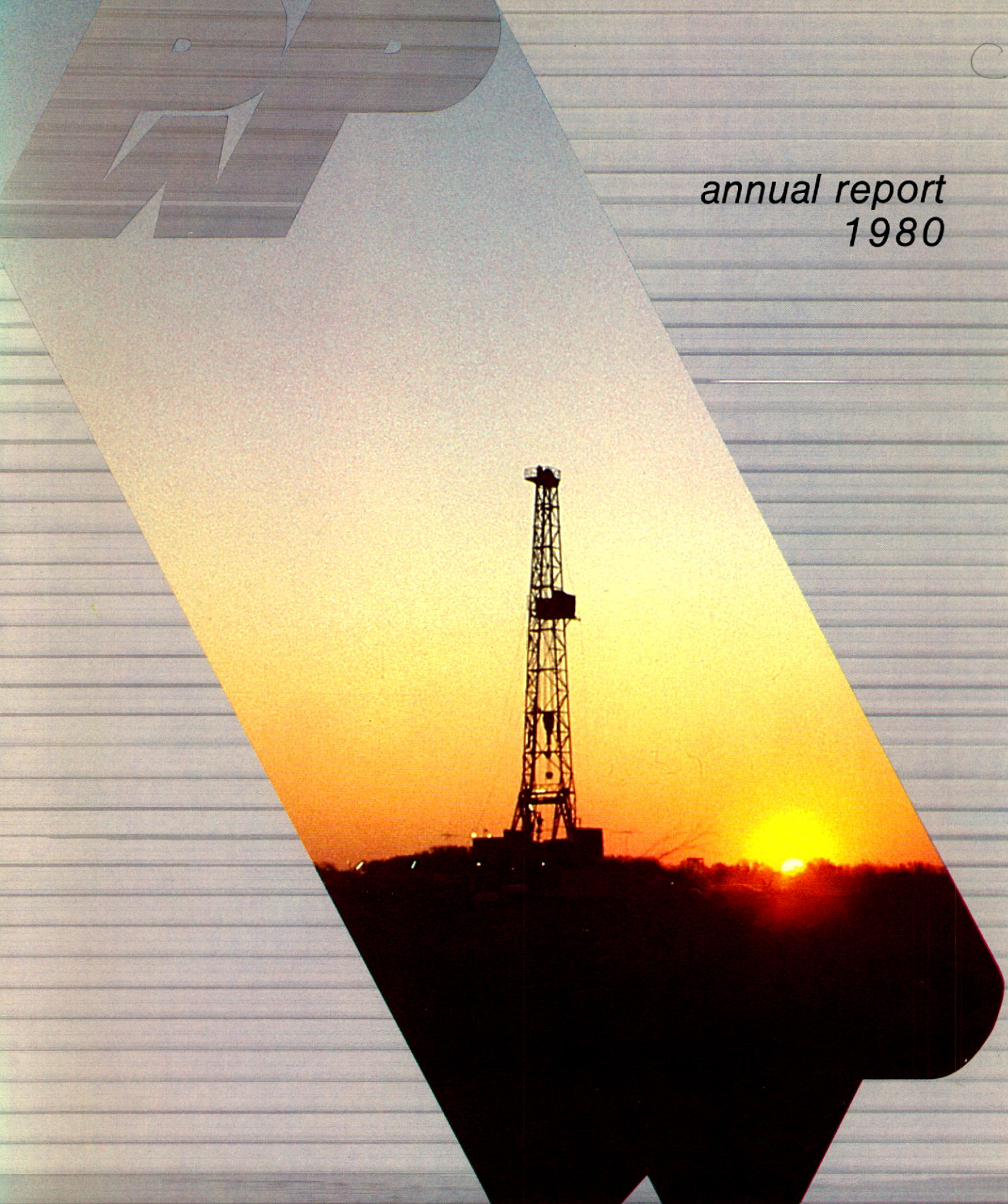


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annual report
1980



PENN WEST PETROLEUM LTD.

HOWARD ROSS LIBRARY
OF MANAGEMENT
DEC 16 1981
MCGILL UNIVERSITY

CORPORATE INFORMATION

HEAD OFFICE:

1810 Sandman Centre
840 - 7th Avenue S.W.
Calgary, Alberta T2P 3G2

DIRECTORS:

Irwin Singer, Chairman of the Board
Toronto, Ontario
Dale F. Duprey, President and Treasurer
Calgary, Alberta
Denis L. Russell, Vice President and Secretary
Calgary, Alberta
Dr. Gilbert J. McMurtry
Calgary, Alberta
Barnabas William Nixon Apple, Q.C.
Uxbridge, Ontario
Sidney Singer
Cos Cob, Connecticut, U.S.A.

STOCK EXCHANGE LISTING:

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

BANKERS:

Bank of Montreal
830 - 7th Avenue S.W.
Calgary, Alberta
Washington County State Bank
200 West Vulcan
Brenham, Texas

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 & Co.
3200 Shell Centre
400 - 4th Avenue S.W.
Calgary, Alberta

COMPANY PROFILE

Penn West Petroleum Ltd., was formed by amalgamation under the laws of the Province of Alberta, on December 27, 1979, and became a public company in June, 1980. The Company's major assets are located in Western Canada, however Penn West has expanded its operations into the United States and Australia.

At reporting year end, Penn West's 7,470,145 common shares were held by 525 registered shareholders.

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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, May 25, 1981 at 9:00 a.m.

