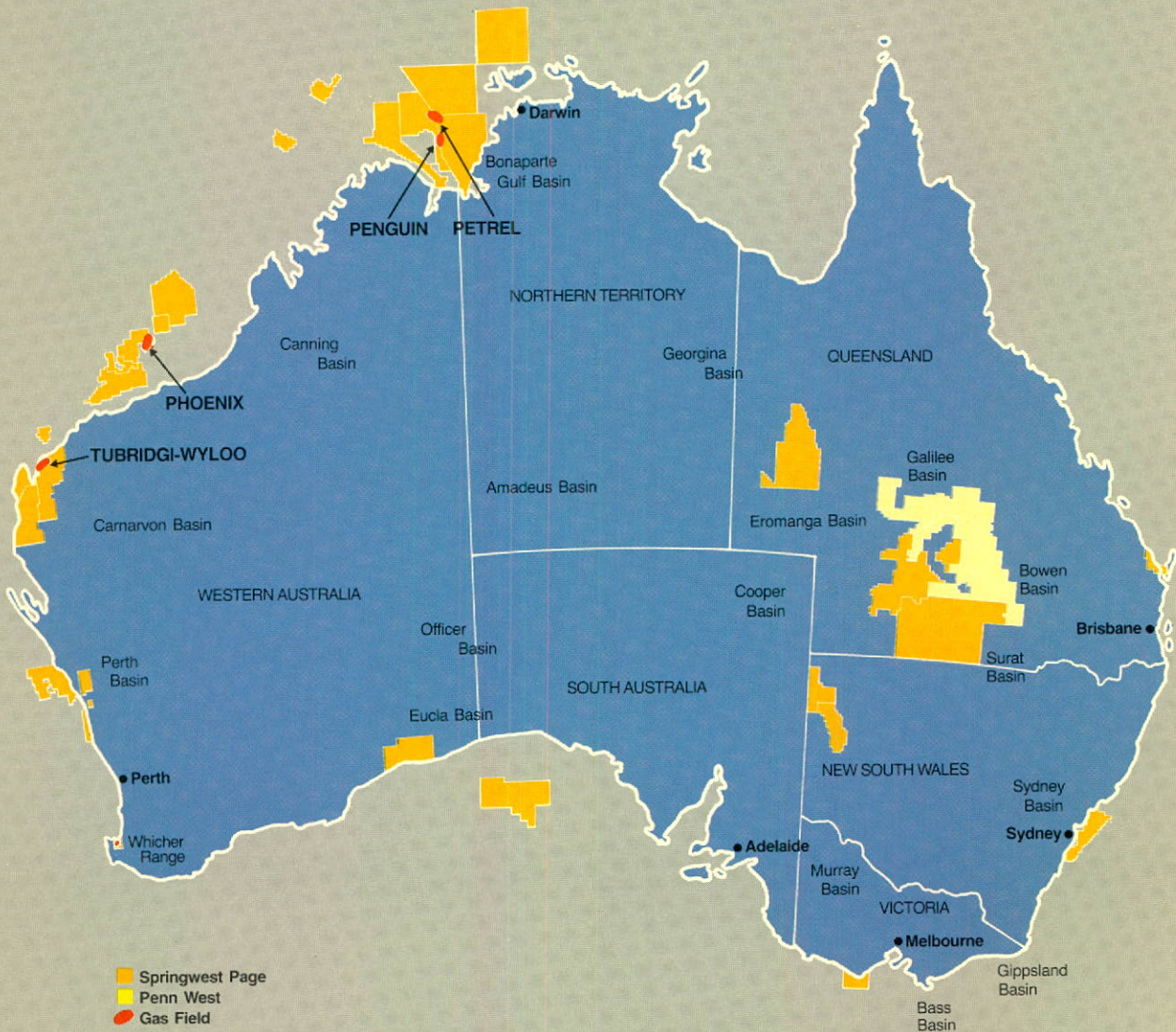
Two shallow gas wells exist on the lands which have been leased by the Company in this area. Penn West recently purchased the well bore rights from the owner for a nominal sum. The 2 wells owned by the Company have reported flow tests of 835 thousand cubic feet per day and 100 thousand cubic feet per day, respectively. Penn West intends to pursue development of this acreage during 1982 to establish sufficient reserves to warrant a tie in to a major gas transmission line which crosses the acreage.



