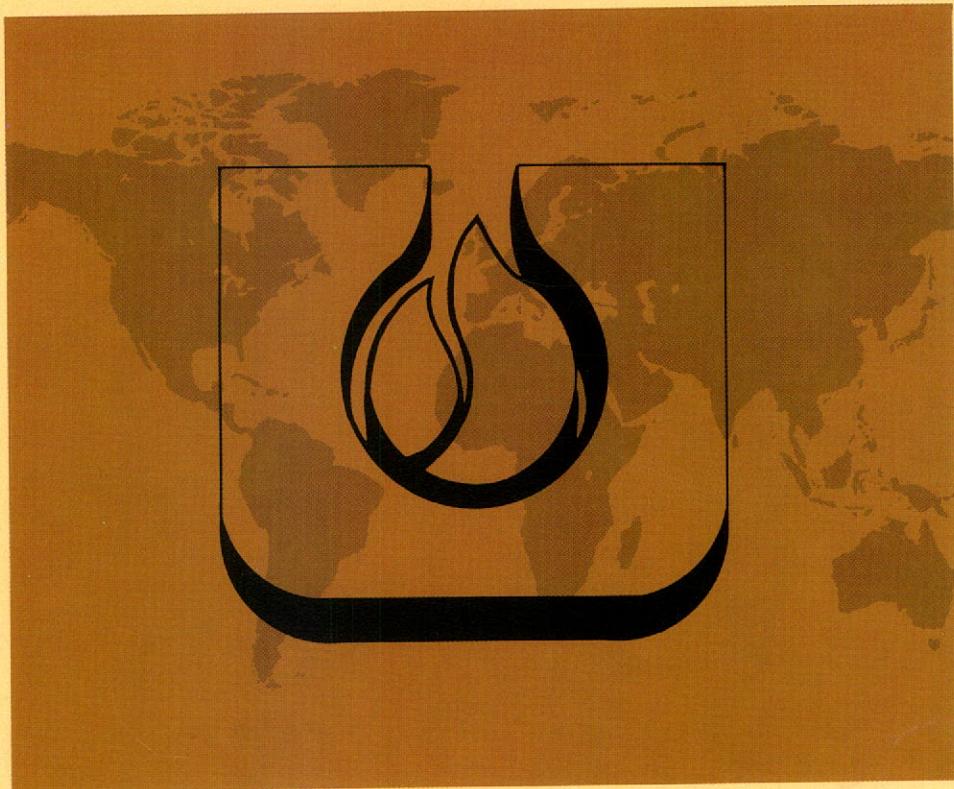


United Canso Oil & Gas Ltd. 1980 Annual Report



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METRIC CONVERSION

On January 1, 1979 the Canadian Petroleum Industry completed the conversion of measurement to the International Systems of Unit (SI). The following conversion table is intended to provide an understanding of the translation from traditional units to SI units.

Traditional Unit	SI Unit	Conversion Factors
Barrel	Cubic Metre (m ³)	1 Barrel = 0.159 Cubic Metres 1 Cubic Metre = 6.293 Barrels
Cubic Foot	Cubic Metre (m ³)	1 Cubic Foot = 0.0283 Cubic Metres 1 Cubic Metre = 35.31 Cubic Feet
Foot	Metre (m)	1 Foot = 0.305 Metre 1 Metre = 3.28 Feet
Mile	Kilometre (km)	1 Mile = 1.609 Kilometre 1 Kilometre = .621 Miles
Acre	Hectare (ha)	1 Acre = 0.405 Hectares 1 Hectare = 2.47 Acres

The annual meeting of the Shareholders will be held on Wednesday, March 11, 1981 at 10:00 a.m. in the Calgary Convention Centre, Calgary, Alberta.

Copies of the annual report in Form 10-K filed with the Securities and Exchange Commission will be forwarded without charge to shareholders upon written request to the Vice President, Finance, United Canso Oil & Gas Ltd., Box 2544 M.P.O. Calgary, Alberta T2P 2M7.

HIGHLIGHTS

	September 30	
	1980	1979
FINANCIAL		
(Thousands of Canadian dollars, except per share figures)		
Total Revenue	\$17,221	\$13,306
Funds Generated from Operations	9,495	6,946
per share	1.44	1.06
Net Earnings (Loss)	(1,972)	(1,166)
per share	(.30)	(.18)
Capital Expenditures, including investments and advances	18,067	11,677
Working Capital – year end	\$23,740	\$31,796

OPERATING

Production – before royalties – daily		
Crude Oil & Natural Gas Liquids – barrels	2,250	2,363
Natural Gas – thousands of cubic feet	13,250	9,450
Reserves – before royalties – year end		
Crude Oil & Liquids – thousands of barrels		
Proven	5,141	5,462
Probable	1,962	1,807
Natural Gas – millions of cubic feet		
Proven	75,301	72,196
Probable	20,299	20,607
Drilling Activity		
Gross Wells	131	69
Net Wells – Successful	17	17
– Dry	12	5
Land Holdings – thousands of acres – year end		
Gross	18,333	19,869
Net	4,336	4,716

DIRECTORS REPORT TO THE SHAREHOLDERS



Board of Directors

1. Robert W. St. Clair
2. Dr. George H. Laycraft
3. Dr. John Duby
4. Billy R. Delp
5. Thomas J. Jacobsen
6. Donald L. Hieber
7. J. William Holland

The past year was probably the most traumatic in the history of United Canso Oil & Gas Ltd. The prior Board of Directors held tenure legally until July 15, 1980, but did not fully vacate until the last part of August 1980. Thus your new Board of Directors was in office for only part of the last quarter.

Since July 15, 1980, when the shareholders voted overwhelmingly (three to one) in favour of the present Board of Directors, significant changes have been made in the corporate structure of your Company. Positive results are beginning to be experienced as a result of those changes.

The improvement in the management of company assets is reflected somewhat by the fiscal fourth quarter results. Net income for the quarter ended September 30, 1980 was \$1,417,000 compared to a loss of \$875,000 for the same quarter a year ago. This was the first profitable quarter following five quarters of losses.

For the fiscal year ended September 30, 1980 total revenue increased 29% to \$17,221,000 versus \$13,306,000



for the previous year. Funds generated from operations (cash flow) increased to \$9,495,000 from \$6,946,000 in 1979 or 37%. Notwithstanding the improvement in the net income for the last quarter and increase in cash flow for the year, the Company still experienced a loss of \$1,972,000 for the year. The restated loss for the previous year was \$1,166,000.

Canso's drilling activity for the past fiscal year increased substantially over the prior year. The Company participated in a total of 131 wells compared to 69 the previous year. Plans are well underway to maintain a high level of activity in the drilling of exploratory and development wells in the year ahead.

Management intends to continue to strengthen and improve the performance, prestige and profit potential of your Company. Enhanced corporate earnings will be maintained through aggressive exploration, efficient development of existing properties and by making compatible acquisitions. At the same time the control of overhead and operating costs and prudent cash management will be emphasized.

Canadian Energy Policy

Unless significant changes are made to the National Energy Program (NEP) as presented in the Canadian Federal Budget of October 28, 1980, exploration and development activi-

ties in Canada will be drastically curtailed. The pricing, royalty and taxation policies proposed by the Federal Government will cause stagnation of the industry. If the two levels of government do not agree on a sensible oil pricing and revenue sharing policy which leaves sufficient return for the oil industry to reinvest in further exploration, Canada will have no hope of achieving its stated aim of oil self sufficiency by the end of this decade.

The full effect of the new Federal Budget on the Company is being studied and evaluated. One feature of the Budget is an 8% tax levied on all Canadian petroleum revenues. Another provision gives the federal oil company, Petro-Canada, the right, at no cost, to back-in to 25% ownership to petroleum properties developed on federal lands. In addition incentive grants were introduced by way of two concepts: "Canadian Control" and "Canadian Ownership".

A Canadian controlled company is exempt from review by the Foreign Investment Review Agency (FIRA). If exempt it is free to acquire Canadian resource properties without being subject to review. Canso is Canadian controlled.

For NEP purposes, Canadian ownership is classified at two levels, 50% and 75%. Companies having 75% or greater Canadian ownership will be eligible for the highest government

incentive grants. Of the two concepts, ownership will undoubtedly be the most difficult to address and define since it is continually changing. In all likelihood addresses in the shareholder register, at a particular point in time, will be deemed by Canadian government bureaucracy and administrators to be the principal factor in determining ownership.

The draft rules for determining ownership in general are extremely difficult to comprehend and are likely to become an administrative nightmare. Nominee accounts, street name registration, pension funds and trusts all make tracking down nationality of ownership impractical, intractable and iniquitous.

In general the Federal Government's Budget has had an extremely negative impact on the oil industry and the Canadian economy. By imposing the 8% tax on petroleum production, the Canadian government decreased the present worth of Canadian oil and gas properties held by all companies by about 15% to 25%.

United Canso is fortunate in that the majority of its Canadian leases are on provincial and freehold lands and not on federal lands. It also has considerable interests outside Canada, mostly in the United States and Australia.

Your new Board of Directors intends to direct the Company's exploration budget in countries and areas which provide the greatest opportunity for the Company in terms of potential hydrocarbon reserves and return on investment.

New Developments

Since the year end, several noteworthy matters have been finalized:

1. Your Company has completed the sale of its interest in Minex Inc. for U.S. \$300,000 plus five percent of gross income, to a maximum of U.S. \$2,000,000 if and when certain of the Minex mining concessions become productive. Canso director, Dr. G. H. Laycraft, will represent your Company on the Board of Minex.
2. Another director, Mr. R. W. St. Clair, has been appointed to the Board of Directors of International Oil & Gas Corporation (IOG). Canso has a 10% equity interest in IOG.
3. The controversy over the Pan-coastal option to repurchase 1,300,199 shares (17.7% equity) of Pantepec International Inc. which United Canso acquired in November 1979 has been concluded. On December 5, 1980, with court approval, Canso paid an additional U.S. \$500,000 to the Trustee in Bankruptcy of Pancoastal Inc. to settle the matter. The original purchase price was U.S. \$1,056,000. The shares were quoted on December 5th at about \$3.50 for a total market value of U.S. \$4.6 million. Pantepec owns approximately 18% of the shares of Magellan Petroleum Australia Limited plus a small carried interest in the Kotaneelee Field in the Yukon. United Canso has requested representation on the Board of Pantepec.
4. Management is continuing its efforts to recover certain advance retainers paid by previous management to four law firms which had represented the Company.
5. Canso has realigned itself in the derivative suit initiated by a shareholder in respect of a payment in lieu of future royalties to the Catawba Corporation out of the proceeds of the sale of Canso's North Sea interests. Management is continuing to review the validity of royalties and other benefits granted by the previous Board to Catawba and others.
6. Effective January 1, 1981, Mr. T. Jacobsen will take on the responsibilities of President of your Company. Dr. Duby will retain a senior management position in Corporate Planning.
7. Dr. J. Duby has been nominated to represent the Company on the Boards of affiliated companies, Magellan Petroleum (N.T.) Pty Ltd.

and United Canso Oil & Gas Co. (N.T.) Pty Ltd.