HIGHLIGHTS

FINANCIAL

	Year Ending Dec. 31, 1980	Year Ending Dec. 31, 1979
Total Revenue, net of royalties	\$ 943,261	\$ 492,228
Oil & Gas Sales, net of royalties	\$ 852,789	\$ 486,345
Investment Income	\$ 90,472	5,883
Net Earnings	\$ 151,321	\$ 88,729
Working Capital Generated from Operations	\$ 491,268	\$ 225,866
Additions to Property, Plant & Equipment	\$4,558,083	\$ 811,871
Working Capital (Deficiency)	\$ 550,513	\$ (124,970)
Long Term Debt	—	\$1,158,720
Shareholders Equity	\$6,592,476	\$ 406,417
Total Assets	\$7,760,304	\$2,336,652
Common Shares Outstanding	7,470,145	4,331,362
Number of Registered Shareholders	525	—

OPERATIONS

Production (Gross before royalties)		
Crude Oil (Bbls)	3,960	3,553
Bbls Per Day	11	10
Natural Gas (Mcf)	489,874	342,834
Mcf Per Day	1,342	939
Reserves (Gross Proven and Probable)		
Crude Oil (Bbls)	191,610	59,179
Natural Gas (Mmcf)	18,348	12,880
Drilling Activity		
Gross Wells Drilled	48	40
Net Wells Drilled	2.733	1.889
Net Wells Productive	2.305	1.241
Net Wells Dry	0.428	0.648

LAND HOLDINGS

Gross Acres	22,849,581	14,292,471
Net Acres	231,001	134,244
Gross Royalty and Net Profits Interest	33,494	22,492

RANGE OF MARKET PRICES ON COMMON SHARES

Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Annual Share
	High	Low	High	Low	High	Low	High	Low	Volume
1980	—	—	—	—	\$2.50	\$1.65	\$3.75	\$1.85	1,685,681

“1980 was a year of Geographical Diversification and Expansion”

TO THE SHAREHOLDERS

I am proud to report that in its first year as a public company, Penn West Petroleum Ltd. recorded a number of significant achievements.

During 1980, your Company:

- *Participated in the drilling of 59 gross wells in Canada and the United States; of these, 37 were completed as commercial natural gas wells and 10 as commercial oil wells, for a success ratio of 80 percent.*
- *Generated revenues (net of royalties) of \$943,261. resulting in a cash flow of \$491,268. and net earnings of \$151,321.*
- *Incorporated a wholly-owned United States subsidiary, Penn West Petroleum, Inc., to facilitate land acquisition, exploration and development activities in the mid-western and south-western United States.*
- *Acquired a one-third interest in Springwest-Page Petroleum N.L., a new joint venture company which is now opening and staffing offices in Brisbane, Queensland, for the exploitation of petroleum and natural gas properties in Australia.*

Subsequent to the year end, Penn West made an offer to acquire all of the shares of Strom Resources Ltd. of Calgary, a public Company listed on the Alberta Stock Exchange. The land and exploration activities of Strom extend through Alberta, British Columbia and Saskatchewan. This transaction, when consummated, will greatly expand the size and scope of your Company's activities.

The affiliation between Penn West and Strom will result in significant reductions in overhead for both companies and will have a synergistic effect on their combined operations and results.

To acquire Strom, Penn West has offered \$3.50 cash per share for approximately 30.5% of Strom's 4,645,071 common shares from two senior officers. The offer for the balance of Strom's shares was: For each six Strom shares; two Penn West common shares, eight class A Penn West shares and one Penn West share purchase warrant.

In North America your Company has made a number of significant land acquisitions in the United States and drilling activity will be substantially increased in Texas and Kansas during 1981.

Penn West's capacity to finance these expanded programs has been enhanced by a \$4,000,000 revolving line of bank credit, secured by certain of your Company's Canadian oil and natural gas properties. None of this credit line had been utilized by the end of the fiscal year.

The decision to intensify Penn West's efforts to diversify geographically has been prompted by two considerations. The first was the continuing pricing and taxation dispute in Canada between the federal government and the producing provinces. The second was the desire to take fuller advantage of the opportunities that lie in the United States and Australia.

I am confident that this approach will further assure your Company's future growth.

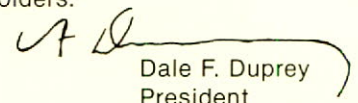
Since Penn West Petroleum Ltd. became a public company in June, 1980, through the sale of \$3,000,000 of shares and warrants pursuant to a rights offering by Pennant Resources Limited, your Company's shares have been listed on the Toronto and Vancouver Stock Exchanges.

