

Annual Report 1981

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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 Factor
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 Monday, March 22, 1982 at 9:30 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 Corporate Development, United Canso Oil & Gas Ltd., Box 2544 Stn. M., Calgary, Alberta, T2P 2M7.

HIGHLIGHTS

September 30
1981 **1980**

FINANCIAL

(Thousands of Canadian dollars, except per share figures)

Total Revenue	41,452	17,221
Funds Generated from Operations	15,909	10,037
per share	2.39	1.53
Net Earnings (Loss)	196	(477)
per share	0.03	(0.07)
Acquisition of Great Basins Companies	158,958	—
Capital Expenditures, including other acquisitions, investments and advances	79,981	18,609

OPERATING

Production — before royalties — daily		
Crude Oil & Liquids — barrels	2,455	2,250
Natural Gas —		
thousands of cubic feet	37,736	13,250
Reserves — before royalties — year end		
Crude Oil & Liquids — thousands of barrels		
Proven	10,574	5,141
Probable	4,476	1,962
Natural Gas — millions of cubic feet		
Proven	461,826	75,301
Probable	72,397	20,299
Drilling Activity		
Gross Wells	88	131
Net Wells — Successful	29	17
— Dry	9	12
Land Holdings — thousands of acres — year end		
Gross	27,275	18,333
Net	10,870	4,336

HOWARD ROSS LIBRARY
OF MANAGEMENT
NOV 10 1982
McGILL UNIVERSITY

DIRECTORS REPORT TO THE SHAREHOLDERS

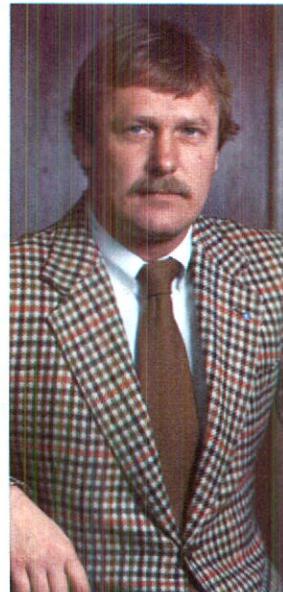
1981 was a very eventful year for United Canso Oil & Gas Ltd. Among the year's more important developments:

- Effective February 1, 1981, Canso acquired all of the issued shares of Great Basins Petroleum Ltd. and two associated companies with 225,000 net acres of oil and gas properties in Western Canada that included 233 producing wells. Proved Reserves of that acquisition increased the Company's total by 1.96 million barrels of oil and 288 billion cubic feet of gas.
- Total revenues for fiscal 1981 rose by 141 per cent to \$41.5 million from \$17.2 million the prior year. Of that \$24.3 million increase, the Great Basins acquisition contributed \$10.8 million. It also provided \$8.9 million in additional cash flow. Contributions from this acquisition will have a more favorable impact on your Company's results in the future as operating cash flow is projected to climb from some \$16 million in calendar 1982 to \$35 million by 1986.
- In the United States, Canso substantially increased its participation in the exploration for oil and gas, primarily in West and South Texas, Utah and the deep gas plays of Oklahoma and Louisiana. Several of the recently drilled wells are still awaiting completion or pipeline tie-in and we should begin to see significant results in fiscal 1982 from our participation in the drilling of greater-risk, but correspondingly more productive gas wells of the Deep Anadarko and Tuscaloosa Trends.
- A new engineering study showed that at fiscal year-end, September 30, 1981, your Company had reserves worldwide with a future net worth before income taxes, discounted at 15 per cent, of Canadian \$492 million, or \$74.61 per share.
- In November, your Company reached a new agreement with one of its industry partners in Australia, Magellan Petroleum, that will result in Canso gaining direct ownership in millions of acres of oil and gas concessions in the Amadeus Basin of central Australia. Direct ownership of Canso's Australian interests has been a target of your Board of Directors since its election more than a year and a half ago.
- Also in November the Northern Territory Government of Australia granted production leases for the Mereenie Oil and Gas Field in which Canso has a 15% interest. A contract was also signed for the supply of up to 47.7 billion cubic feet of gas from the Palm Valley Gas Field in the Amadeus Basin over a 20-year period beginning in 1984. Canso has a 24.4 per cent interest in this gas field.
- Also in the Amadeus Basin, a 10-well exploration program commenced during the year. One of the two wells drilled so far appears very promising as a commercial gas well and the third well is currently drilling. Canso owns an average 29.7 per cent working interest in these wells.
- We participated in a couple of disappointing ventures last year — most notably our efforts in the offshore areas of Colombia and Spain. However, as described in the Exploration and Development section of this report, the Spanish prospect continues to have upside potential for Canso.