Two charts are presented elsewhere in this Annual Report to clarify the corporate interrelationship between United Canso Oil & Gas Ltd. and its associated companies and its Australian holdings. The Australian interests are held primarily by the two companies, Magellan Petroleum (N.T.) Pty Ltd. and United Canso Oil & Gas Co. (N.T.) Pty Ltd. Canso owns 30% and 40% equity interests respectively in the two companies. Canso's ownership of 17.7% of Pantepec represents a further indirect interest in Australia.

The Directors have been advised to pursue an American Stock Exchange (AMEX) listing for the Company's shares only after net profits are achieved for at least two or three consecutive quarters.

It is intended to present several special resolutions to the shareholders for approval at the next Annual Meeting. Among them will be a recommended increase in authorized share capital as well as the elimination of the Company's thousand share restrictive voting bylaw.

The increased awareness and participation of the shareholders this past year has enabled your Company to make great strides towards reaching its full potential. The help and interest of shareholders, employees, and friends provided much needed encouragement. We wish to extend our thanks.

Submitted on behalf of the Board of Directors.

Billy R. Delp *Billy R. Delp*
Chairman of the Board

John Duby
President

John Duby

EXPLORATION AND DEVELOPMENT

United Canso's drilling program during fiscal 1980 was the busiest in its 22-year history. The Company participated in a total of 131 gross wells, 78 of which were company-operated, at a total cost of \$10.6 million. Eighty-nine were exploratory ventures, and 42 were development wells. Thirty-eight wells were completed as oil wells, 25 as gas wells, and 68 were abandoned. Detailed results are illustrated in the table.

The Company's mineral exploration program has yielded one property which presently appears to warrant development as a copper and gold-producing mine. Exploration is being continued on the remaining prospects.

CANADA

Exploratory drilling in Canada was confined to the Province of Alberta, where a total of 81 wells were drilled, resulting in 8 oil and 16 gas discoveries.

Development drilling was undertaken in all three western provinces. Out of 24 wells drilled, 10 were oil wells and 9 were gas wells. The more significant ventures are described in greater detail in the following paragraphs.

During June 1979, a seven-company group with United Canso as operator, acquired exploration rights below 2,000 feet to an 88,000-acre block in the Suffield Military Reserve in southeastern Alberta from the Alberta Energy Company Ltd., which holds the exclusive exploration rights in the Reserve. In order to earn a 50 percent interest in the block, the group committed to carry out approximately 200 miles of seismic and drill 67 exploratory wells. The geophysical program was conducted in late 1979 and drilling was completed by May 1980. Of the 16 successful wells, oil was discovered in 9 and gas in 10, 3 having dual oil and gas potential.

Fifty-one wells were abandoned. The low gravity and high viscosity of the oil discovered do not allow the wells to be completed and produced in conventional fashion. When such an oil column is underlain by water-bearing rock and it is produced too quickly, water coning may occur at the well bore. As a result, the oil wells discovered in Suffield were subjected to prolonged pump testing. These tests indicated that two areas of the block warrant further development. It is intended to produce the gas wells of Suffield through existing facilities as backup for peak demand periods this coming winter. A continuous market for gas is not available at this time due to oversupply of natural gas in Canada.

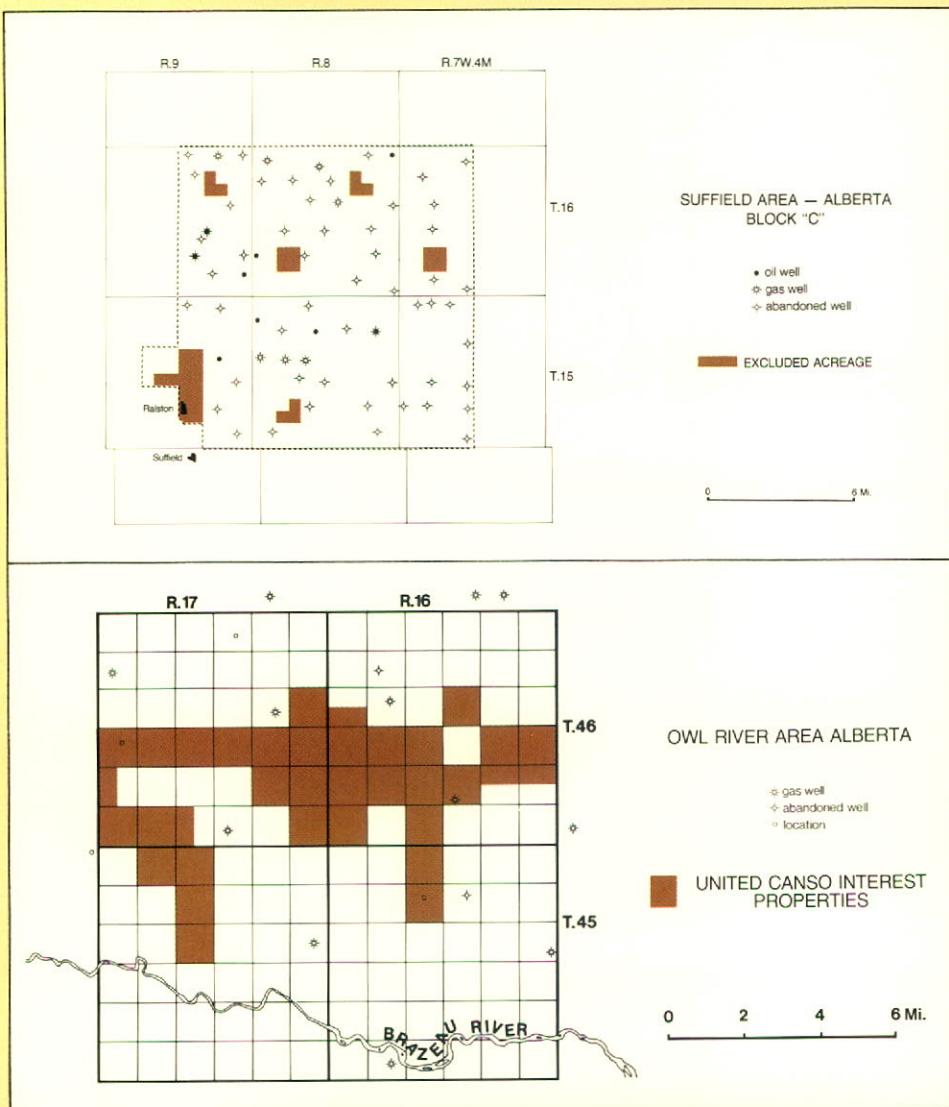
Under the terms of the agreement, Alberta Energy Company Ltd. will assume operatorship in the Suffield block and will be responsible for any future development. Canso paid 20 percent of the exploratory costs to earn 10 percent interest in the Suffield acreage.

In June 1977, United Canso purchased a 20 percent interest in a 20,480-acre license in the Owl River area of west central Alberta, where significant Devonian gas prospects exist below 15,000 feet, and where several sandstone units of Cretaceous age have been found to contain substantial gas reserves. During the past year, a number of gas discoveries have been made offsetting our license. Subsequent to the end of our fiscal year, the Company together with partners has commenced a two-well program designed to partially evaluate the prospects on this block. Drilling of these wells will entitle the group to convert the license to leases which can be held for several years, or, if productive, through the life of the production.

United Canso participated in drilling wells in several partially explored areas of Alberta during the 1980 fiscal year. These include: Rowley where two wildcat wells added gas reserves, Wilson Creek where a 25 percent working interest gas discovery was made, the Lomond area of southern Alberta where a 25 percent working interest gas discovery with 37 feet of pay was drilled, and Lisburn where a stepout to known production resulted in a three-zone oil discovery on 50 percent interest company acreage.

Twenty-three development wells were drilled in several fields in Canada. In Alberta they included Innisfail (oil, 100 percent), Little Bow (gas, 2.5 percent), Three Hills Creek (gas, 3.345 percent), Lisburn (oil, 50 percent), Jarrow (gas, 50 percent), and Boyer (gas, 15 percent). In addition, development wells were completed at Coleville (oil, 100 percent) in southwestern Saskatchewan, and at Boundary Lake (oil, 7.5 percent) in northeastern British Columbia.





SPAIN

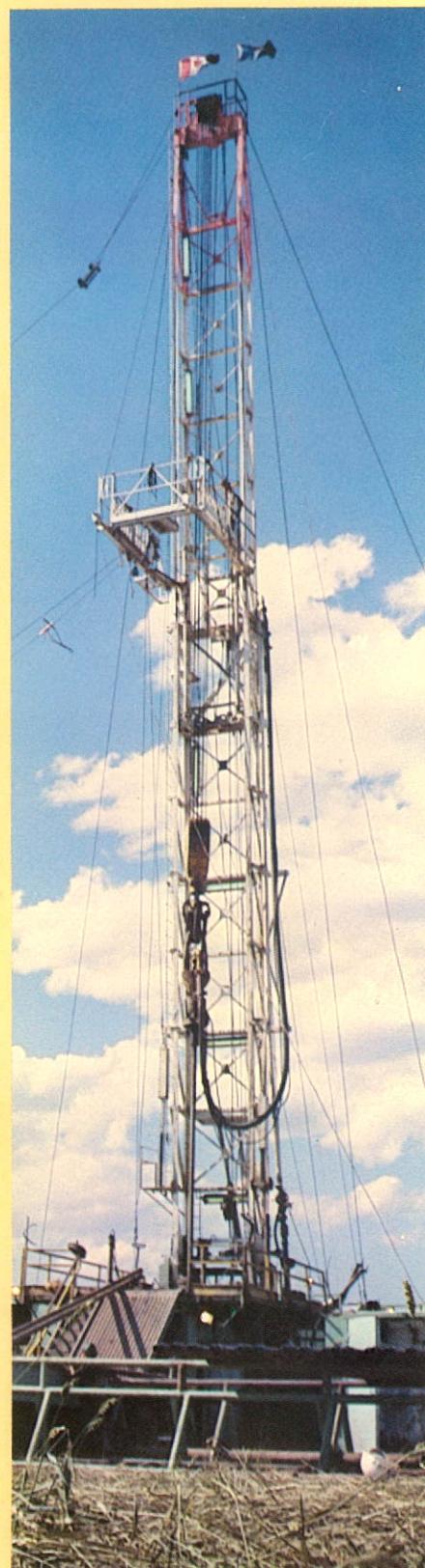
One wildcat well was drilled on Canso's 29.44 percent Delta "J" permit in offshore Spanish waters during the past year. However, the primary objective Mesozoic carbonate section was not developed and the well was abandoned. Our interest in the Delta "J" permit was subsequently relinquished.

One well is planned during fiscal 1981 on the Delta "E" permit, offsetting the Amposta oilfield. Canso holds approximately 15 percent interest in this permit.

Thereafter, unless the Delta "E" venture is successful, it is likely that Canso will curtail its Spanish operations.