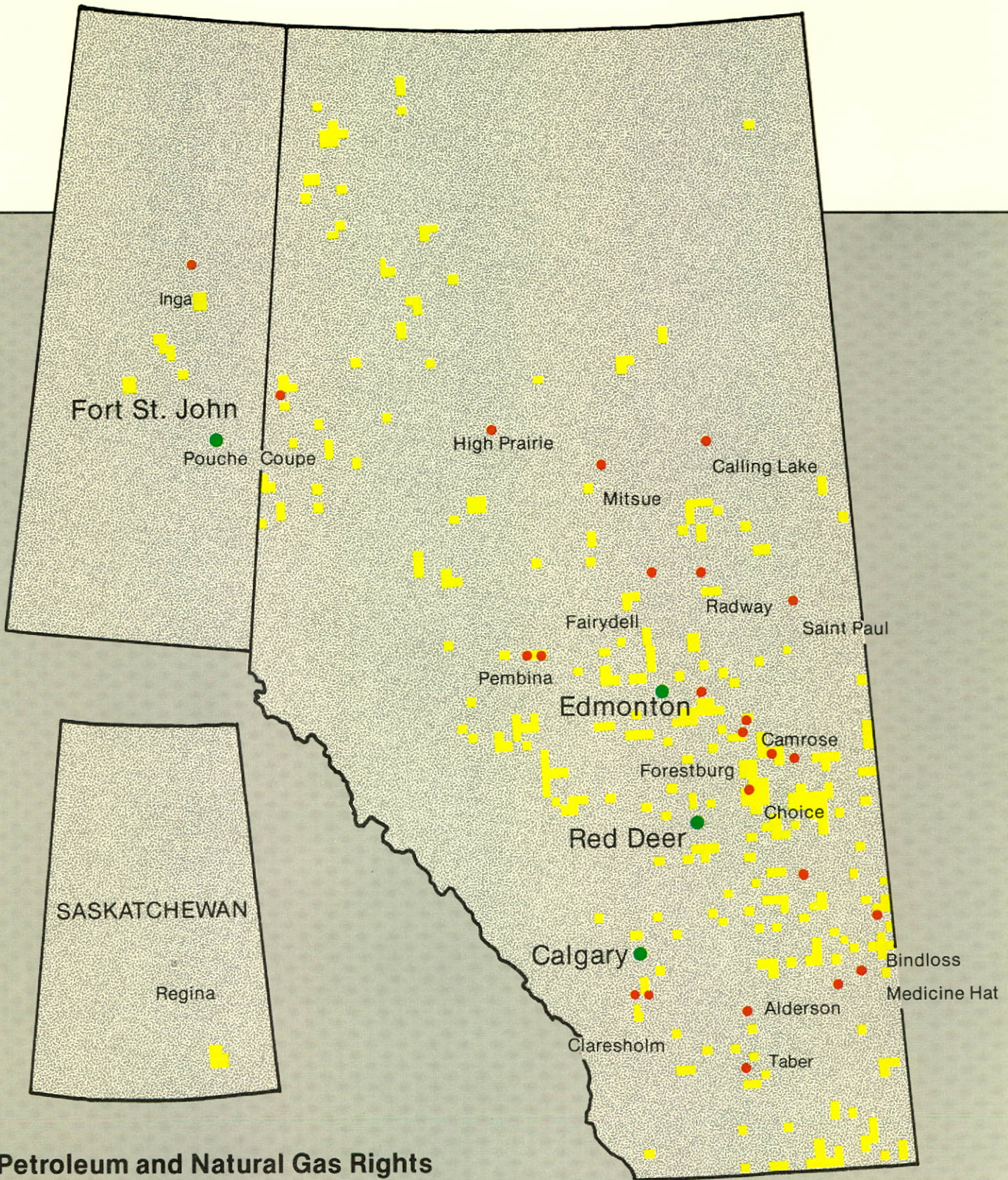
On March 3, 1981, Penn West shares were listed for trading with the National Association of Securities Dealers in the United States under the symbol PWTPF.

Penn West share purchase warrants, which trade on the Vancouver Stock Exchange, are exercisable at any time to April 30, 1981. If all the warrants are exercised (two warrants and \$2 entitle warrant holders to acquire one additional common share) the proceeds to Penn West's treasury will be an additional \$1,647,441.

Penn West Petroleum Ltd. enjoyed significant growth during the first year of its operations, and new programs in the United States and Australia are giving your Company added momentum.

On behalf of the board, I would like to acknowledge the dedication of our staff and express our appreciation for the confidence of our shareholders.


Dale F. Duprey
President



Petroleum and Natural Gas Rights

- Townships or blocks within which Penn West Petroleum Ltd. has working interests, royalty interests or net profit interests.
- Areas of 1980 drilling activity by Penn West Petroleum Ltd.



“Drilling Activity in Canada has Resulted in a 90 % Success Rate”

OPERATIONS CANADA

During 1980, Penn West Petroleum Ltd. participated in the drilling of 41 wells in Alberta and 1 well in British Columbia, of which 32 were completed as commercial gas wells and 5 as commercial oil wells, a 90 percent success rate. An additional 11 wells were drilled on land in which the Company owns an interest, at no cost to the Company. This drilling resulted in 4 gas wells, one oil well and 6 dry holes.

Penn West has various working interests in 594,148 gross acres of land in Canada, the majority of which is well located in prime oil and gas areas of Alberta. The Company will continue in 1981 to participate in low risk drilling plays in Canada, in areas that offer marketing conditions that will provide the Company with increased cash flow in the near future. As well, Penn West will encourage drilling of higher risk prospects through farmout and option of its acreage.