DELP, Billy R.
Chairman of the Board



HIEBERT, Donald L.
President and Chief Executive Officer
and Director



THE FUTURE

In the year ahead we will continue to pursue aggressive worldwide oil and gas exploration opportunities.

- We plan to spend up to \$46 million this year in the exploration and development of new oil and gas reserves. Some 43% of these capital expenditures will be made in the United States and 33% in Australia. We also expect many of our American and Canadian investments to begin adding significantly to cash flow in 1982.
- In Australia, efforts are being directed to both public and private offerings, through Canso Resources Limited, that are aimed at making our Australian operations financially independent. Management and technical personnel hired last year are of top quality and will carry out the aggressive exploration and development program underway there.
- We also continue to seek avenues of lowering interest rates on borrowed capital, and are currently examining a number of possibilities.
- Due to a number of circumstances, both internal and external, we have postponed our application to have your Company's shares traded on one of the major nationwide U.S. stock exchanges. However, we will reactivate this matter later this year or in early 1983.

The key to the success and accomplishments of any company is directly related to the quality of its personnel. Your Board of Directors gave first priority after its election in mid-1980 to building a team of first-rate people. We believe they have done an outstanding job throughout 1981 and will continue that high achievement level in the future.

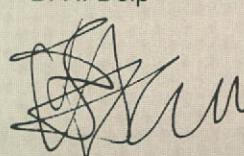
Three additions to management deserve special recognition:

- Donald L. Hiebert, who has been a Director since the election of the current Board, was appointed President and Chief Executive Officer on January 15, 1982. Mr. Hiebert formerly was president of a private energy investment company and previously held senior executive positions in other oil and gas and mining companies.
- C. David Banks was named Executive Vice President — Oil and Gas for the Corporation during 1981. Mr. Banks, an engineer, brings 21 years' diversified experience in the petroleum industry to Canso.
- Kenneth A. Gillies was appointed Managing Director of Canso Resources Limited in Australia this past year, and will supervise all of the Company's activities there. Mr. Gillies has over twenty years exploration experience in North America and other areas of the world.

Finally, the Board offers a special thanks to our loyal shareholders who, by and large, remained steadfast through a declining 1981 stock market. We believe our shares are greatly undervalued at this time and remain confident that they will regain a level nearer their true worth when market conditions turn around.

Submitted on behalf of the
Board of Directors.

Billy R. Delp
B. R. Delp



D. L. Hiebert

DUBY, John
Executive Vice President
Corporate Planning and Director



OIL AND GAS

In fiscal 1981, with the advent of new management, the pace of activity escalated dramatically. The acquisition of several companies was accomplished and the initiation of exploration in many new areas was undertaken.

All told, the indicated results of the expansion programs are encouraging but as most of the projects are at an early stage of development, their ultimate success is not predictable at this time.

PERSONNEL

The oil and gas industry is characterized by large outlays of capital compared to the costs of operating and managing the assets. It is therefore critical that company personnel be at a high level of competence to ensure optimization of operations and although the present staff is highly qualified, the work load caused by the rapid expansion will necessitate hiring additional experienced professional personnel. With a full complement of staff, your Company intends to do most of its exploration on internally-generated plays and to create plays which can be farmed out.

ASSET ADDITIONS FROM ACQUISITIONS

a) Great Basins Petroleum Ltd.

The addition of Great Basins provides United Canso with a much needed base of long-life gas reserves and the staff to carry on operations. The reserves are primarily shallow gas in southern Alberta tied to long-term gas contracts. Approximately 230 billion cubic feet, representing 75% of the total reserves, are in this category. Sizeable gas reserves are also located at Quirk Creek, Big Bend and Acadia Valley in Alberta. Included in the acquired assets are 2 million barrels of proven and probable oil and gas liquids reserves. In addition, Canso acquired a well-situated land inventory of about 225,000 net acres with several promising plays ready for drilling.

With the majority of the gas reserves on stream, the Great Basins assets are readily financable and can be used to provide a springboard for further company growth.

b) Loucol Petroleum Ltd.