# Australian Operations

## The Australian Advantage

- politically stable
- large permits, relatively unexplored
- good product price
- immediate markets for oil
- low royalties
- a healthy, growing economy





## Australian Operations—An Update

### **Penn West Petroleum Ltd.**

Penn West Petroleum Ltd. holds an 8 percent working interest in two large permits in the Galilee Basin of Central Queensland. Under the terms of a farmout agreement with Esso Exploration and Production Australia Inc., Esso has drilled two wells of a program on approximately 21,546,859 acres on a 1,172 graticular block permit, and will earn 70 percent of the permit upon drilling four additional wells. Esso can earn in the remaining 1,452,391 acres, a 79 graticular block permit based on a two stage program, which provides for Esso to earn a 40 percent working interest in the permit, by running 500 km of new seismic and drilling two wells. Esso may earn an additional 20 percent working interest in the permit by running an additional 250 km of seismic and the drilling of one further well. The two wells drilled to date by Esso have been dry and abandoned. Additional drilling on both permits is anticipated in 1982.

### **Springwest—Page petroleum N.L.**

Springwest-Page Petroleum N.L., in which Penn West Petroleum Ltd. has a 33⅓ percent interest, has become fully operational in Australia with an office in Brisbane, Queensland, staffed by two senior exploration geologists, Mr. John Stout, General Manager and Mr. Andy Hogg, Exploration Manager. All future operations of the Company will be handled through this office.

The drilling rig which Springwest-Page owns has completed the drilling of five wells of a seven well drilling contract. The rig is under a management contract to S & T Drilling Ltd. Prospects for continued drilling contracts appear excellent.

During the reporting period, Springwest-Page, through a participation agreement with the Magnet Group of Companies, agreed to spend approximately \$6 million (Canadian) over a two year period to earn oil and gas interests in approximately 1.3 million net acres of land in Australia. This earned interest involves 34 permits comprising 110 million gross acres located in many of the major Australian sedimentary basins. Programs involving the shooting and interpretation of 6,000 miles of seismic data and the drilling of 37 wells are now underway and have produced some exciting results. The following presents the information on a number of the wells which have been drilled or are drilling in areas indicating significant reserves. Interests will be earned in these wells by Springwest-Page upon completion of the Company's participation commitments.



### **Bonaparte Gulf Basin—Petrel Structure**

The Petrel Structure is present on Permit NTP 28 and the status of wells drilled on this structure is:

- Petrel #1 –Well blew out at 3,878 metres
- Petrel #1A—Drilled as a relief well for Petrel #1 and was subsequently completed without testing.
- Petrel #2 –Tested gas at 14.6 million cubic feet per day.
- Petrel #3 –Recent test reported 22 million cubic feet per day of gas and 144 barrels per day of oil—still testing.

Springwest-Page has the right to earn a 0.83 percent working interest in the three existing wells on the Petrel structure.

### **Bonaparte Gulf Basin—Penguin Structure**

The Penguin Structure is present on Permit WA103P offshore in Western Australia, and the first well drilled, Penguin #1 recorded gas shows but mechanical problems prevented testing. A second well is expected to be drilled in late 1982. Springwest-Page has the right to earn a 1.583 percent working interest in this permit.

### **Perth Basin—Whicher Range Structure**

This structure is present on Permit EP130 in Western Australia. Wells drilled to date have produced the following results:

- Whicher Range #1 – Tested gas at 1.9 million cubic feet per day.
- Whicher Range #2 – Tested gas at rates not considered commercial.
- Whicher Range #3 – At present drilling below 4,400 metres.