WEST GERMANY

United Canso holds 20,000 net acres in two permits in the West German sector of the North Sea. These lands, together with a number of additional permits, have been pooled and farmed out to Gelsenberg A.G., a German subsidiary of British Petroleum. Under the terms of the farmout, Gelsenberg will drill one deep test on the pooled lands within the next two years to earn a 60 percent interest therein.

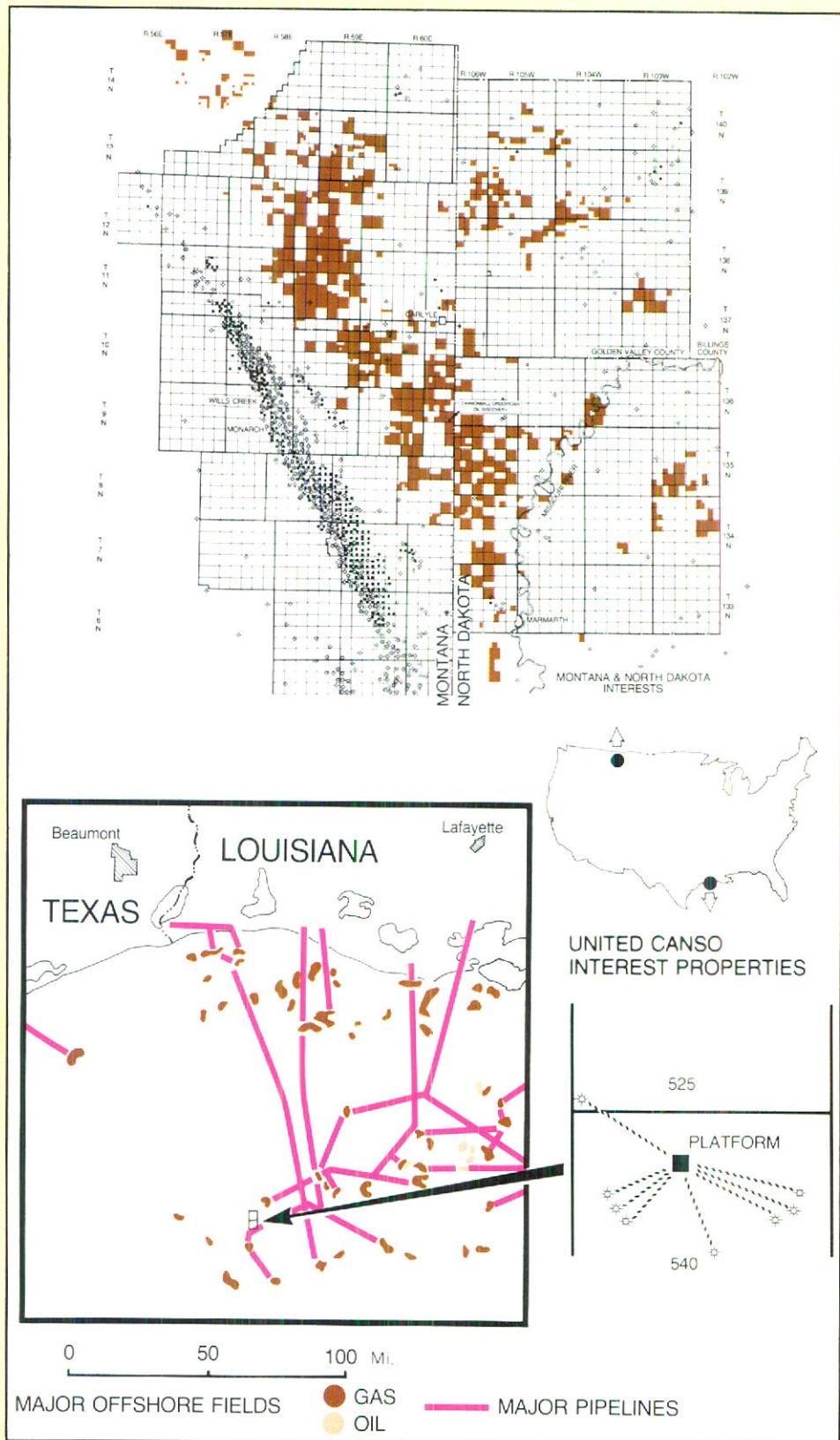


UNITED STATES

Two important oil discoveries were made in eastern Montana on the east flank of the Cedar Creek Anticline. The first was a multi-zone Devonian/ Ordovician oil discovery which yielded oil on drillstem test from the Devonian Duperow formation at a projected initial rate of 2,000+ barrels of oil per day and at varying rates from several zones in the Red River formation of Ordovician age. The well was ultimately completed in the Red River, and is presently producing at a rate of 90 barrels of oil per day. A twin to this well is planned for fiscal 1981 to produce the Duperow formation oil. Canso's interest in the discovery is five percent.

The second discovery, in which Canso holds a ten percent working interest, was drilled nine miles south-east of the foregoing test. It has been completed as an Ordovician Red River oil discovery. The initial rate of production, on pump, was 167 barrels of oil per day.

Development drilling in the United States was confined to Wyoming, where Canso Inc. participated in drilling 17 oil wells on 15 to 30 percent company interest acreage within the western part of the Powder River Basin.



ACREAGE SUMMARY

September 30, 1980

	Gross Acres	Gross Hectares	Net Acres*	Net Hectares*
OIL & GAS				
Arctic Islands	2,906,643		23,138	
Yukon & NWT	3,185		2,202	
British Columbia	158,318		21,564	
Alberta	602,483		168,911	
Saskatchewan	233,475		50,339	
Manitoba	2,160		120	
CANADA	3,906,264	1,582,037	266,274	107,841
Alaska	942,339		235,585	
North Dakota	50,772		4,992	
Montana	166,796		29,950	
Montana (Royalty)	9,915			
Texas	5,784		2,410	
Wyoming	75,540		9,318	
Louisiana (Offshore)	10,000		900	
UNITED STATES	1,261,146	510,764	283,155	114,678
East Mereenie	82,538		12,381	
Palm Valley	151,978		37,052	
Ooraminna	165,076		24,761	
Balance O.P. 175	5,948,169		1,551,282	
West Mereenie	64,004		12,801	
Balance O.P. 178	6,282,027		2,091,915	
AUSTRALIA	12,693,792	5,140,986	3,730,192	1,510,728
WEST GERMANY (Offshore)	200,000	81,000	8,000	3,240
SPAIN (Offshore)	220,000	89,100	33,485	13,561
TOTAL OIL & GAS	18,281,202	7,403,887	4,321,106	1,750,048
MINERALS				
(Canada)	51,749	20,958	15,387	6,231
GRAND TOTAL	18,332,951	7,424,845	4,336,493	1,756,279

*Represents direct interest except in Australia where interests are held through equity ownership.

DRILLING ACTIVITY

1980

1979

	Oil		Gas		Abandoned		Oil		Gas		Abandoned	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells												
Canada	8	1.6	16	3.3	57	7.7	4	3.3	13	4.4	7	1.9
U.S.A.	3	0.2			4	0.7			5		5	1.0
Spain					1	0.3			2		2	.2
Sub-totals	11	1.8	16	3.3	62	8.7	4	3.3	13	4.4	14	3.1
Development Wells												
Canada	10	6.0	9	2.0	5	3.5	6	3.53	17	4.7	4	1.5
U.S.A.	17	3.7			1	0.1	5	0.7	3	.4	3	.5
Sub-totals	27	9.7	9	2.0	6	3.6	11	4.2	20	5.1	7	2.0
Grand Totals	38	11.5	25	5.3	68	12.3	15	7.5	33	9.5	21	5.1



AUSTRALIA

United Canso holds indirect interests in 12.7 million acres in the Amadeus Basin of central Australia. Oil and gas have been discovered in the Mereenie field, and gas has been discovered at Palm Valley. Until recently, development of these fields has been dormant, primarily because of Aboriginal land claims, geographical remoteness, transportation difficulties and depressed crude oil prices. These problems now appear to have been essentially solved. The standard gauge railroad to Alice Springs which was completed recently traverses our permits. The government has also determined that the joint operators of the Mereenie Field should receive a substantial increment of world prices for their crude. This has assisted in making Mereenie development feasible, and has justified further exploration in the Basin. The agreement with the Australian Aboriginals which was provisionally concluded on February 25, 1980, has cleared the way for issuance of a production lease for the field by the Northern Territory Administrator. As a result Canso and its partners are embarking on a multi-well appraisal program to further develop and determine the productive capabilities of the Mereenie Field and to better define its reserves. A drilling rig has been purchased by Canso and partners. A five-well drilling program is expected to commence early 1981. United Canso has indirect interests averaging 17.18 percent in the Mereenie Field.

In addition to Mereenie, the Palm Valley gas field, in which Canso holds an indirect interest of 24.38 percent, is expected to be put on production in the not too distant future. A pipeline to Alice Springs is being proposed to provide gas for electric power generation.

Canso has also joined with other Canadian and Australian companies in a five-year, \$40 million Australian exploration program to evaluate prospects on the remaining 12.23 million acres of the central Australian permits.

Pancontinental Petroleum Limited, an Australian company, is operator for the group. The program calls for a 3,000 line kilometre seismic survey of the permits and a ten-well exploratory drilling program. The seismic crew has been contracted and field recording is to commence during November. The first of the exploratory wells is expected to be spudded by June 1981.

Attempts have been made in the past by professional geologists and reservoir engineers to estimate or define the magnitude of reserves present in the Mereenie and Palm Valley Fields. A summary of these investigations is presented below.