Loucol was purchased by United Canso on a share exchange basis (represented by 90,000 Canso common shares) on October 1, 1981. This was a small family-held corporation with producing reserves in Alberta. The properties were melded into United Canso's operation and will enhance income without encumbering cash flow with debt repayment or interest charges.

c) J. E. Carter Energy Inc.

Carter Energy was a small family-owned oil company operating in the Austin Chalk oil trend in Texas. Canso purchased all the common shares on August 25, 1981.

Carter Energy has a contract with a successful explorationist in the Austin Chalk, and to obtain access to this expertise, Canso entered into joint ventures with Carter commencing February, 1981. By August, it had become apparent that Carter's management was not fully capable of handling its commitments and Canso purchased the company to protect the overall interests in the joint ventures previously taken.

The Company's original intent in the Austin Chalk oil trend was to create plays that could be farmed out. The Carter acquisition is expected to facilitate this strategy.

BANKS, C. David
Executive Vice President Oil & Gas



d) Spencer's Well Service, Inc.

Spencer's was purchased jointly by Canso and Carter to drill the Austin Chalk wells at a time when drilling rigs were very difficult to obtain. The rig situation has recently improved, and Spencer's is being reviewed to determine if continued control is desired.

PLANNED ACTIVITIES

In developing the 1982 plan, extremely close attention was paid to the factors that could influence the value of the investments in various provinces, states and countries.

Canada

The new Provincial and Federal accord on pricing and taxation did not have a positive affect on Canso's asset base or scale of operations in comparison to the previous regimes. The Company is continuing to actively pursue the generation of plays on the existing land inventory and in other attractive areas, and will proceed with drilling when the economic environment appears favourable.

United States

The deregulation of oil prices and the movement toward deregulation of gas prices has helped to create a very attractive investment climate. Canso moved to take advantage of this situation and has been successful in developing new oil and gas reserves in the U.S. It is anticipated that the industry's environment here will remain attractive for the foreseeable future.

Canso escalated its U.S. activity in 1981 by associating with several carefully selected companies. The purpose of these associations was twofold. First, to become partners with organizations who are acknowledged "finders". Second, to expose the staff to the proven expertise of others in specific exploration areas to gain first hand experience that could be used in developing self-generated plays.

Although all of the partners are situated in the U.S., the Company's share of technical input is centered in Calgary, where considerable staff direct U.S operations.

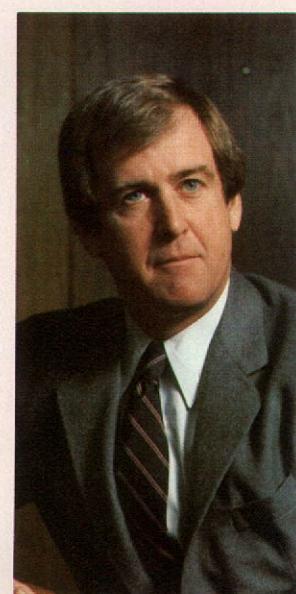
International

In addition to United States and Australian activities, Canso participated in several plays in other foreign countries during 1981, and will conduct a continuing foreign program in 1982. A policy of investing in several countries is followed to ensure that internal changes in any one of these countries will not have a devastating effect on the Company's investments. An attempt is made to keep less than one-third of the total foreign investment in any one country and to take one-third or less in any one project. Canso also attempts to enter foreign exploration at its earliest stage, that is, at basic permit acquisition. With this strategy, promotion by others is kept to a minimum and plays can be created which are saleable to other companies.

Summary

Canso remains very confident about the economic potential of the oil and gas industry throughout the world and is equally confident that, over time, an above average growth in asset creation and profitability will occur.

MOFFITT, Robert J.
Vice President Corporate Development



EXPLORATION AND DEVELOPMENT

During 1981, United Canso participated in the drilling of 88 gross (37.6 net) wells, compared to 131 gross (29.1 net) wells in 1980. Of these, 52 were exploratory wells for which a success ratio of 60% was achieved, and 36 were development wells for which the success ratio was 83%.

Fiscal 1981 was not only a year of high activity with regard to the amount of exploration and development work undertaken, it was also a year of major diversification. Canso moved aggressively to establish a strong position in the U.S. and other foreign countries and by year-end had created an international exploration base that is expected to provide excellent returns in fiscal 1982 and beyond.

Described below are some of the plays that we expect will be highly rewarding once the exploration and development sequence has been completed. It will be noted that the majority of the ventures mentioned are located in the United States or in other countries. This is reflective of the corporate strategy to upgrade and expand operations outside of Canada.