In addition to its participation with the Magnet Group of Companies, Springwest-Page is at present participating to earn a 5 percent working interest in the 3,024 square kilometer Permit EP111 also in the Perth Basin in Western Australia. One dry hole has been drilled on the lands on a farmout to a third party. The participants in the Permit are proceeding with the shooting of 166 km of additional seismic to delineate further potential drilling prospects.

### **Canning Basin—Phoenix Structure**

This structure lies in the offshore portion of the Canning Basin known as the Beagle Sub-Basin in Western Australia. Permit WA137P, in which Springwest-Page has the right to earn a 0.15 percent working interest, contains a portion of the Phoenix Structure. Seismic information is currently being processed and a well is expected to commence drilling by mid 1982.

### **Carnarvon Basin—Tubridgi Wyloo Structure**

This structure is present in Permit EP110 onshore Western Australia and contains proven gas reserves in three formations. Wells drilled on this Permit to date have produced the following results:

- Wyloo #1 – Tested gas at 4.25 million cubic feet per day from the Cretaceous Birdrong sandstone.
- Tubridgi #1 – Tested gas at 2 million cubic feet per day from the Cretaceous Birdrong sandstone.
- Tubridgi #2 – Tested gas at 2.8 million cubic feet per day from the Cretaceous Birdrong sandstone.
- Tubridgi #3 – Dry and abandoned.
- Tubridgi #4 – Tested gas at 1.7 million cubic feet per day from the Cretaceous Mardie sandstone and at 5.6 million cubic feet per day from the Cretaceous Birdrong sandstone.
- Tubridgi #5 – Tested gas at 2.5 million cubic feet per day from the Cretaceous Gearle sandstone.
- Tubridgi #6 – Tested gas at 40 thousand cubic feet per day from the Cretaceous Gearle sandstone.

Springwest-page has the right to earn a 0.17 percent working interest in the lands and the Permit.

# Financial Section

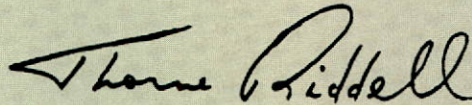
## Auditor's Report

To the Shareholders of Penn West Petroleum Ltd.

We have examined the consolidated balance sheet of Penn West Petroleum Ltd. as at December 31, 1981 and the consolidated statements of earnings and 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  
April 8, 1982



Chartered Accountants

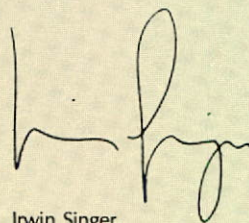
# Penn West Petroleum Ltd.

## Consolidated Balance Sheet as at December 31, 1981

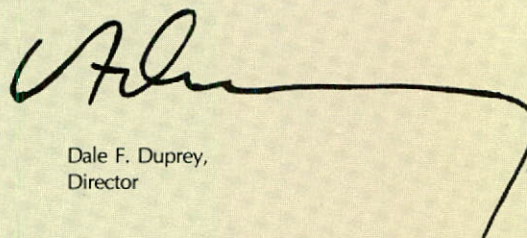
Assets		
	1981	1980
<b>Current Assets</b>		
Cash and short-term deposits	\$ 2,372,996	\$ 855,772
Accounts receivable	2,611,548	701,946
Prepaid expenses	290,704	20,676
	5,275,248	1,578,394
<b>Investment in Affiliated Company</b> (note 3)	906,615	-
<b>Fixed Assets</b> (note 4)	33,170,035	6,181,910
	\$39,351,898	\$ 7,760,304

Liabilities		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,278,184	\$ 1,027,881
Current maturities of long-term debt	401,973	-
	2,680,157	1,027,881
<b>Long-Term Debt</b> (note 6)	13,760,374	-
<b>Gas Production Prepayments</b>	446,556	119,903
<b>Deferred Income Taxes</b>	352,000	20,044
<b>Contingent Liability</b> (note 9)		