Mereenie (146,500 acres)

17.18% Indirect Interest

1. April 1967, report prepared by Duncan A. McNaughton and William A. Huckaba entitled "Geological Report — Project Pacoota Boost", estimated gas and oil in place at:
1,180 BCF of gas
564 million barrels of oil
in the Pacoota reservoir of the Mereenie Field. Data from the four wells drilled were assumed to be representative of the entire reservoir.
2. May 1975, report prepared by M. Holmes, E. H. Timmerman and E. K. van Poollen entitled "Hydrocarbon Potential Mereenie Field, Amadeus Basin, Central Australia", estimated gas and oil in place at:
1,350 BCF of gas
268 million barrels of oil
and stipulated that probably only gas or oil could be produced, not both.
3. March 1976, report prepared by L. E. Kurylowicz and S. Ozimic entitled "Mereenie Field", Bureau of Mineral Resources Geology and Geophysics, estimated oil and gas in place at:
1,442 BCF of gas
194 million barrels of oil
172 BCF of solution gas
4. 1976 report prepared by T. R. Pearson and D. D. Benbow en-

titled "Economic Geology of Australia and Papua, New Guinea", Part 3, Petrol. Ed. Leslie et al, Australian Institute of Mining and Metallurgy, estimated gas and oil in place at:

500 - 1,000 BCF of gas

300 million barrels of oil

Reasonable Expectation

By averaging the foregoing, it should be reasonable to expect:

1,180 BCF of gas in place

(Canso = 203 BCF)

330 million barrels in place

(Canso = 57 million barrels)

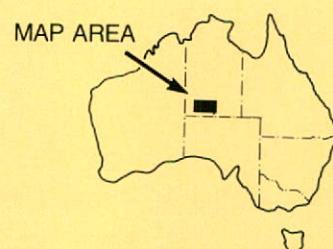
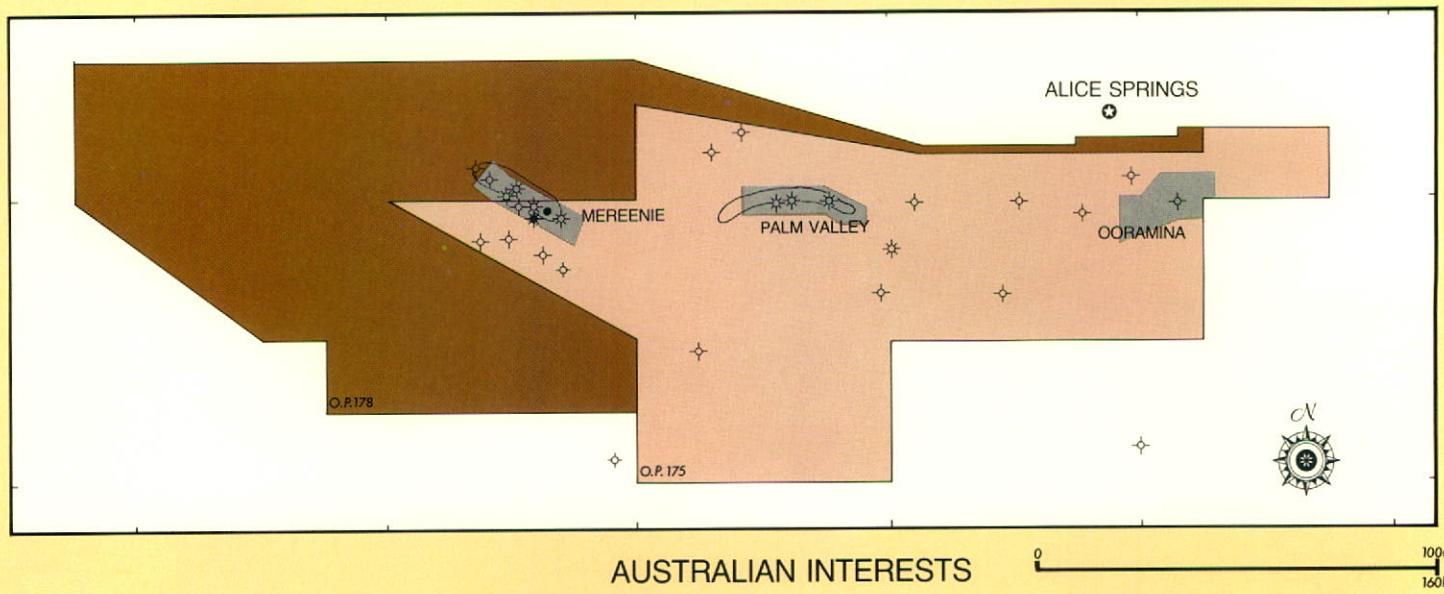
Palm Valley (151,900 acres)

24.38% Indirect Interest

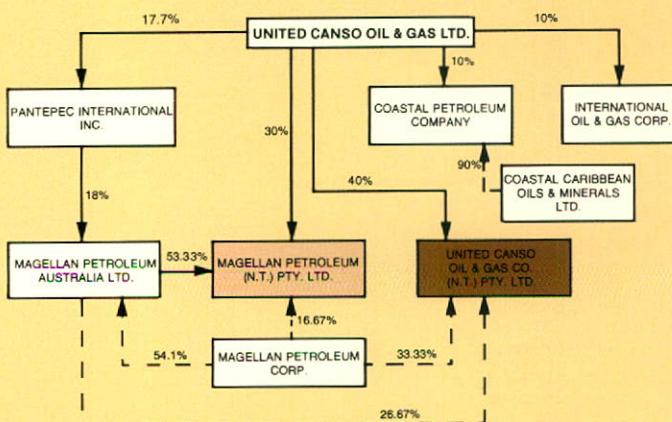
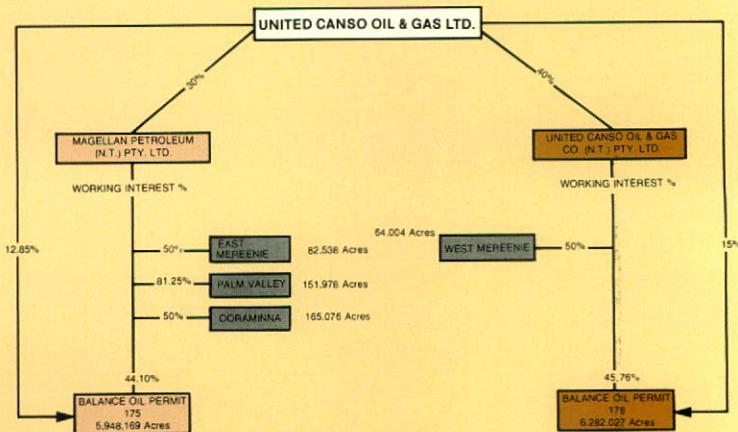
1. March 1975, report prepared by M. Holmes, E. H. Timmerman and E. K. van Poollen entitled "Engineering and Geological Analysis, Palm Valley Field, Amadeus Basin, Australia", estimated gas in place for the fractured reservoir at:
370 to 750 BCF of gas
based on data determined from logs in Palm Valley No. 1 and No. 3 wells.
2. March 1976, report prepared by L. E. Kurylowicz and S. Ozimic entitled "Palm Valley - Amadeus Basin, N.T.", Bureau of Mineral Resources, Geology and Geophysics, estimated a minimum figure for gas in place at:
51.6 BCF of gas
3. 1976 report prepared by T. R. Pearson and D. D. Benbow entitled "Economic Geology of Australia and Papua, New Guinea", Institute of Mining and Metallurgy, estimated gas in place at:
5,000 to 10,000 BCF of gas

Reasonable Expectation

By averaging the foregoing, it should be reasonable to expect:
2,703 BCF of gas in place
By being ultra-conservative, and taking only 20% of this estimate, it should be safe to expect:
540 BCF of gas in place
(Canso = 132 BCF)



■ EXCLUDED FROM PANCONTINENTAL et al AGREEMENT



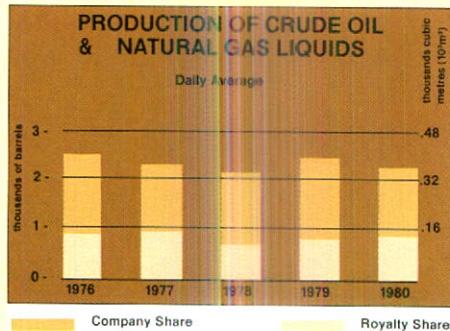
* at the completion of the current joint venture program

Does not include a small indirect interest through ownership of 17.7% of Pantepec International Inc.

PRODUCTION AND RESERVES

CRUDE OIL

United Canso's gross oil and natural gas liquids production during fiscal 1980 averaged 2,250 barrels per day, down approximately 4.8 percent from 1979 levels which averaged 2,363 barrels per day. In Canada oil production increased marginally from 1864 to 1909 barrels per day. Successful extension drilling in the Coleville Bakken sand pool of southwestern Saskatchewan, resulted in new production of low-gravity oil (13° API) at an initial rate of 140 barrels of oil per day in March 1980. Plans call for further development drilling in the Hoosier area of southwestern Saskatchewan, which is also productive of heavy oil, and increases in Canso's producing rates are expected in this locality during fiscal 1981.

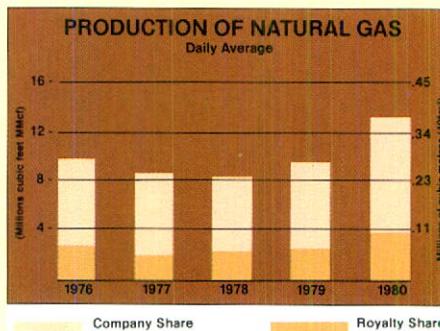


The Company's United States oil production declined from the previous year, mainly due to natural depletion of the Shannon sand production in the Parkman area of Wyoming. However, the recent oil successes in the Company's Montana exploration program are expected to offset this decline and result in stabilization of U.S. producing rates during fiscal 1981. The Company's interests in 11 wells in the Hartzog Draw area of east/central Wyoming (Parkman area) were included in a newly-formed Unit on September 1, 1980.

NATURAL GAS

Gross gas production of the Company during fiscal 1980 increased 40 percent from 9.45 to 13.25 million cubic feet (MMcf) per day. Production in Canada increased 14 percent, largely due to a substantial contribution from the Killam-North Viking properties in central Alberta. In addition, the Keg River gas project in northwestern Alberta, comprising three Cretaceous Bluesky sandstone wells yielding approximately 800 thousand cubic feet per day gross to Canso, was put on production in December 1979. Modest increases in gas production of about 900 thousand cubic feet per day gross to Canso may be expected in 1981 when five Cretaceous Victoria sandstone wells in the North Sibbald Gas Unit, and the Markerville Mississippian/Pekisko gas project will both be placed in production.

In the United States, the production platform offshore Louisiana, from which our West Cameron Blocks 540 and 525 gas is produced, was put on production in November 1979, but did not reach peak production until the spring of 1980. Performance of the wells has been excellent, and rates totalling as high as 72 MMcf per day have been attained from the seven producing wells. Your Company's working interest of nine percent resulted in gross gas sales of about 1,387 million cubic feet during the 1980 fiscal year.



Proven and Probable Reserves

	Crude Oil and Natural Gas Liquids						Natural Gas					
	Thousands of barrels						Millions of cubic feet					
	Canada		U.S.A.		Total		Canada		U.S.A.		Total	
	Proven	Probable	Proven	Probable	Proven	Probable	Proven	Probable	Proven	Probable	Proven	Probable
At September 30, 1979	5,127	1,626	335	181	5,462	1,807	67,964	18,793	4,232	1,814	72,196	20,607
Added by drilling	135	106	103	60	238	166	7,724	1,549	—	—	7,724	1,549
Revision of estimates	214	10	55	(21)	269	(11)	(911)	(1,695)	1,132	(162)	221	(1,857)
Production	(705)	—	(123)	—	(828)	—	(3,937)	—	(903)	—	(4,840)	—
At September 30, 1980	4,771	1,742	370	220	5,141	1,962	70,840	18,647	4,461	1,652	75,301	20,299
Thousands of												
Cubic Metres (10^3m^3)	758.6	277.0	58.8	35.0	817.4	312.0						
Millions of												
Cubic Metres (10^6m^3)							2,004.8	527.7	126.2	46.7	2,131.0	574.5

All amounts are gross before royalty.

RESERVES

The crude oil and natural gas reserves of the Company have been evaluated by an independent petroleum engineering company. Estimates were based on a study of the volumetric data and performance characteristics of the individual wells and reservoirs in question. The proven crude oil and natural gas reserves are considered to be those reserves which to a high degree of certainty are recoverable at commercial rates under the present depletion methods and current operating conditions, prices and costs. Probable additional reserves are those reserves which may be derived from the institution of enhanced recovery schemes or as a result of more favourable recovery performances than those which could be deemed to be proven at this time.