CANADA

Due to the negative impact of Federal and Provincial pricing and taxation regimes, Canso de-emphasized Canadian exploration throughout 1981. In view of the industry's continuing poor economic environment, relative to other countries, exploration outlays will be highly selective. The most important Canadian projects are described below.

BISTCHO LAKE

Canso has excellent exposure in the general Shekiliie area, which is becoming one of Western Canada's hottest exploration plays. The land position here is comprised of 23,520 gross acres (4,504 net acres) including one block of 2,560 acres, which is 100% owned.

In 1982, it is planned to pursue the oil potential of the Keg River and Zama reefs which are prolific producers and have been known to test up to 1500 barrels of oil per day in the vicinity of United Canso land. Any oil discovered here would command "new oil" prices under the new pricing agreement, which equates to the international price.

LITTLE BOW

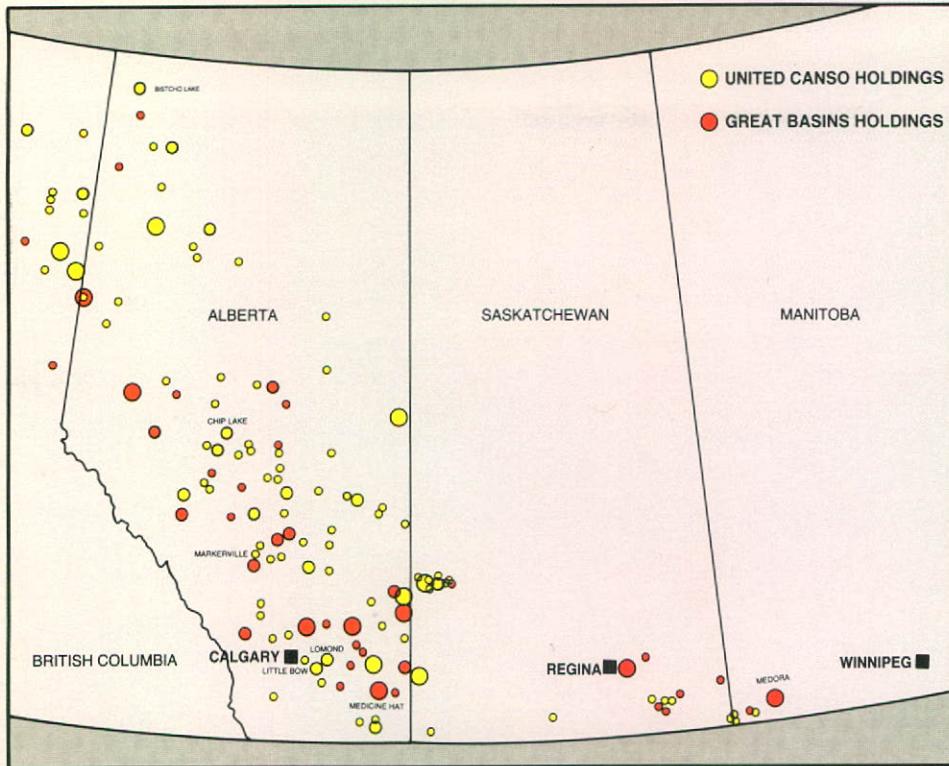
A 100% Canso well found fifteen feet of gas pay in the Basal Quartz last year. The development of the project will be done consistent with the outlook for gas markets. In 1982, the oil potential of the prospect will be evaluated. Two exploratory and two development wells for Glauconite oil are planned and an attempt will be made to recomplete the Basal Quartz gaswell to Glauconite oil. Canso controls 15,360 gross acres around this play.

SOUTHWESTERN MANITOBA

Your Company had a 50% interest in about 240,000 gross acres of oil and gas leases in southwestern Manitoba. The drilling of three deep tests and six shallow tests by another company caused a reversion to about a 25% interest in a net holding of approximately 180,000 acres. This spread of land lies on the northeastern edge of the Williston Basin which has undergone extremely active and successful exploration in recent years.

SILENZI, Sandro
Vice President Exploration





MEDICINE HAT

In the Redcliff and Schuler producing fields of southeastern Alberta, eighteen development gas wells were drilled and completed in 1981 for purposes of maintaining gas deliverability. These fields produce mainly from the shallow Upper Cretaceous Milk River, Medicine Hat and Second White Specks sands. Gas sales contracts to a maximum delivery of about 32 million cubic feet of gas per day cover the area of Canso's interests. The gas is produced from 222 wells and through three gas plants.