Shareholders Equity		
<b>Capital Stock</b> (note 7)		
Authorized		
20,000,000 Common shares without nominal or par value		
20,000,000 Class A shares, non-voting, without nominal or par value		
Issued		
9,347,763 (1980-7,470,145) Common shares	9,946,579	6,151,848
5,653,670 Class A shares	12,588,649	-
<b>Contributed Surplus</b>	110,100	110,100
<b>Retained Earnings (Deficit)</b>	(532,517)	330,528
	22,112,811	6,592,476
	\$ 39,351,898	\$ 7,760,304



Irwin Singer,  
Director



Dale F. Duprey,  
Director

# Penn West Petroleum Ltd.

## Consolidated Statement of Earnings and Retained Earnings (Deficit) Year Ended December 31, 1981

	1981	1980
<b>Revenue</b>		
Oil and gas sales	\$ 2,950,836	\$ 1,258,785
Less: Crown royalties	556,004	280,668
Freehold royalties	339,443	125,328
	895,447	405,996
	2,055,389	852,789
Interest and other income	222,709	90,472
	2,278,098	943,261
<b>Expenses</b>		
Production	647,112	105,034
General and administrative	494,606	262,727
Interest	1,196,941	125,200
Depletion and depreciation	955,600	227,003
	3,294,259	719,964
Earnings (loss) before taxes	(1,016,161)	223,297
<b>Taxes</b>		
Petroleum and Gas Revenue Tax	91,399	-
Deferred income taxes (reduction)	(67,076)	112,944
Alberta Royalty Tax Credit	(177,439)	(40,968)
	(153,116)	71,976
<b>Net Earnings (Loss)</b>	(863,045)	151,321
Retained earnings at beginning of year	330,528	179,207
<b>Retained Earnings (Deficit) at End of Year</b>	\$ (532,517)	\$ 330,528
<b>Net Earnings (Loss) per Share</b> , based on weighted average number of Common and Class A shares outstanding	\$ (.08)	\$ .02

# Penn West Petroleum Ltd.

## Consolidated Statement of Changes in Financial Position Year Ended December 31, 1981

	1981	1980
<b>Working Capital Derived from</b>		
Operations	\$ 40,414	\$ 491,268
Long-term debt	8,566,492	-
Gas production prepayments	70,953	81,280
Issue of capital stock (note 7)	16,383,380	5,819,738
	25,061,239	6,392,286
<b>Working Capital Applied to</b>		
Investment in affiliated company	921,427	-
Property, plant and equipment	2,753,477	1,579,553
Acquisition of subsidiaries, net of working capital (note 2)	19,341,757	2,978,530
Repayment of long-term debt	-	1,158,720
	23,016,661	5,716,803
<b>Increase in Working Capital</b>	2,044,578	675,483
Working capital (deficiency) at beginning of year	550,513	(124,970)
<b>Working Capital at End of Year</b>	\$ 2,595,091	\$ 550,513

## 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 Penn West Petroleum Ltd. (the "Company") and its wholly-owned subsidiaries Penn West Petroleum, Inc., Strom Resources Ltd. and CMS Petroleum Corporation Limited (see note 2).

#### (b) Investment in Affiliated Company

The Company follows the equity method of accounting for its investment in Springwest-Page Petroleum N.L. (see note 3). Under this method, the Company's investment is carried at cost plus its share of the earnings or losses of that company.

#### (c) 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. Such costs, including the costs of production equipment, are accumulated in centres established on a country-by-country basis and depleted using the unit-of-production method based upon estimated recoverable oil and gas reserves in each cost centre, or charged to earnings if exploration in any centre is determined to be unsuccessful.

#### (d) Foreign Currency Translation

Amounts in the United States currency have been 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 transaction date;
- (iii) Revenue and expenses (excluding depreciation and depletion which are translated at the same rates as the related assets), at the average rate of exchange for the year.