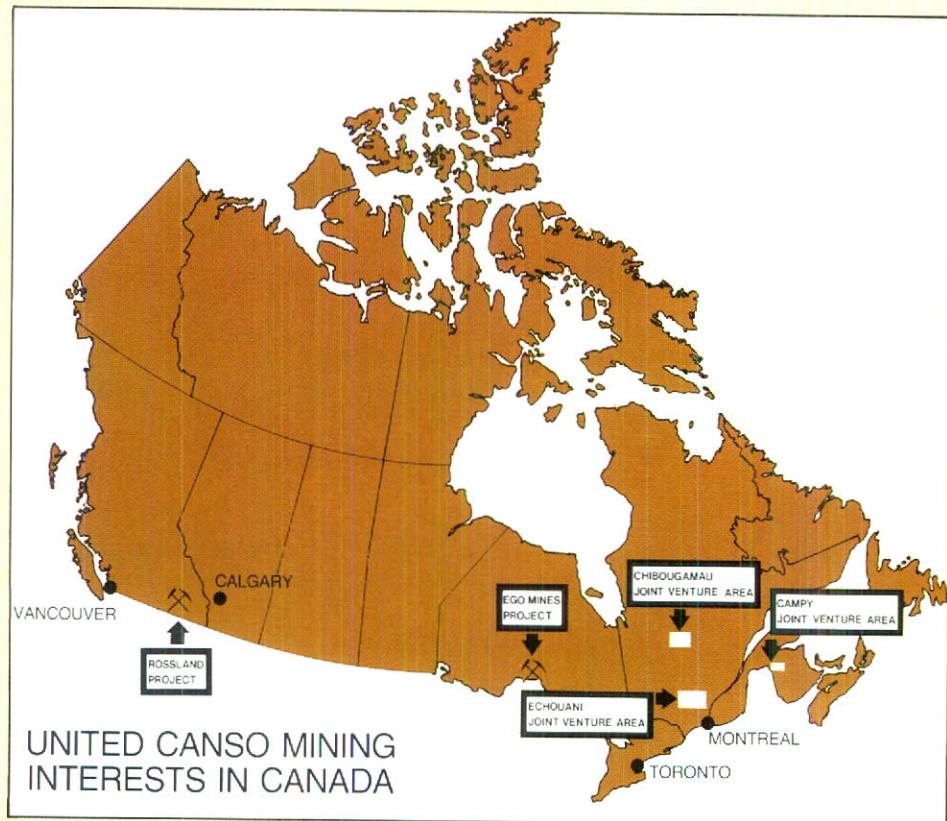
MINERALS EXPLORATION

Quebec

A joint venture in the Chibougamau area of Quebec has yielded two areas of interest which warrant further investigation. These include the Bel property where ten diamond drill holes yielded extremely good drill intersections. However, geological correlation has been difficult, and no tonnage can yet be classified as drill-indicated reserves. Further work will be carried out during fiscal 1981.

Fifteen claims, covering approximately 600 acres under Lake Chibougamau, have been removed from the Chibougamau Exploration general program and are the object of a venture termed the S-3 Special Project. The geophysical anomaly on the property, which was subjected to intensive drilling during the late 1950's and early 1960's, has yielded significant gold and copper intersections. Correlation and operational difficulties precluded development of this prospect in the past. During the winter of 1979/80, 7,500 feet of additional diamond drilling was undertaken. The results, together with increased metal prices, appear to justify further underground investigation with a view to establishing a mine. Some additional drilling will be required before the major 8,000-foot-long underground entry will be driven.

A second venture, the Echouani Joint Venture, east of Val d'Or, has been the site of two major airborne surveys, several staking programs and a diamond drilling program. Nothing of commercial significance has been discovered to date. Additional drilling on a number of geophysical anomalies is currently underway. The decision whether or not to continue with this prospect will be dependent on the results.



Ontario

United Canso retains a 38.36 percent interest in a copper/gold property, originally owned by Ego Resources Limited, near the town of Wawa at the east end of Lake Superior. Due to the escalation in the price of copper and gold, mining of the deposit now appears worthy of serious consideration.

Work was resumed on the property during October 1980 with United Canso as operator. A limited diamond drilling program has been completed. Assay results are being awaited and a feasibility study is underway to determine the viability of exploiting the property. If justified, major development work will commence in the spring of 1981, with startup of production projected for 1982.

New Brunswick

United Canso has a 40 percent working interest in approximately 22,000 acres in 13 claim blocks in northwestern New Brunswick in partnership with Canadian Occidental Petroleum Limited. Occidental is the operator. Several substantial geochemical anomalies have been outlined. These will be surveyed by geophysical methods this winter, and drilling will follow if warranted.

FINANCIAL REVIEW

Earnings

United Canso recorded a net loss for the fiscal year 1980 of \$1,972,000, or 30 cents per share, compared with a restated loss of \$1,166,000 or 18 cents per share in 1979. A turnaround was however accomplished towards the end of the year, following the election of the new Board of Directors, with net earnings of \$1,417,000 for the fourth quarter.

Revenues

In the year to September 30, 1980, net production revenues amounted to \$13,855,000, compared to \$8,586,000 in the prior year. The increase of 63 percent was due to increased natural gas production in Canada and the United States, and higher prices for both crude oil and natural gas. Royalty income increased 77 percent to \$544,000 from \$308,000 a year ago. Despite a decline of \$8.3 million in short-term securities during fiscal 1980, higher yields on these investments resulted in interest income declining only slightly from \$2,861,000 in 1979 to \$2,685,000. Gains on sale of assets and other income in 1980 of \$137,000 compared with \$1,551,000 the prior year, when a large gain was made on the sale of producing properties.

Expenses

Total expenses, excluding income taxes, increased significantly to \$19,847,000 in fiscal 1980 from \$12,507,000 in the prior year, up 59 percent.

Exploration costs declined \$284,000 to \$760,000 from \$1,044,000 the year before. This reduction was due mostly to less geological and geophysical activity and a greater recovery of indirect costs on Company-operated projects.

Production expenses were higher by \$1,337,000 at \$3,406,000, reflecting the increased natural gas production, higher costs of producing the offshore Gulf of Mexico gas and inflationary pressures.

Depletion, depreciation and amortization of \$3,454,000 was up \$2,039,000 over 1979 due to higher gas production levels and the high unit rate of write-off of the cost of several oil wells in Wyoming and Montana, in which a short reserve life is anticipated.

Dry holes and abandonments of \$7,386,000 were up by \$3,316,000, due to the large exploratory drilling program in 1980 and the lack of success of the offshore Spanish venture.

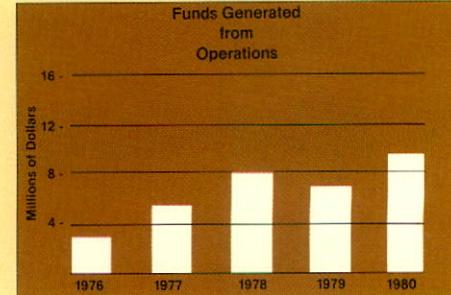
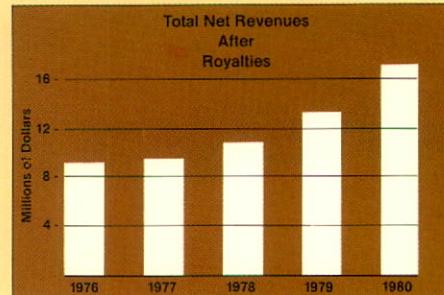
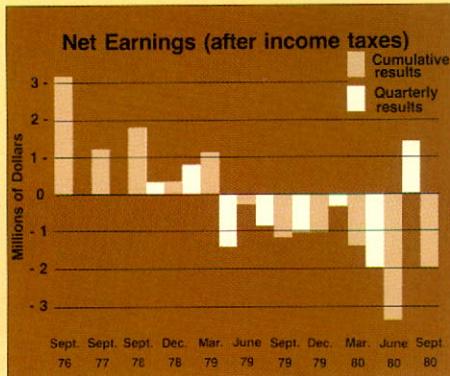
General and administrative expenses in 1980 were significantly higher at \$4,114,000, up 61 percent or \$1,559,000 from the year before. Virtually all of the increase is attributable to the excessive costs incurred in the proxy solicitation for control of the Board and the cost of litigation validating the continuation of the Annual Meeting and the appointment of the new Directors.

During 1980, realized and unrealized foreign exchange gains on U.S. assets and securities amounted to \$246,000. These gains were due to a weakening of the Canadian Dollar relative to the U.S. Dollar. This contrasts with 1979, when the Canadian Dollar gained strength and a foreign exchange loss of \$475,000 resulted.

The adjustment of equity investments of \$973,000 in fiscal 1980 was up \$94,000 from the prior year. These charges related primarily to the write-off of advances to Canso's subsidiary, Minex Inc., arising from unsuccessful mining exploration projects in several foreign countries.

Income Taxes

The provision for current and deferred income taxes was a recovery of \$485,000 in 1980 compared with an expense of \$1,965,000 in 1979. Although current income taxes of \$120,000 are reported, the Company has sufficient investment tax credits to offset this liability and eliminate any payment of income taxes in the forthcoming year. The computation of income taxes is detailed in Note 5 to the financial statements.



Changes in Financial Position

Total sources of funds amounted to \$10,045,000 in fiscal 1980, of which \$9,495,000 or \$1.44 per share were funds generated from operations. These funds were up 37% from those generated in 1979 of \$6,946,000 or \$1.06 per share. In the current year \$550,000 was received from the exercise of stock options compared with none in 1979. The increased funds available all stemmed from the higher production revenues.

Capital expenditures on property and equipment in fiscal 1980 advanced 49% to \$14,433,000 from \$9,709,000 a year ago. The cost of drilling, completing and equipping successful wells of \$7,293,000, land acquisition costs of \$1,365,000 and dry hole and abandonment costs of \$4,904,000 accounted for most of the current year's expenditures. Further costs of \$2,482,000 expended in fiscal 1979 on unsuccessful wells were written off in the current year.

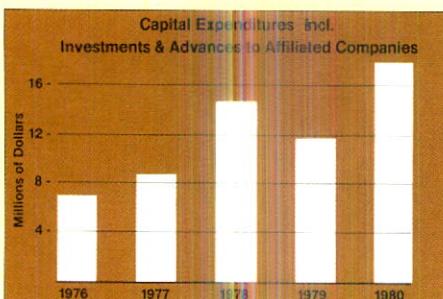
Investments in and advances to affiliated companies in the year to September 30, 1980 of \$3,634,000 was up 85% over similar expenditures of \$1,968,000 the year before. The current year's investments included the acquisition of 17.7% of the equity of Pan-tepec International, Inc. for \$1,245,000, further advances to the two Australian affiliates of \$937,000 and a capital injection of \$350,000 into International Oil and Gas Corporation.