CHIP LAKE

In the Chip Lake area, Canso retains a 12.5% overriding royalty interest in a Basal Cretaceous discovery well that has about ten feet of oil pay. Development work in this area is expected to be undertaken in 1982. Exploration of the oil potential of the Basal Quartz and Niton sands will continue as both sands are oil bearing and will be eligible for "new oil" prices. United Canso's land exposure in this developing play amounts to 13,920 gross acres.

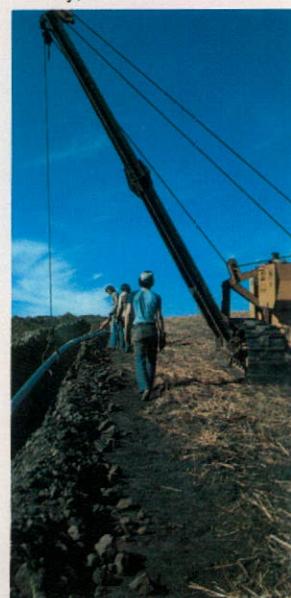
LOMOND

A 12% interest oil well was drilled during the year with Basal Quartz and Glauconitic potential and delineation drilling is scheduled in 1982. Oil produced from this play will qualify for the "new oil" price. United Canso has an interest in over 16,000 gross acres in the area.

MINERALS EXPLORATION

During the year your directors determined that due to lack of in-house expertise and the long lead time before cash flow is developed the Company should at this time no longer pursue hard minerals exploration, other than meeting prior commitments. Consequently the interest in the Chibougamau Joint Venture was sold and the Echouani Project in which a drilling program failed to locate significant reserves was terminated. Canso continues to hold interests in the Campy venture in New Brunswick, the Ego Mines property in Ontario and the Rossland area of British Columbia.

Pipeline Installation
Rowley, Alberta



UNITED STATES

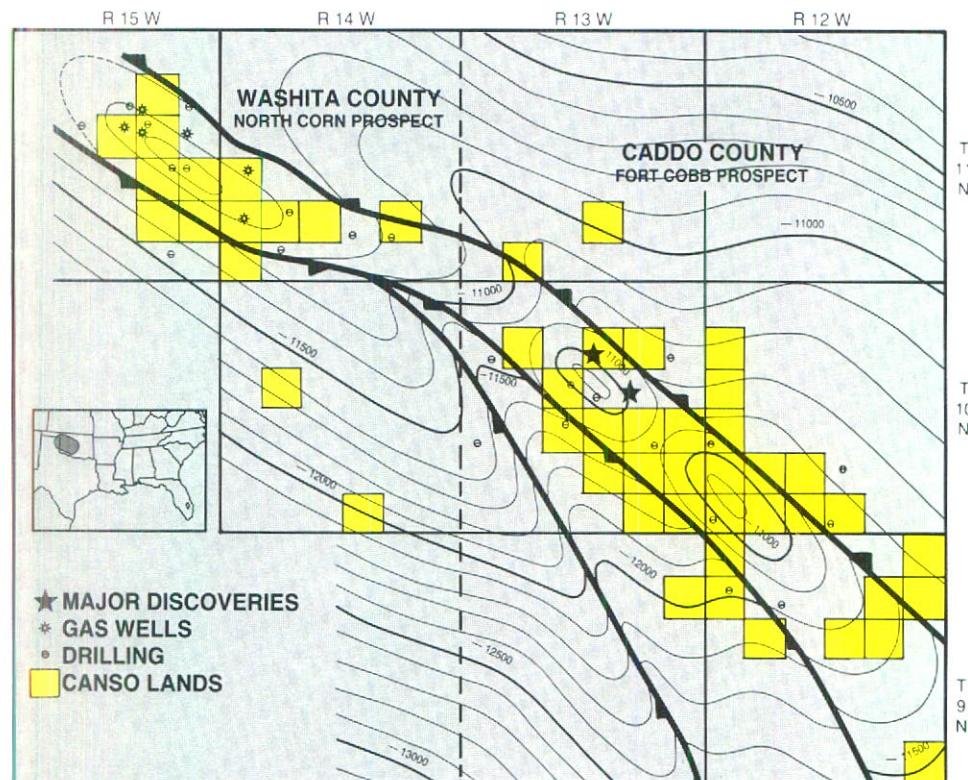
DEEP ANADARKO BASIN

The Anadarko Basin is a large basin that occupies much of the western half of Oklahoma and extends into the Texas Panhandle containing over 35,000 feet of sediments. For many years, the shallower formations have been intensively and successfully prospected for oil and gas. More recently, drilling has extended into parts of the basin to depths greater than 25,000 feet and has resulted in the discovery of many new prolific gas fields.