#### (e) Joint Ventures

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 Combination

During the year, the Company entered into two business combinations as follows:

- (a) the acquisition of all the issued and outstanding shares of Strom Resources Ltd. ("Strom"), a publicly-held Canadian oil and gas exploration and development company, in exchange for 1,074,978 Common shares and 4,299,912 Class A shares of the Company issued at an ascribed value of \$2.10 per share, and \$4,916,512 cash.
- (b) the acquisition of all the issued and outstanding shares of CMS Petroleum Corporation Limited ("CMS"), a privately-held Canadian oil and gas exploration and development company, in exchange for 1,353,758 Class A shares of the Company issued at an ascribed value of \$2.75 per share, a convertible promissory note in the amount of \$260,374, \$682,223 cash (including acquisition costs of \$92,597), and \$400,000 payable in annual instalments of \$100,000 commencing July 1, 1982.

These business combinations have been accounted for as purchases and the results of operations of Strom and CMS have been included in the consolidated financial statements since July 31, 1981 and August 31, 1981, respectively.

The acquisitions are summarized as follows:

	Strom	CMS	Total
Working capital (deficiency)	\$ 2,882,699	\$ (955,244)	\$ 1,927,455
Oil and gas properties and equipment	13,628,082	11,562,289	25,190,371
	16,510,781	10,607,045	27,117,826
Long-term debt	-	5,193,882	5,193,882
Gas production prepayments	-	255,700	255,700
Deferred income taxes	307,000	92,032	399,032
	307,000	5,541,614	5,848,614
Purchase consideration	\$16,203,781	\$5,065,431	\$21,269,212

# Penn West Petroleum Ltd.

### 3. Investment in Affiliated Company (see note 9)

Springwest-Page Petroleum N.L., at cost, representing 33⅓% interest	\$ 921,427
Share of loss	(14,812)
	\$ 906,615

### 4. Fixed Assets

	1981			1980
	Cost	Accumulated Depletion and Depreciation	Net	Net
Oil and gas properties*				
Canada	\$32,310,584	\$ 1,164,742	\$31,145,842	\$ 5,212,694
United States	2,055,213	189,062	1,866,151	924,460
Other equipment	211,023	52,981	158,042	44,756
	\$34,576,820	\$ 1,406,785	\$33,170,035	\$ 6,181,910

\*Includes oil and gas properties, together with exploration, development and equipment thereon.

### 5. Income Taxes

As of December 31, 1981, oil and gas properties include acquisition costs in the amount of \$18,600,000 (net of accumulated depletion) which are not deductible for income tax purposes by the Company.

### 6. Long-Term Debt

Bank production loans, bearing interest at ¼% above bank's prime lending rate	\$13,200,000
Note payable, non-interest bearing and convertible into 94,681 Class A shares of the Company at the holder's option	260,374
Note payable in annual instalments of \$100,000 commencing July 1, 1982	400,000
Floating charge debentures (\$250,000 U.S.), due January 15, 1982, bearing interest at 1½% above a bank's U.S. prime lending rate	301,973
	14,162,347
Current maturities	401,973
	\$13,760,374

The bank production loans have been advanced to the Company and CMS under revolving lines of credit totalling \$15,000,000. The loan facilities are based upon the value of the companies' oil and gas reserves, are reviewed annually and can be extended each year provided the borrowing base is in excess of the principal amount of the loans outstanding at the time, or may be converted to term loans of up to seven and one-half years payable in monthly installments out of the companies' net production revenues.

The loans are evidenced by demand promissory notes, and are secured by oil and gas properties of the Company and CMS and a pledge of the outstanding shares of Strom.

### 7. Capital Stock

(a) During the year the Company increased its authorized capital stock by the creation of 20,000,000 Class A shares, non-voting and without nominal or par value.

In the event an offer is made to purchase all the outstanding Common shares of the Company, each Class A share is convertible, at the option of the holder, into one Common share.

# Penn West Petroleum Ltd.

(b) Changes in the Company's outstanding capital stock during 1981 were as follows:

	Common Shares		Class A Shares	
	Number of Shares	Amount	Number of Shares	Amount
Balance at December 31, 1980	7,470,145	\$ 6,151,848	-	\$ -
Shares issued				
For cash on exercise of share purchase warrants	802,640	1,575,277*	-	-
For shares of Strom (see note 2)	1,074,978	2,219,454*	4,299,912	8,865,815*
For shares of CMS (see note 2)	-	-	1,353,758	3,722,834
Balance at December 31, 1981	9,347,763	\$ 9,946,579	5,653,670	\$12,588,649

\*Net of share issue expenses totalling \$232,000.