The above capital expenditures and investments and advances exceeded total sources of funds by \$8,056,000.

This resulted in a drawdown of the Company's short-term securities of \$8,326,000, leaving \$24,537,000 of these investments at September 30, 1980.

Reserve Recognition Accounting

The United States Securities and Exchange Commission (S.E.C.) is continuing with its requirement to have the Reserve Recognition Accounting (R.R.A.) method adopted, despite strong objections from the industry, reservoir engineering consultants and public accounting firms. Although R.R.A. is theoretically appealing, the many unknowns relating to oil and gas reserves make the reporting of profits on that basis of questionable value. An R.R.A. statement, together with projected revenues from proven oil and gas reserves, is contained in the Company's Form 10-K Annual Report filed with the S.E.C., a copy of which is available from the Company, on request.



SUMMARY OF QUARTERLY FINANCIAL RESULTS (unaudited)

(Thousands of dollars, except per share amounts)

	Total Revenues		Funds Generated from Operations		Net Earnings /(Loss)		Earnings/(Loss) per share	
	Fiscal 1980	Fiscal 1979	Fiscal 1980	Fiscal 1979	Fiscal 1980	Fiscal 1979	Fiscal 1980	Fiscal 1979
	\$ 3,451	\$ 3,113	\$ 2,181	\$ 1,650	\$ (1,057)	\$ 326	\$ (0.16)	\$ 0.05
First Quarter	3,772	4,115	2,750	2,488	(344)	824	(0.05)	0.13
Second Quarter	4,027	2,822	674	939	(1,988)	(1,441)	(0.30)	(0.22)
Third Quarter	5,971	3,256	3,890	1,869	1,417	(875)	0.21	(0.14)
Fourth Quarter								
Year	<u>\$17,221</u>	<u>\$13,306</u>	<u>\$9,495</u>	<u>\$6,946</u>	<u>\$ (1,972)</u>	<u>\$ (1,166)</u>	<u>\$ (0.30)</u>	<u>\$ (0.18)</u>

(1979 Restated)

AUDITORS' REPORT

To the Shareholders of

United Canso Oil & Gas Ltd.

We have examined the consolidated balance sheet of United Canso Oil & Gas Ltd. as at September 30, 1980 and the consolidated statements of earnings, retained earnings, share capital and contributed surplus 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 September 30, 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, after giving retroactive effect to the change in the method of accounting for oil and gas properties as described in Note 2.

Calgary, Canada
December 12, 1980

Arthur Young, Clarkson, Gordon & Co.

Chartered Accountants

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1980

(with comparative figures as at September 30, 1979)

(thousands of Canadian dollars)

ASSETS

	1980	1979
		(Restated)
Current		
Cash	\$ 101	\$ 398
Marketable securities, at cost (which approximates market)	24,537	32,863
Accounts receivable	5,985	3,016
Other assets	394	212
	31,017	36,489
Investments and advances (Note 3)	6,947	4,286
Property and equipment (Notes 2 and 4)	32,833	29,240
On Behalf of the Board:	\$70,797	\$70,015

Director

Billy R. Deeps

Director

John Deeps

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979 (Restated)
Current		
Accounts payable and accrued liabilities	\$ 6,674	\$ 3,665
Deferred income taxes (Note 5)	603	1,028
	<u>7,277</u>	<u>4,693</u>
Deferred income taxes (Note 5)	<u>5,364</u>	<u>5,710</u>
Shareholders' equity		
Share capital (Note 6)		
Authorized		
12,000,000 common shares, par value		
\$1 per share		
Outstanding		
6,590,414 shares (1979 - 5,938,312)	6,590	5,938
Contributed surplus	<u>30,118</u>	<u>16,097</u>
	<u>36,708</u>	<u>22,035</u>
Retained earnings	<u>21,448</u>	<u>37,577</u>
	<u>58,156</u>	<u>59,612</u>
Contingent liability (Note 9)		
	<u><u>\$70,797</u></u>	<u><u>\$70,015</u></u>

See accompanying notes

CONSOLIDATED STATEMENT OF SHARE CAPITAL AND CONTRIBUTED SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 1980

(thousands of Canadian dollars)

	Number of shares	Share capital \$1 par value	Contributed surplus	Total
Balance at September 30, 1978 and 1979	5,938,312	\$5,938	\$16,097	\$22,035
Exercise of stock options	54,300	54	496	550
Stock dividend (Note 6)	<u>597,802</u>	<u>598</u>	<u>13,525</u>	<u>14,123</u>
Balance at September 30, 1980	<u>6,590,414</u>	<u>\$6,590</u>	<u>\$30,118</u>	<u>\$36,708</u>

See accompanying notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1980

(with comparative figures for 1979)

(thousands of Canadian dollars)

	1980	1979
		(Restated)
Balance at beginning of year		
As previously reported	\$42,002	\$42,274
Adjustment to conform to prescribed successful efforts method (Note 2)	(4,425)	(3,531)
As restated	37,577	38,743
Net loss	(1,972)	(1,166)
Stock dividend (Note 6)	(14,157)	
Balance at end of year	<u>\$21,448</u>	<u>\$37,577</u>

See accompanying notes

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1980

(with comparative figures for 1979)

(thousands of Canadian dollars)

	1980	1979
		(Restated)
Revenue		
Crude oil and natural gas liquids	\$ 8,470	\$ 6,743
Natural gas	5,385	1,843
Royalties	544	308
Interest	2,685	2,861
Gain on sale of assets	107	1,356
Other	30	195
	<u>17,221</u>	<u>13,306</u>
Expenses		
Exploration	760	1,044
Production	3,406	2,069
Depletion, depreciation and amortization	3,454	1,415
Dry holes and abandonments	7,386	4,070
General and administrative	4,114	2,555
Exchange (gains) losses	(246)	475
Adjustment of equity investments (Note 3)	973	879
	<u>19,847</u>	<u>12,507</u>
Earnings (loss) before income taxes and extraordinary item	<u>(2,626)</u>	<u>799</u>
Provision for income taxes (Note 5)		
Current	120	540
Deferred	(605)	1,425
	<u>(485)</u>	<u>1,965</u>
Loss before extraordinary item	<u>(2,141)</u>	<u>(1,166)</u>
Extraordinary item (Note 13)	<u>169</u>	<u></u>
Net loss	<u>\$ (1,972)</u>	<u>\$ (1,166)</u>
Weighted average number of shares outstanding	<u>6,574,796</u>	<u>6,536,114</u>
Loss per share		
Loss before extraordinary item	<u>\$ (.33)</u>	<u>\$ (.18)</u>
Net loss	<u>\$ (.30)</u>	<u>\$ (.18)</u>

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 1980

(with comparative figures for 1979)

(thousands of Canadian dollars)

	1980	1979
		(Restated)
Source of funds		
Loss before extraordinary item	\$ (2,141)	\$ (1,166)
Charges (credits) not affecting funds		
Depletion, depreciation and amortization	3,454	1,415
Dry holes and abandonments	7,386	4,070
Adjustment of equity investments	973	879
Deferred income taxes	(177)	1,748
Funds generated from operations	9,495	6,946
Proceeds from exercise of stock options	550	
	<u>10,045</u>	<u>6,946</u>
Application of funds		
Investments and advances	3,634	1,968
Additions to property and equipment	14,433	9,709
Stock dividend, cash paid in lieu of fractional shares	34	
	<u>18,101</u>	<u>11,677</u>
Decrease in working capital	<u>\$ (8,056)</u>	<u>\$ (4,731)</u>
Comprised of		
Cash	\$ (297)	\$ (421)
Marketable securities	(8,326)	(5,036)
Accounts receivable	2,969	275
Other current assets	182	(47)
Accounts payable and accrued liabilities	(3,009)	172
Deferred income taxes	425	326
Decrease in working capital	<u>(8,056)</u>	<u>(4,731)</u>
Working capital at beginning of year	<u>31,796</u>	<u>36,527</u>
Working capital at end of year	<u>\$23,740</u>	<u>\$31,796</u>

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1980

1 Summary of significant accounting policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Canso Oil & Gas, Inc. and Canso Spain, Inc.

b) Investments

Investments in the Australian companies are accounted for by the equity method. Under this method the investments are carried at cost plus related equity in the undistributed earnings since acquisition. Other investments are carried at cost.

c) Oil and gas properties

The Company follows the successful efforts method of accounting as prescribed by the United States Financial Accounting Standards Board, Statement No. 19. Acquisition costs of oil and gas properties together with costs of drilling and equipping successful wells and development dry holes are capitalized. Shut-in well costs are capitalized pending commencement of production. Exploration expenditures, including geological and geo-physical costs, annual rentals on exploratory acreage and exploratory dry holes are charged to expense.

Production equipment, gathering systems and buildings are recorded at cost. Investment tax credits related to equipment are recorded as a reduction of equipment costs.

d) Depletion, depreciation and amortization

Capitalized costs of proved oil and gas properties, production equipment and gathering systems are depleted on the unit-of-production method based on estimated recoverable reserves remaining in each field.

Capitalized costs of unproved properties are amortized to the extent the values of such properties are considered to be impaired. Depreciation of buildings and other equipment is provided on the straight line method at rates based on the estimated useful lives of the assets ranging from four to ten years.

e) Mineral interests

Mineral exploration costs are capitalized on a project basis pending commencement of commercial production. When a project is determined to be non-commercial the costs are charged against earnings. At September 30, 1980 no mining projects had entered the commercial production stage.

f) Joint venture accounting

The majority of the Company's exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

g) Foreign currency translation

Current assets and current liabilities of foreign subsidiaries are translated into Canadian dollars at year-end rates of exchange. Property and equipment and the related depletion, depreciation and amortization are translated at rates which were in effect when the assets were acquired. Revenue and expenses are translated using average rates of exchange prevailing throughout the year. The aggregate exchange gains or losses included in net earnings in each of the two years ending September 30, 1979 and 1980 were not significant.

h) Income taxes

The company follows the tax allocation method of accounting under which the income tax provision is based on the income reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as a result of claiming capital cost allowance and exploration, development and lease acquisition costs permitted by income tax legislation in excess of the related depletion, depreciation and amortization provided in the accounts.

2. Change in accounting

During the year the Company retroactively changed its method of accounting for certain oil and gas properties to conform to the successful efforts method as described in Note 1(c). Previously, exploration expenditures incurred offshore and in areas outside of North America had been deferred pending evaluation of those areas. The result of this change was to reduce retained earnings at September 30, 1978 by \$3,531,000 and to increase the net loss for 1979 by \$894,000 or 14¢ per share.