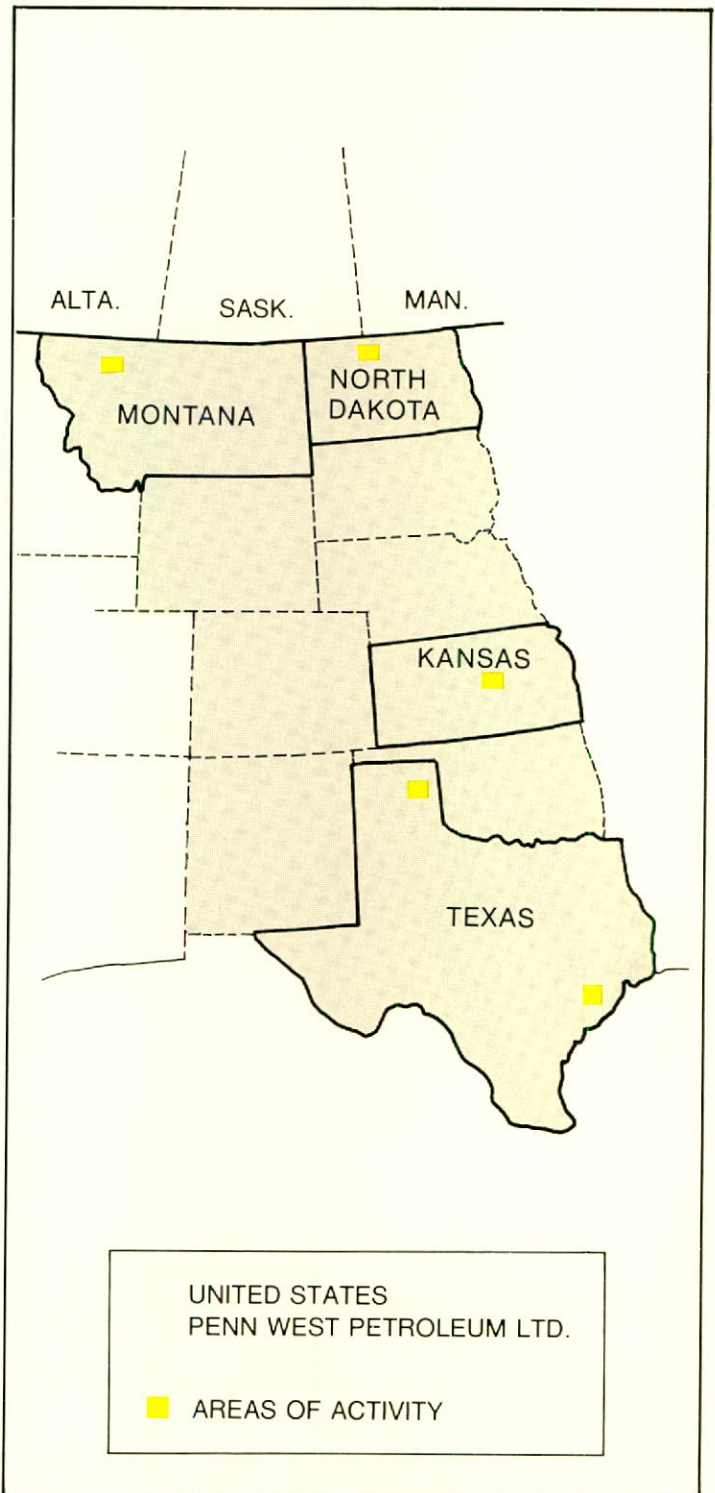
OPERATIONS UNITED STATES

Penn West Petroleum Ltd., operating through its wholly owned subsidiary, Penn West Petroleum, Inc., aggressively expanded its activities in the United States during 1980, through drilling and land acquisition in Texas and Kansas. The Company will continue to expand its operations in the United States in 1981 through selected land acquisition and drilling of low risk prospects.

The Company's operating practice in the United States is to acquire acreage in areas with immediate drilling prospects. Outside parties are encouraged to participate in the prospects on a cost basis, which allows Penn West to recover its initial investment and a substantial portion of its drilling costs. Penn West also considers investment in prospects generated by other companies.

During 1980, the Company participated in the drilling of six wells in the United States. In Texas, three were completed as oil wells and one as a gas well. In North Dakota, one well proved commercial oil production.

Penn West during 1980 leased 5,840 gross acres in the states of Texas and Kansas.



KANSAS

In December 1980, Penn West acquired 5,000 gross lease acres in McPherson and Saline Counties in Kansas. This acreage is located within the limits of the Lindsborg Field which primarily produces oil from the Maquoketa Formation. The Company has entered into agreements with outside partners who will participate with Penn West in a five-well drilling program on this acreage. Penn West will pay 8 1/3% of the drilling, completion and equipping costs, and retain a 25% working interest in the wells.

The first two wells were drilled early in 1981 and are being completed as Maquoketa oil producers.

Subsequent to the 1980 year end, an additional 6,000 acres has been acquired in the area of the five well drilling program, increasing the Company's acreage holdings on this prospect to some 11,000 acres.

The Company has also recently purchased 6,000 acres in McPherson County on a shallow gas prospect. Additional infill leasing is contemplated for this prospect prior to drilling of any wells.

TEXAS

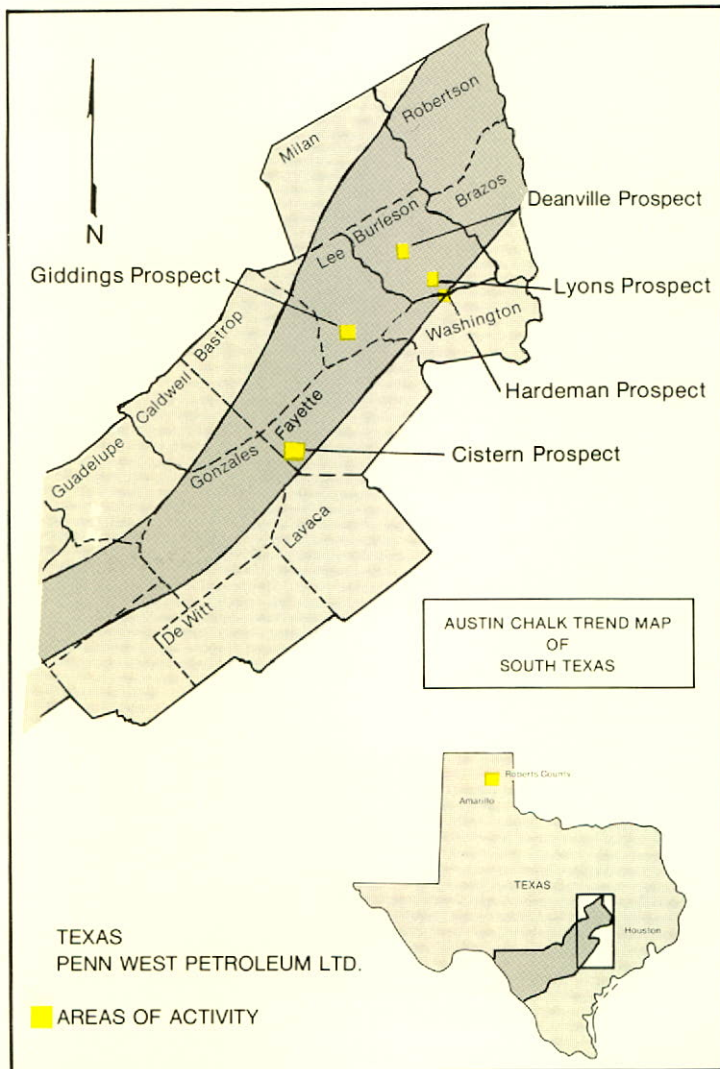
During 1980, Penn West purchased 840 acres of leased land on five prospects located in Burleson, Fayette and Lee Counties on the highly prospective Austin Chalk Formation trend.