(c) Shares of the Company are reserved as follows:

400,000 Common shares under the Company's Employee Stock Option Plan, of which options to purchase 330,000 shares are outstanding, exercisable from time to time to January 1987 at prices ranging from \$1.00 to \$2.00 per share;

537,489 Common shares for issue on exercise of share purchase warrants at a price of \$3.50 per share prior to July 31, 1982 and thereafter at a price of \$4.00 to July 31, 1983; and

94,681 Class A shares for issue on conversion of promissory note (see note 6).

## 8. Related Party Transactions

In 1981, a director and officer and certain key employees of the Company were granted gross overriding royalty interests totalling 3% in all non-producing oil and gas prospects acquired by the Company during the year.

## 9. Loan Guarantee

The Company has jointly and severally guaranteed loans of its affiliate, Springwest-Page Petroleums N.L., approximating \$4,000,000 at December 31, 1981.

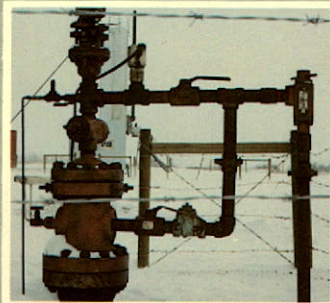
## 10. Statutory Information

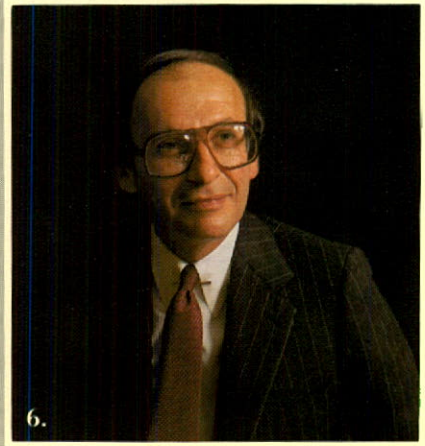
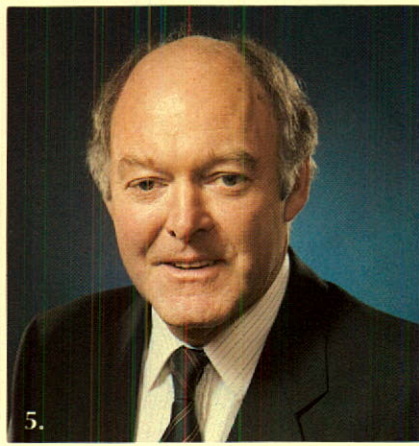
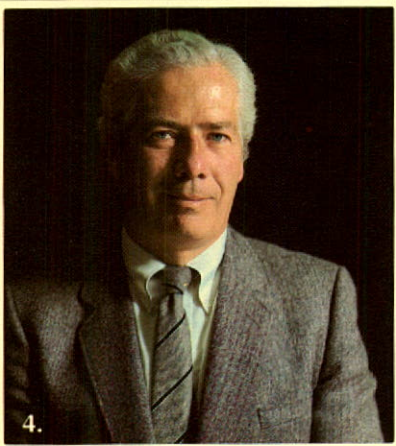
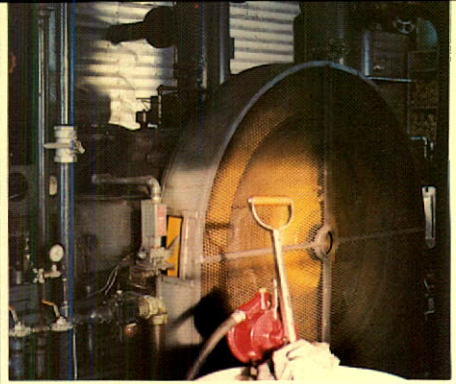
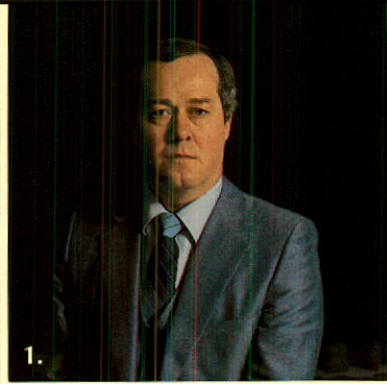
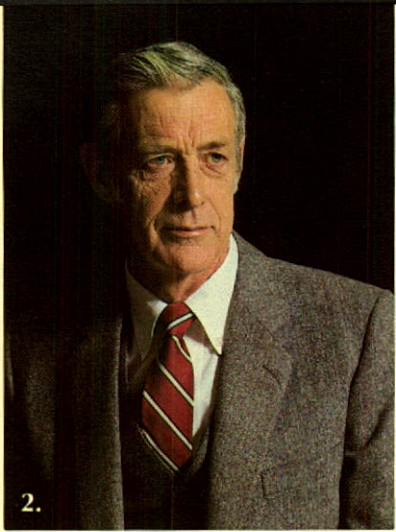
Remuneration paid to the directors and senior officers (including the five highest paid employees) of the Company during 1981 amounted to \$216,753.