3. Investments and advances

	1980	1979
	(thousands of Canadian dollars)	
Australian companies		
United Canso Oil & Gas Co. (N.T.) Pty. Ltd.		
40%, at equity	\$ 127	\$ 179
Advances	<u>1,122</u>	<u>629</u>
	1,249	808
Magellan Petroleum (N.T.) Pty. Ltd.		
30%, at equity	700	743
Advances	<u>1,423</u>	<u>979</u>
	2,123	1,722
Total Australian companies	3,372	2,530
Pantepec International Inc., 17.7%, at cost	1,245	
International Oil & Gas Corporation, 10%, at cost	1,349	999
Coastal Petroleum Company, 10%, at cost	730	730
Georex Iberica S.A. – Spain, 15%, at cost	194	
Other	<u>57</u>	<u>27</u>
	\$6,947	\$4,286

a) Australian companies

The Australian companies hold two petroleum exploration permits, covering 12.7 million gross acres in central Australia. These lands, with the exception of the Mereenie and Palm Valley areas, are essentially unexplored. In March 1980 United Canso and other Canadian and Australian companies entered into an agreement for a five year exploration program within the unexplored portion of the areas.

United Canso Oil & Gas Ltd. will earn a direct working interest averaging 13.9% in the two permits by contributing \$11.1 million (Australian) out of total estimated expenditures of \$40 million (Australian).

b) Pantepec International, Inc.

In November 1979, United Canso purchased a 17.7% interest in Pantepec for \$1,245,000. Under the terms of the agreement, the seller, Pancoastal, Inc., retained an option exercisable within one year of the date of sale to repurchase the Pantepec shares at United Canso's purchase price plus an allowance for inflation. The new management of United Canso challenged the validity of this option claiming conflicts of interest and inadequate

consideration. In October 1980, Pancoastal, Inc. declared bankruptcy. To avoid extended and expensive litigation, the Company offered U.S. \$500,000 in full settlement of the option. On December 5, 1980, the Trustee for Pancoastal, Inc. was authorized and directed by the Bankruptcy Court of the District of Delaware to accept the offer. The quoted market value of the Pantepec stock is approximately \$5.0 million. In view of the sizeable number of shares of Pantepec held by United Canso, there is no assurance that current market price would be realized if the Company were to offer the Pantepec shares for sale. Pantepec's primary asset is an indirect interest in the Australian exploration permits referred to in Note 3 (a).

c) **International Oil & Gas Corporation**

In 1979, the Company acquired a 10% interest in International Oil & Gas Corporation (IOG) for \$999,000. In January 1980, an additional \$350,000 was invested pursuant to a rights offering. IOG is engaged in oil and gas exploration and development activities in the United States and in the United Kingdom sector of the North Sea.

d) **Coastal Petroleum Company**

Coastal Petroleum Company holds leases and royalty interests covering approximately 3.6 million acres of waterbottom lands along Florida's Gulf of Mexico coastline. Operations on these properties have been deferred pending settlement of litigation between Coastal Petroleum and Mobil Oil Corporation, the former operator of the properties. Coastal Petroleum seeks substantial compensatory damages from Mobil and other phosphate mining companies for alleged willful conversion of phosphate and other minerals from the properties.

e) **Georex Iberica, S.A. — Spain**

Effective July 24, 1980, the Company acquired, through its subsidiary Canso Oil & Gas, Inc., a 15% interest in Georex Iberica, S.A. — Spain. The investment of U.S. \$165,000 represents 25% of the paid-up value of the shares acquired. The remaining 75% owing on the shares of U.S. \$495,000 is expected to be called late in 1981. Georex holds exploration permits off the Spanish Mediterranean coastline.

f) **Minex, Inc.**

The Company owned directly 61% of the outstanding shares of Minex, Inc., and an indirect interest of 11%. As the Minex exploration programs had been unsuccessful, the Company's investment of \$313,000 in shares and \$2,200,000 (of which \$878,000 related to fiscal 1980) of advances to September 30, 1980 were written-off against earnings. On October 4, 1980 United Canso sold its direct 61% shareholding in Minex for cash of U.S. \$300,000 plus U.S. \$2,000,000 receivable out of future gross revenue, if any, from certain properties. The Company retained an option to reacquire up to 10% of Minex shares in the future. Negotiations for the sale of the indirect 11% interest in Minex are in progress.

4. Property, and equipment

	Investment at cost	Accumulated depletion, depreciation and amortization (thousands of Canadian dollars)	Net investment	
			1980	1979
Oil and gas properties				
Oil and gas interests:				
Producing	\$ 6,803	\$ 4,642	\$ 2,161	\$ 717
Non-producing	10,811		10,811	12,364
Well costs and related facilities	26,993	13,431	13,562	7,426
Wells in process and shut-in	4,769		4,769	7,469
Land, buildings and equipment	728	353	375	220
Mineral interests	1,155		1,155	1,044
	<u>\$51,259</u>	<u>\$18,426</u>	<u>\$32,833</u>	<u>\$29,240</u>
			1980	1979
			(thousands of Canadian dollars)	
Canada			\$24,886	\$21,918
United States			7,947	7,322
			<u>\$32,833</u>	<u>\$29,240</u>

The following summarizes property and equipment by geographic area:

(thousands of Canadian dollars)

Canada	\$24,886	\$21,918
United States	7,947	7,322
	<u>\$32,833</u>	<u>\$29,240</u>

5. Income taxes

Deferred income taxes were provided as follows:

	1980	1979
	(thousands of Canadian dollars)	
Excess of exploration and development expenditures claimed for income tax purposes over depletion and amortization provided in the accounts	\$(367)	\$1,286
Excess of income tax capital cost allowance over depreciation provided in the accounts	250	562
Exchange gains accrued in the accounts but recognized on a cash basis for income tax purposes	95	(121)
Realized foreign exchange gains recognized for income tax purposes, previously deferred	(200)	(177)
Write-off of investment in subsidiary not deductible currently for income tax purposes	(212)	(286)
Other (net)	(171)	161
	<u><u>\$605</u></u>	<u><u>\$1,425</u></u>

Deferred income taxes of \$603,000 in 1980 and \$1,028,000 in 1979 relating to accrued interest and unrealized exchange gains have been classified as current liabilities.

The Company's United States subsidiaries have net operating loss carryforwards of approximately U.S. \$1,981,000 at September 30, 1980 to offset future U.S. taxable income, of which \$1,710,000 expires in 1984 and \$271,000 expires in 1986. In addition, investment tax credits of U.S. \$262,000 are available to reduce future federal tax liabilities. The resulting income tax reduction will be included in earnings in the year realized.

The provision for income taxes differs from the amount that would have been computed by applying statutory income tax rates to earnings reported in the accounts. The principal reasons for this difference are as follows:

	1980	1979
	(thousands of Canadian dollars)	
Earnings (loss) before income taxes and extraordinary item	<u><u><u><u><u>\$(2,626)</u></u></u></u></u>	<u><u><u><u><u>\$ 799</u></u></u></u></u>
Average statutory tax rate	47.35%	46%
Computed "expected" income tax expense	<u><u><u><u><u>\$(1,243)</u></u></u></u></u>	<u><u><u><u><u>\$ 368</u></u></u></u></u>
Increase in income taxes resulting from		
Non-deductible Crown royalties and other payments	2,298	1,999
Less related allowances and rebates		
Federal resource allowance	(1,226)	(983)
Provincial allowances and rebates	(375)	(514)
Losses of foreign subsidiaries		1,090
Other non-deductible expenses	471	286
Reassessment of income taxes	(110)	188
Other	(7)	95
	<u><u><u><u><u>1,051</u></u></u></u></u>	<u><u><u><u><u>2,161</u></u></u></u></u>
Decrease in income taxes resulting from		
Earned depletion allowance	(256)	(604)
Non-taxable portion of foreign exchange gains	(37)	115
Realization of Borealis write-off		(75)
	<u><u><u><u><u>(293)</u></u></u></u></u>	<u><u><u><u><u>(564)</u></u></u></u></u>
Actual income tax provision	<u><u><u><u><u>\$ (485)</u></u></u></u></u>	<u><u><u><u><u>\$ 1,965</u></u></u></u></u>

6. Share Capital

a) Voting restrictions

The supplementary letters patent of the Company provide that no person (as defined) shall vote more than 1,000 shares. The elimination of this provision, to enable shareholders to vote all shares owned, will be placed before the shareholders at the next Annual Meeting of the Company.

b) Stock dividend

On June 23, 1980 the previous board of directors declared a 10% stock dividend to shareholders of record on July 18, 1980, resulting in:

- (i) the issuance of 597,802 fully paid \$1.00 par value shares of the Company,
- (ii) a cash payment for \$34,475 in lieu of fractional shares and
- (iii) an increase in contributed surplus of \$13,525,270.

A corresponding charge of \$14,157,547 was made to retained earnings.

c) Stock options

In December 1977, the Company reserved 145,000 common shares with respect to its present Incentive Stock Option Plan for officers and employees. All options outstanding at September 30, 1979 were granted at market price, became exercisable on the date of the grant and expire on March 5, 1983. Options granted after September 30, 1979, at 95% of market price, became exercisable as to 20% after each of the first and second years from the date of the grant and the remaining 60% after the third year.

The following is a summary of transactions related to optioned shares:

	Officers	Employees	Total
Outstanding at October 1, 1978 (at \$10.125)	36,000	78,500	114,500
Granted at \$10.125		4,000	4,000
Surrendered and cancelled		(17,500)	(17,500)
Outstanding at September 30, 1979	36,000	65,000	101,000
Granted at \$15.9125	10,000		10,000
Exercised at \$10.125	(9,000)	(45,300)	(54,300)
Surrendered and cancelled		(3,200)	(3,200)
Outstanding at September 30, 1980	<u>37,000</u>	<u>16,500</u>	<u>53,500</u>

As a result of the 10% stock dividend, all options outstanding were increased by 10% on November 3, 1980.

Upon exercise of the options, the excess of the proceeds over the par value of the shares issued is credited to contributed surplus.

7. Jurisdiction of incorporation

On October 25, 1979 the shareholders approved continuance of the Company under the Canada Business Corporations Act and subsequent application for change in domicile to Nova Scotia. The change in domicile was approved by regulatory authorities on June 6, 1980 and consequently the Company is a Nova Scotia Corporation.

8. Securities and Exchange Commission investigation and pending litigation

The Securities and Exchange Commission issued an order dated April 11, 1978 directing its staff to undertake an examination and private investigation of United Canso, Catawba Corporation ("Catawba") and Catawba's other client companies, to determine whether possible violations under the Securities and Exchange Act of 1934 and the Investment Company Act of 1940 may have occurred. The scope of the Commission's investigation includes, among other things, the relationship between those companies and Catawba, and the fees and royalties paid by them to Catawba. United Canso has furnished extensive files and documents requested by the Commission's Staff

and the investigation is substantially completed. Based on extensive preliminary discussions with the Staff of the Commission, management of United Canso is of the belief that the matter can be settled in a manner satisfactory to the Company. However, the Commission has not yet considered any Staff recommendations.

Since United Canso is now controlled by a new Board of Directors, none of the members of which are connected with Catawba, the Company believes that the matter as it concerns United Canso may be settled with the Commission in an administrative context provided amendatory filings are made on Form 10-K and Proxy Statements to correct certain deficiencies in previous Form 10-K and Proxy Statement filings, prepared by former management, regarding United Canso's relationship with and payments to Catawba.