Two oil wells have been drilled in Burleson County. The first well, Penn West Adams #1, was drilled on the 240 acre Lyons Prospect and has recently been fraced and will be potential tested after final clean up of the frac fluid. Two additional wells will be drilled on the Lyons Prospect early in 1981. The Company has a 20% working interest in the Lyons Prospect until payout, and a 10% working interest after payout.

The second oil well was drilled on the 100 acre Hardeman Prospect, in which the Company has a 15% working interest before payout and an 11.25% working interest after payout. The well has been completed in the Georgetown Formation and exhibited an absolute open flow potential of 23 million cubic feet per day. A gas analysis on the Georgetown Formation indicated the presence of a small percentage of hydrogen sulfide gas and a gas sweetening plant will be required to produce the gas. In the interim, the Georgetown will be temporarily plugged and the Austin Chalk Formation will be completed for production.

An 8,100 foot Austin Chalk test well has been drilled on the 125 acre Giddings Prospect in Lee County, with log analysis indicating good potential in the Austin Chalk Formation. The well, Penn West Dube #1, is currently being completed for production in the Austin Chalk Formation. Penn West is the operator and will retain a 27.5% interest after completion.

Seismic programs have been conducted on the Company's 300 acre Cistern Prospect in Fayette County and 75 acre Deenville Prospect in Burleson County. Data from both prospects is being processed and a five well drilling program is contemplated.



OPERATIONS AUSTRALIA

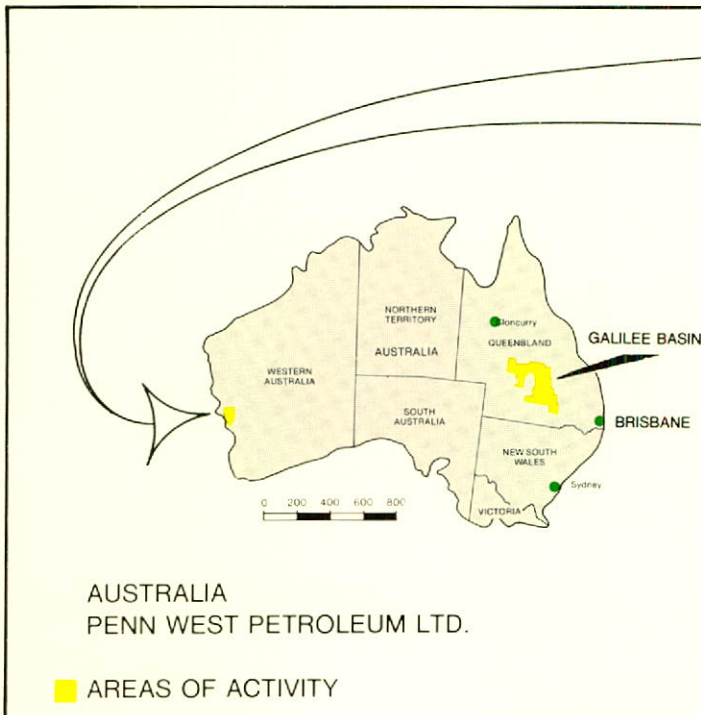
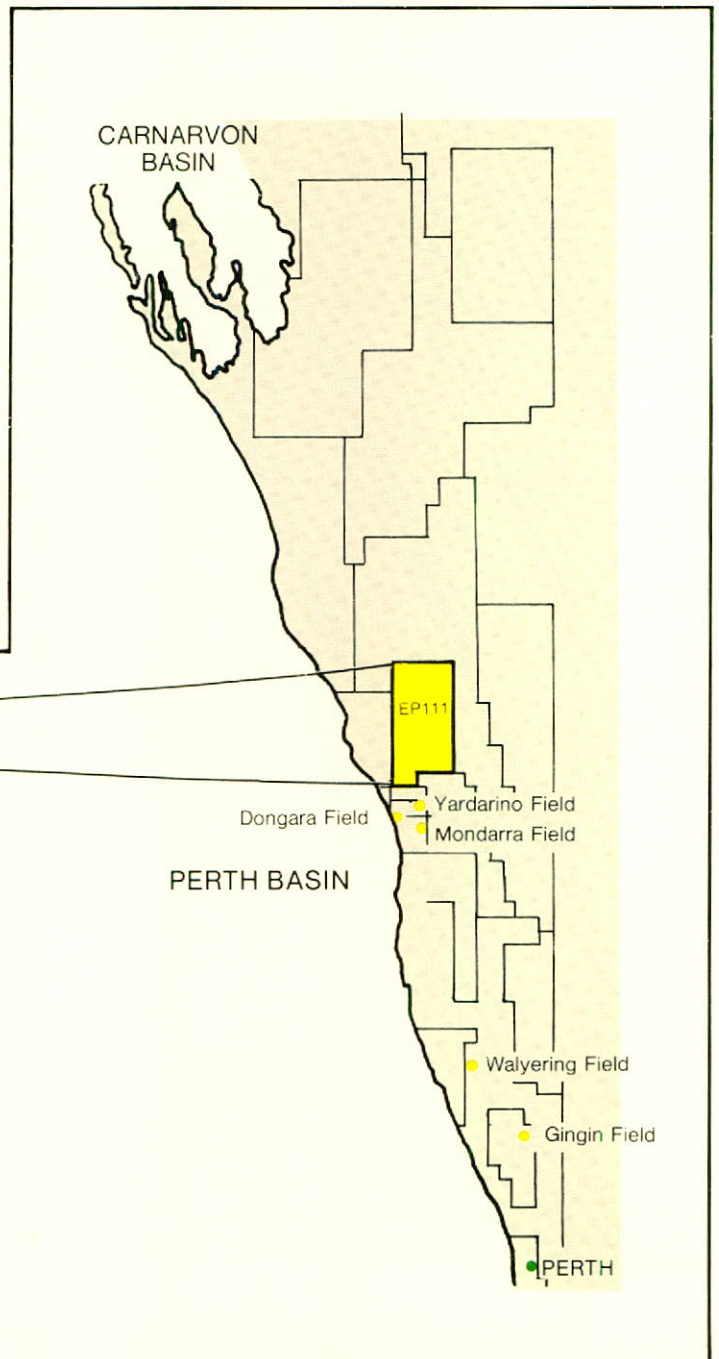
GALILEE BASIN