1. L-R: Floyd Krukoff - Operations Manager,  
Terry Carter - Exploration Manager,  
Debbie Sexton - Land Secretary, Bob Fuller  
- Land Manager
2. L-R: Lori Petrie - Land Administrator,  
Carol Truss - Land Administrator, Bob Fuller  
- Land Manager

3. Debbie Randall - Receptionist
4. Floyd Krukoff - Operations Manager,  
Linda Goroniuk - Secretary
5. L-R: Dale Duprey, Ron Sparrow, Bob Fuller,  
Floyd Krukoff, Terry Carter
6. Cathy Wheaton - Accounting Assistant,  
Ron Sparrow - Controller





1. Dale F. Duprey - Director  
2. James Duncan McNeill - Director  
3. Sidney Singer - Director  
4. Dr. Gilbert J. McMurtry - Director  
5. Denis L. Russell - Director

6. Irwin Singer - Director  
7. L-R: Susan Campbell - Accounting Assistant,  
Debbie Randall - Receptionist, Ron Sparrow - Controller

## Corporate Information

**Head Office:**

1250 Elveden House,  
717-7th Avenue S.W.,  
Calgary, Alberta T2P 0Z3

**Directors:**

Inwin Singer, Chairman of the Board  
Toronto, Ontario  
Dale F. Duprey, President and Treasurer  
Calgary, Alberta  
Denis L. Russell, Vice President and Secretary  
Vancouver, British Columbia  
Dr. Gilbert J. McMurtry  
Calgary, Alberta  
James Duncan McNeill  
Calgary, Alberta  
Sidney Singer  
Cos Cob, Connecticut, U.S.A.

**Stock Exchange Listings:**

Toronto Stock Exchange, Symbol—PWT  
Vancouver Stock Exchange, Symbol—PWT  
National Association of Securities Dealers, Inc.,  
Symbol—PWTPF

**Bankers:**

Bank of Montreal,  
705-7th Avenue S.W.,  
Calgary, Alberta  
Washington County State Bank,  
200 West Vulcan,  
Brenham, Texas, U.S.A.

**Auditors:**

Thorne Riddell & Co.,  
Suite 1200, Bow Valley Square 2,  
205-5th Avenue S.W.,  
Calgary, Alberta

**Transfer Agent:**

National Trust Company Limited,  
100 Commerce Centre,  
1040-7th Avenue S.W.,  
Calgary, Alberta

**Solicitors:**

Bennett Jones,  
3200 Shell Centre,  
400-4th Avenue S.W.,  
Calgary, Alberta  
Edmison Spence  
505, 706-7th Avenue S.W.  
Calgary, Alberta