In the pending shareholder's derivative suit brought in the United States District Court in Hartford, Connecticut, on behalf of United Canso against Catawba and certain of the former directors of United Canso, United Canso has applied to the court to realign itself as a party-plaintiff. The suit alleges fraud and illegality in the payment by United Canso to Catawba of U.S. \$3,196,000 purportedly as a settlement in lieu of an overriding royalty to Catawba on the United Kingdom interests of United Canso, which it sold in 1975. With the realignment of United Canso as a party-plaintiff, leave has been requested to amend the complaint to include claims of invalidity of the management contracts with Catawba and to recover from Catawba the royalties and fees it received from United Canso. Counsel for the Company advises that it is unable to give an evaluation of the potential outcome of the action at this time.

The decision of the Supreme Court of Nova Scotia validating the continuation on July 15, 1980 of the Annual Meeting of the Company adjourned June 23, 1980 and confirming the election of the board of directors at that meeting, has been appealed. Counsel for the Company advises that the appeal is without merit and is improperly taken in the name of United Canso. The Company is entitled to recover costs with respect to these legal proceedings. The steps required to establish the amount of costs which the Company is entitled to recover and to effect collection of the same are being taken.

The Company has commenced action in the Supreme Court of Nova Scotia against C. Dean Reasoner and the legal firm Reasoner, Davis and Vinson of Washington, D.C. as former attorneys of the Company. This action is seeking return of U.S. \$50,000 advanced to the defendants against future legal fees, an accounting for fees previously paid by the Company and for delivery to the Company of documents and correspondence relating to all matters dealt with as attorneys for the Company. The defendants have made a proposal for settlement of the action. Unless a settlement satisfactory to the Company is reached, the action will proceed. Counsel for United Canso advise that the claim is meritorious and the action is expected to be successful. Accordingly, the Company has provided in the accounts for recovery of the advanced fees.

9. Contingent liability

As disclosed to shareholders during the proxy solicitation and S.E.C. filings, the new board of directors intend to support the request for reimbursement of costs of approximately \$1,000,000 incurred by the United Canso Shareholder's Committee in removing the previous board of directors. Approval for such reimbursement will be put to the shareholders at the next Annual Meeting of the Company. These costs have not been reflected in the accompanying financial statements.

10. Related party transactions

For the period October 1, 1979 to July 15, 1980 the following payments were made for services provided by companies in which certain former directors and a former officer of United Canso held an interest:

\$130,557 for legal services to Reasoner, Davis and Vinson, of which law firm Mr. C. Dean Reasoner, a former director of United Canso, is a member (refer to note 8 regarding pending litigation).

\$56,835 to the law firm of Stewart, MacKeen & Covert for legal services. Messrs Frank M. Covert, G. David N. Covert and David A. Miller, all former directors of United Canso, are members of that law firm.

\$13,070 for legal services to the law firm of Phillips & Vineberg of which Mr. Ivan Phillips, a former director of United Canso, is a member.

\$296,399 to Gherardi & O'Donnell Associates, Inc. for various accounting and administrative services. Mr. A. O'Donnell was Vice-President of United Canso.

Since July 15, 1980 the law firm of Holland and Holland has rendered legal services to United Canso for fees of \$24,066. Mr. J. William Holland, the Secretary and a Director of United Canso is a partner in that law firm. Mr. Holland has received no direct compensation from the Company in his capacity as Secretary.

Mr. G. B. Robertson, Q.C. was appointed Assistant Secretary of the Company on July 15, 1980. Since that date the law firm of McInnes, Cooper & Robertson, of which Mr. Robertson is a partner, has provided legal services to United Canso for fees of \$100,123.

The Company advanced additional funds to its Australian affiliates for exploratory purposes, as described more fully in Note 3 (a). These advances bear no interest and have no specific terms of repayment.

11. Remuneration of directors

Aggregate remuneration paid or payable during the year to directors of the Company in their capacity as directors amounted to \$75,049 (1979 -\$63,757).

12. Retirement plan

The Company has a contributory pension plan which is in effect for all permanent employees following one year of employment. The Company contributed \$42,204 (1979 -\$34,254) to the pension plan during the year. At January 1, 1980, the date of the last actuarial evaluation, the plan was fully funded.

13. Extraordinary item

Income taxes applicable to earnings of United States subsidiaries have been eliminated by the application of net operating loss carry-forwards as described in Note 5.

14. Segmented information

The Company which is engaged in only one industry, exploration for and development of oil and gas and mineral properties, operates primarily in two geographic areas, Canada and the United States. The following is an analysis of certain financial information by geographic area:

	Revenue		Earnings (Loss)		Identifiable Assets	
	1980	1979	1980	1979	1980	1979
(thousands of Canadian dollars)						
Canada	\$12,123	\$11,251	\$ 762	\$ 1,826	\$52,131	\$57,828
United States	5,098	2,055	824	(1,105)	15,100	9,657
Spain			(2,375)	(1,008)		
Other			(1,183)	(879)	3,566	2,530
	<u>\$17,221</u>	<u>\$13,306</u>	<u>\$(1,972)</u>	<u>\$(1,166)</u>	<u>\$70,797</u>	<u>\$70,015</u>

15. Comparative figures

Certain 1979 operating expenses of the exploration and engineering departments, in the amounts of \$417,891 and \$122,655 have been reclassified from general and administrative expense to exploration expense and production expense respectively to conform with the presentation adopted in 1980.

Five-Year Statistical Review

FINANCIAL

	1980	1979	1978	1977	1976
REVENUES					
Oil and gas and royalty income	\$ 14,399	\$ 8,894	\$ 7,770	\$ 6,338	\$ 5,156
Interest and other	2,822	4,412	3,141	3,198	4,030
	<u>17,221</u>	<u>13,306</u>	<u>10,911</u>	<u>9,536</u>	<u>9,186</u>
EXPENSES					
Exploration	760	1,044	1,068	449	384
Production	3,406	2,069	1,503	1,183	1,003
Depletion, depreciation and amortization	3,454	1,415	1,260	1,134	656
Dry holes, abandonments and investment write-offs	7,386	4,070	2,789	2,932	5,700
General and administrative	4,114	2,555	2,230	2,268	1,703
Exchange (gains) losses	(246)	475	(2,761)	(2,382)	836
Adjustment of equity investments	973	879	786	(161)	(106)
	<u>19,847</u>	<u>12,507</u>	<u>6,875</u>	<u>5,423</u>	<u>10,176</u>
Earnings (loss) before income taxes	(2,626)	(799)	4,036	4,113	(990)
Provision for income taxes	(485)	1,965	2,190	2,888	2,196
	<u>(2,141)</u>	<u>(1,166)</u>	<u>1,846</u>	<u>1,225</u>	<u>(3,186)</u>
Extraordinary item	169	—	—	—	—
NET EARNINGS (LOSS)	<u><u>\$ (1,972)</u></u>	<u><u>\$ (1,166)</u></u>	<u><u>\$ 1,846</u></u>	<u><u>\$ 1,225</u></u>	<u><u>\$ (3,186)</u></u>
Per share	<u><u>\$ (0.30)</u></u>	<u><u>\$ (0.18)</u></u>	<u><u>\$ 0.28</u></u>	<u><u>\$ 0.19</u></u>	<u><u>\$ (0.49)</u></u>
FUNDS GENERATED FROM OPERATIONS					
Per share	9,495	6,946	8,115	5,682	3,353
1.44	1.06	1.24	0.87	0.51	
CAPITAL EXPENDITURES					
Property and equipment	14,433	9,709	14,114	8,522	6,041
Investments and advances	3,634	1,968	523	159	836
WORKING CAPITAL	<u>23,740</u>	<u>31,796</u>	<u>36,527</u>	<u>42,996</u>	<u>46,171</u>
Per share	3.61	4.86	5.59	6.59	7.08
SHAREHOLDER'S EQUITY	<u>58,156</u>	<u>59,612</u>	<u>60,778</u>	<u>58,879</u>	<u>57,843</u>
Per share	8.85	9.12	9.30	9.03	8.87
OPERATING					
PRODUCTION —					
gross before royalties — daily					
Crude oil and natural gas liquid — barrels	2,250	2,363	2,187	2,288	2,442
Natural gas — thousands of cubic feet	13,250	9,450	8,464	8,747	10,128
GROSS RESERVES —					
proven and probable					
Crude oil — thousands of barrels	7,103	7,269	7,726	7,532	8,038
Natural gas — millions of cubic feet	95,600	92,803	91,860	78,693	65,260
DRILLING ACTIVITY					
Gross wells	131	69	70	50	54
Net wells					
Successful	17	17	17	11	7
Dry	12	5	7	4	4
LAND HOLDINGS —					
thousands of acres					
Gross	18,333	19,869	23,635	26,276	36,837
Net	4,336	4,716	4,886	5,096	6,359
SHARES					
Number of shares outstanding	6,574	6,536	6,536	6,520	6,520
Market price (Canadian \$) — High	28.35	18.90	12.83	11.48	7.99
— Low	11.70	7.88	7.20	6.08	5.18
(U.S. \$) — High	24.75	16.31	9.90	10.24	8.10
— Low	8.66	7.43	5.85	5.96	5.18

NOTE (1) All dollar amounts are in thousands except per share figures.

(2) All per share amounts are calculated using weighted average number of shares outstanding, restated to reflect the 1980 stock dividend of 10%.

Officers

Billy R. Delp
Chairman of the Board

Dr. John Duby
President

Jack Wild
Executive Vice President

David C. Walker
Vice President, Finance & Ass't. Secretary

J. William Holland
Secretary

Robert W. St. Clair
Treasurer

George B. Robertson
Ass't. Secretary

CORPORATE AND HEAD OFFICE

3700, 700-2nd Street S.W.
Calgary, Alberta

OPERATING SUBSIDIARIES

Canso Oil & Gas, Inc.
Canso Spain, Inc.

REGISTRARS AND TRANSFER AGENTS

Guaranty Trust Company of Canada, Calgary, Alberta

CO-TRANSFER AGENT

First Jersey National Bank, Jersey City, New Jersey
United California Bank, Los Angeles, California

AUDITORS

Arthur Young, Clarkson, Gordon & Co.

LISTINGS

Toronto, Montreal, Boston &
Pacific Stock Exchanges (symbol UTC)
NASDAQ (symbol UCANF)

Board of Directors

Billy R. Delp
Chairman
Fort Worth, Texas

President, Nu-Way Oil Company

Dr. John Duby
Calgary, Alberta

President, United Canso Oil & Gas Ltd.

J. William Holland
Chicago, Illinois

Attorney and Vice-President, Holland
& Holland (Associated)

Robert W. St. Clair
Fort Worth, Texas

President, Thrift Distributors, Inc.

Dr. George H. Laycraft
Vancouver, B.C.

Executive Vice-President, Chief
Executive Officer and Director
Dusty Mac Mines Ltd. (N.P.L.)

Thomas J. Jacobsen
Calgary, Alberta

President Elect., United Canso Oil
& Gas Ltd., effective January 1, 1981

Donald L. Hiebert
Calgary, Alberta

President, Coseka Resources (U.S.A.)
Limited; Vice-President, Corporate
Development and Director, Coseka
Resources Limited

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