Penn West Petroleum Ltd., holds a 0.8% working interest in 1202 blocks, (approximately 22,098,400 acres) in the Galilee Basin in Queensland, Australia. By agreement dated October 8, 1979, 1172 blocks (approximately 21,546,859 acres) were farmed out to Esso Exploration and Production Australia Inc. Esso may earn a 70% working interest in the 1172 blocks upon completion of a two stage exploration program involving:

- A 1500 kilometre seismic program and drilling of three exploratory wells.
- Sufficient additional seismic to delineate three additional drilling prospects and drilling of three wells.

During 1980, Esso completed 1596 Km of seismic in the Galilee Basin. Esso plans to drill three wells in 1981, to complete preliminary obligations of the farmout agreement.

A gravity survey has been conducted on the 30 blocks which were excluded from the Esso farmout and a seismic program is being planned to delineate at least one prospect to be drilled in 1981.



“Australian Sedimentary Basins have Barely Been Scratched”

SPRINGWEST-PAGE PETROLEUM N.L.

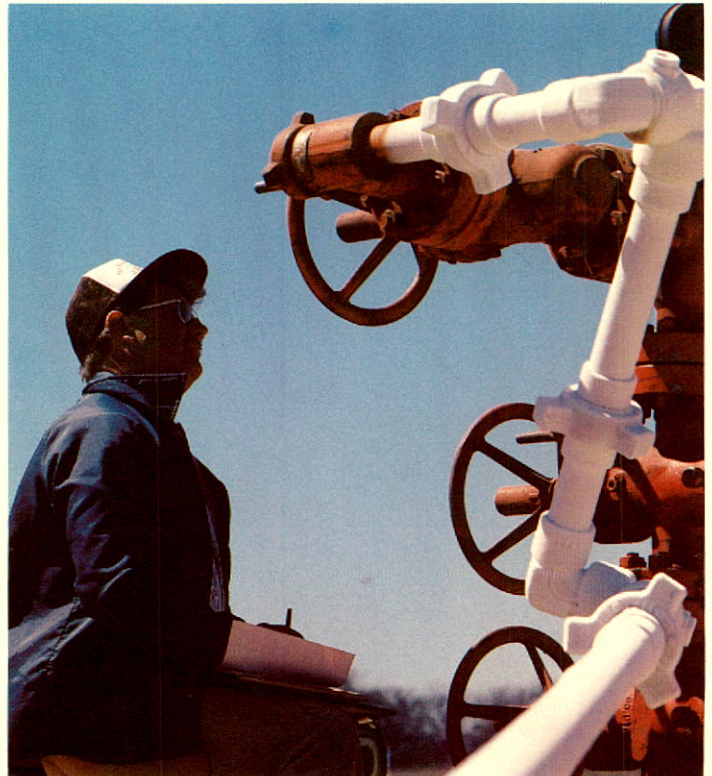
Penn West Petroleum Ltd., Springbank Oil & Gas Ltd., and Page Petroleum Ltd. have jointly formed a new company, Springwest-Page Petroleum N.L., to explore and develop petroleum and natural gas properties in Australia. Penn West holds a 33⅓% interest in the new Company.

Springwest-Page's first Managing Director is Dr. W.R. Maiklem of Springbank Oil & Gas Ltd., who has had geological experience in Australia and received his Ph.D from the University of Queensland at Brisbane. Each of the three companies will have one director on the new Company's Board of Directors, with Dale Duprey representing Penn West. It is planned to have Springwest-Page listed on an Australian stock exchange; to have the new Company become a naturalized Australian company with more than 50% of the stock held by Australians' and to have Australian directors comprise more than half of the board.

Because there is a severe shortage of drilling rigs in Australia, Springwest-Page has purchased an 8,000 foot capacity rig in Canada, and will be moving it to Australia between June and August of 1981. The joint venture Company will utilize its drilling rig in the more actively explored areas of Queensland and South Australia. Market research done on behalf of the Company indicates that these regions are expecting a substantial supply shortfall unless substantial discoveries increase the reserves picture.

The new Company is now participating in an exploration program on a 3,024 sq. km. concession located in the Northern Perth Basin of Western Australia. A seismic program will be followed by the drilling of up to three wells to depths in the 6,000 - 7,000 foot range. The Dongara and Yardarino gas and oil fields and the Mondarra gas field, discovered between 1964 and 1968, lie immediately south of the boundary of the concession. These fields, with reserves totalling 500 BCF gas and 2MM barrels of oil, are connected by gas pipeline to Perth. A proposed pipeline connecting Perth to the Australian Northwest Shelf Area will cross the concession. There is a ready market for natural gas.

With sedimentary basins larger than Canada's and drilling activity of barely more than 100 wells per year, the surface of Australia's hydrocarbon potential has barely been scratched. Oil prices of \$27 Australian (\$37 Canadian) per barrel, with royalty rates of 10 - 12½ percent, and a ready market for both oil and natural gas, are expected to accelerate drilling to record levels in the next year and beyond.



OIL AND GAS RESERVES

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

The following table summarizes the Company's oil and gas reserves as of December 31, 1980 as determined by the independent petroleum consulting firms D&S Petroleum Consultants (1974) Ltd. and MTA Engineering Ltd., along with comparative 1979 estimates.

	<u>RESERVES</u>			
	1980		1979	
	<u>Estimated Reserves</u>		<u>Estimated Reserves</u>	
	Gross	Net	Gross	Net
Crude Oil (Bbls)				
Proven	90,051	61,073	41,902	23,682
Proven & Probable	119,610	125,999	59,179	31,279
Natural Gas (MMCF)				
Proven	13,753	9,838	9,769	6,727
Proven & Probable	18,348	13,284	12,880	9,014

CRUDE OIL & NATURAL GAS DISCOUNTED FUTURE NET CASH FLOW BEFORE INCOME TAX

	UNDISCOUNTED	12%	15%	20%
1979 Proven	\$ 20,345,452	7,619,356	6,448,188	5,082,275
Proven & Probable	\$ 28,618,184	9,300,773	7,717,764	5,918,263
1980 Proven	\$ 43,885,833	13,216,249	10,808,588	8,141,286
Proven & Probable	\$ 62,787,335	17,798,318	14,394,400	10,658,394

“1980 Operations Resulted in Significant Increases in Reserves and Land Holdings”

DRILLING ACTIVITY

During 1980 the Company participated in the drilling of 48 wells in Western Canada and the United States. In addition, 11 wells were drilled on land in which the company holds an interest, at no cost to the Company.

The results of our 1980 drilling activity are shown on the following table:

1980 DRILLING RESULTS						
<u>Gross Working Interest Wells</u>						
	<u>Alberta</u>	<u>B.C.</u>	<u>Texas</u>	<u>N.Dakota</u>	<u>Montana</u>	<u>Total</u>
Gas	31	1	1			33
Oil	5		3	1		9
Dry	5				1	6
	41	1	4	1	1	48
<u>Royalty and Net Profit Wells</u>						
Gas	4					4
Oil	1					1
Dry	6					6
	11					11
TOTAL	52	1	4	1	1	59

LAND HOLDINGS

During 1980 the Company increased its land holdings in Western Canada and the United States through freehold lease acquisitions, crown sales and farmins. As a result of this activity the Company's net working interests in North America increased by 11,970 acres. The Company's net working interests in Australia increased by 84,787 acres. as a result of the acquisition of a new authority to prospect.

The following table is a comparative summary of our land holdings:

PETROLEUM AND NATURAL GAS RIGHTS				
AREA	TOTAL (1980)		TOTAL (1979)	
	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Gross Acres</u>	<u>Net Acres</u>
<u>Working Interests</u>				
Alberta	553,533	36,337	488,861	31,120
British Columbia	39,015	1,527	10,659	357
Saskatchewan	1,600	52	1,600	52
Montana	123,080	10,077	123,080	10,077
Texas	25,153	841	23,991	210
Kansas	5,000	5,000	—	—
North Dakota	3,800	380	4,280	428
Queensland Australia	22,098,400	176,787	13,640,000	92,000
	22,849,581	231,001	14,292,471	134,244
<u>Royalty and Net Profit Interests</u>				
Alberta	23,200		20,480	
British Columbia	10,294		2,012	
	33,494		22,492	
TOTAL	22,883,075	231,001	14,314,963	106,244

**PENN WEST PETROLEUM LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1980**

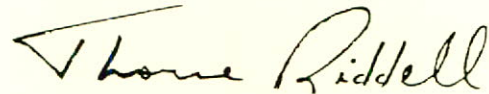
AUDITORS' REPORT

To the Shareholders of
Penn West Petroleum Ltd.

We have examined the consolidated balance sheet of Penn West Petroleum Ltd. as at December 31, 1980 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at 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
March 25, 1981



Chartered Accountants

**PENN WEST PETROLEUM LTD.
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1980**

ASSETS

	1980	1979
CURRENT ASSETS		
Cash and short-term deposits	\$ 855,772	\$ 307,655
Accounts receivable	696,186	172,197
Marketable securities, at cost (quoted market value: 1980 - \$31,200; 1979 - \$24,400)	5,760	5,970
Prepaid expenses	20,676	—
	1,578,394	485,822
 PROPERTY, PLANT AND EQUIPMENT		
Oil and gas properties, including exploration, development and equipment thereon, at cost	6,633,095	2,075,012
Accumulated depletion and depreciation	451,185	224,182
	6,181,910	1,850,830
	\$ 7,760,304	\$ 2,336,652

LIABILITIES

CURRENT LIABILITIES	\$ 1,008,417	\$ 163,828
Accounts payable	19,464	446,964
Due to parent company	1,027,881	610,792
	—	1,158,720
BANK PRODUCTION LOANS		
	119,903	38,623
GAS PRODUCTION PREPAYMENTS		
	20,044	122,100
DEFERRED INCOME TAXES		

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4)		
Authorized		
20,000,000 Common shares without nominal or par value		
Issued		
7,470,145 (1979 - 4,331,362) Shares	6,151,848	117,110
CONTRIBUTED SURPLUS	110,100	110,100
RETAINED EARNINGS	330,528	179,207
	6,592,476	406,417
	\$ 7,760,304	\$ 2,336,652

Approved by the Board

Dale F. Duprey
Director

Denis L. Russell
Director

**PENN WEST PETROLEUM LTD.
CONSOLIDATED STATEMENT OF EARNINGS
AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1980**

	<u>1980</u>	<u>1979</u>
REVENUE		
Oil and gas sales, net of royalties	\$ 852,789	\$ 486,345
Other income	<u>90,472</u>	<u>5,883</u>
	<u>943,261</u>	<u>492,228</u>
EXPENSES		
Production	105,034	78,275
General and administrative	262,727	68,590
Interest	125,200	143,326
Depletion and depreciation	<u>227,003</u>	<u>99,187</u>
	<u>719,964</u>	<u>389,378</u>
Earnings before income taxes	<u>223,297</u>	<u>102,850</u>
INCOME TAXES		
Deferred	112,944	39,300
Alberta Royalty Tax Credit	<u>(40,968)</u>	<u>(25,179)</u>
	<u>71,976</u>	<u>14,121</u>
NET EARNINGS	151,321	88,729
Retained earnings at beginning of year	<u>179,207</u>	<u>90,478</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 330,528</u>	<u>\$ 179,207</u>
NET EARNINGS PER COMMON SHARE , based on weighted average number of shares outstanding	<u>\$.02</u>	<u>\$.02</u>

**PENN WEST PETROLEUM LTD.
CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1980**

	<u>1980</u>	<u>1979</u>
WORKING CAPITAL DERIVED FROM		
Operations	\$ 491,268	\$ 225,866
Gas production prepayments	81,280	38,623
Issue of capital stock	5,819,738	—
Sale of investments	—	9,610
Sale of oil and gas properties	—	103,491
Bank production loans	—	565,475
	<u>6,392,286</u>	<u>943,065</u>
WORKING CAPITAL APPLIED TO		
Property, plant and equipment additions	4,558,083	811,871
Repayment of bank production loans	1,158,720	—
	<u>5,716,803</u>	<u>811,871</u>
INCREASE IN WORKING CAPITAL POSITION	675,483	131,194
Working capital deficiency at beginning of year	<u>(124,970)</u>	<u>(256,164)</u>
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<u>\$ 550,513</u>	<u>\$ (124,970)</u>

PENN WEST PETROLEUM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1980

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. and 230687 Alberta Ltd. (to date of its wind-up on September 26, 1980).

(b) Oil and Gas Operations

The Company follows the "full cost" method of accounting for its oil and gas operations whereby all costs of exploring for and developing oil and gas reserves, including production equipment costs, are capitalized and amortized using the unit-of-production method based on estimated recoverable oil and gas reserves.

(c) Foreign Currency Translation

Amounts in 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.

(d) 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 1980, the Company issued 1,489,265 common shares of its capital stock at an ascribed value of \$2.00 per share in exchange for all the issued and outstanding shares of 230687 Alberta Ltd., a private company which was incorporated on January 10, 1980 and whose only assets were interests in oil and gas properties. This business combination was accounted for as a purchase and the results of operations of 230687 Alberta Ltd. have been included in the consolidated financial statements since January 10, 1980, the effective date of acquisition.

3. INCOME TAXES

Oil and gas property costs of approximately \$2.9 million relate to property acquisitions made in accordance with certain provisions of the Income Tax Act (Canada) under which such amounts are not deductible for income tax purposes by the Company.

4. CAPITAL STOCK

(a) Changes in the Company's outstanding common stock during 1980 were as follows:

	Number of Shares	Amount
Balance at December 31, 1979	4,331,362	\$ 117,110
Shares issued		
For cash on public offering	1,647,441	3,052,054*
For cash on exercise of share purchase warrants	2,077	4,154
For outstanding shares of 230687 Alberta Ltd. (see note 2)	1,489,265	2,978,530
Balance at December 31, 1980	<u>7,470,145</u>	<u>\$ 6,151,848</u>

*Net of share issue expenses of \$457,828, less applicable income tax benefits of \$215,000.

(b) As of December 31, 1980, common shares of the Company were reserved as follows:

- (i) 821,644 shares for issue on exercise of share purchase warrants at a price of \$2.00 per share, exercisable to April 30, 1981; and
- (ii) 200,000 shares under the Company's Employee Stock Option Plan, of which options to purchase 150,000 shares are outstanding, exercisable from time to time to July 1985 at a price of \$2.00 per share.

5. RELATED PARTY TRANSACTIONS

Pursuant to the terms of an employment contract, a director and officer of the Company is granted a 1½% gross overriding royalty on all non-producing oil and gas prospects acquired by the Company.

6. STATUTORY INFORMATION

Remuneration paid to directors and senior officers (including the five highest paid employees) of the Company during 1980 amounted to \$139,950.