Below depths of 15,000 feet, gas prices are deregulated and a wellhead price of about \$9.00 (\$U.S.) per thousand cubic feet can be negotiated. This is more than 250% higher than gas prices from shallower zones. Another advantage of deep gas discoveries in this area is that markets are available immediately, after it can be shown that a capability to produce exists.

A successful well on a productive Deep Anadarko structure can encounter several separate payzones with each having the potential to contain several billion cubic feet of recoverable gas. Accordingly, this play, in comparison to many other plays, has the potential of increasing the Company's gas reserves by an extremely large amount. Additionally, the high wellhead price results in obtaining a present worth for the gas that is greatly above the industry average.

Canso's involvement in the Deep Anadarko is in two separate prospects; the Fort Cobb Prospect in Caddo County, Oklahoma and the North Corn Prospect in neighbouring Washita County, Oklahoma. In combination, Canso has more than 650 net acres of rights on the trend.



The Fort Cobb Prospect is a major fault-controlled feature that has been seismically interpreted to encompass more than 35,000 acres. The main producing formations on the Fort Cobb Prospect, that are of interest to Canso, are the Red Fork, Atoka and Springer. This structure has a proven capability to host unusually prolific wells as was illustrated by the "Tom Cat #1" well, which reportedly had a potential flow of over 75 million cubic feet per day prior to its forced abandonment due to casing failure. Another well on this structure, Kardokus, in which Canso has an approximate one percent working interest, was

tested in the Springer sandstone in 1981 at a flow rate of 27 million cubic feet per day from a limited portion of the indicated total payzone.

Canso has exposure to 21,760 gross acres (462 net acres) of Red Fork, Springer and Atoka rights that are believed to be in the heart of the structure. At the present time, working interests per section (640 acres) on this Prospect vary from less than 1% to more than 12%. The most significant Springer tests which are drilling at the time of this report, are Bear Cat (12.5% working interest), Old Timer (10.6%), Running Bear (5.6%), Hughes (4.8%) and Codi (4.1%). In addition, Canso anticipates participating in a further nine Springer wells that are scheduled to be drilled on the Fort Cobb Prospect during fiscal 1982.

The North Corn Prospect in neighbouring Washita County is also a fault-controlled feature and probably constitutes the northwest extension of the Fort Cobb Prospect.

In 1981, Canso acquired minor interests varying around one percent in eight wells that are either producing gas or are being completed as gas wells from the Springer formation on this Prospect. Additionally, your Company obtained the rights to earn working interests in 3,840 gross acres of land over which the Springer formation is believed to be productive. A total of four Springer tests are scheduled to commence drilling in 1982.

Canso also obtained the rights to earn a working interest in 8,320 gross acres (145 net acres) of land overlying the potentially gas-productive Hunton, Arbuckle and Bromide formations on this Prospect. All of these formations are excellent reservoirs in other parts of the Anadarko Basin and, if productive, can hold high reserves per well. The Hunton, Arbuckle and Bromide formations are found at depths exceeding 20,000 feet and are therefore high-cost ventures. Your Company is adopting a cautious approach to committing funds to these very deep tests, notwithstanding the high potential attributable to them.

Canso has also obtained a working interest position in 3,200 gross acres (260 net acres) of highly prospective Red Fork and Springer lands that lie south and west of the North Corn Prospect. The Heinrich #1 well (Canso 12.5% working interest) is now drilling on one of the blocks to the south of North Corn.

THE WESTLAND PROGRAM

An extensive exploration agreement with Westland Oil Development Corporation of Houston was executed in 1981. Westland is considered to possess particularly well-developed exploration capabilities in specific basins of Texas and Louisiana and has enjoyed a superior reputation as a finder of oil and gas for over twenty years. Canso has committed to take a 10% participation in a two-year exploration program to be generated by Westland and expects to have exposure to a large number of high-quality plays with emphasis in the Gulf Coast Salt Basin, in West Texas (Midland Basin, Horseshoe Atoll, Eastern Shelf and Central Basin Platform) and in the Delaware Basin. The budgeted Westland program for fiscal 1982 includes participation in over fifty separate prospects and could involve a capital outlay of \$5 million.

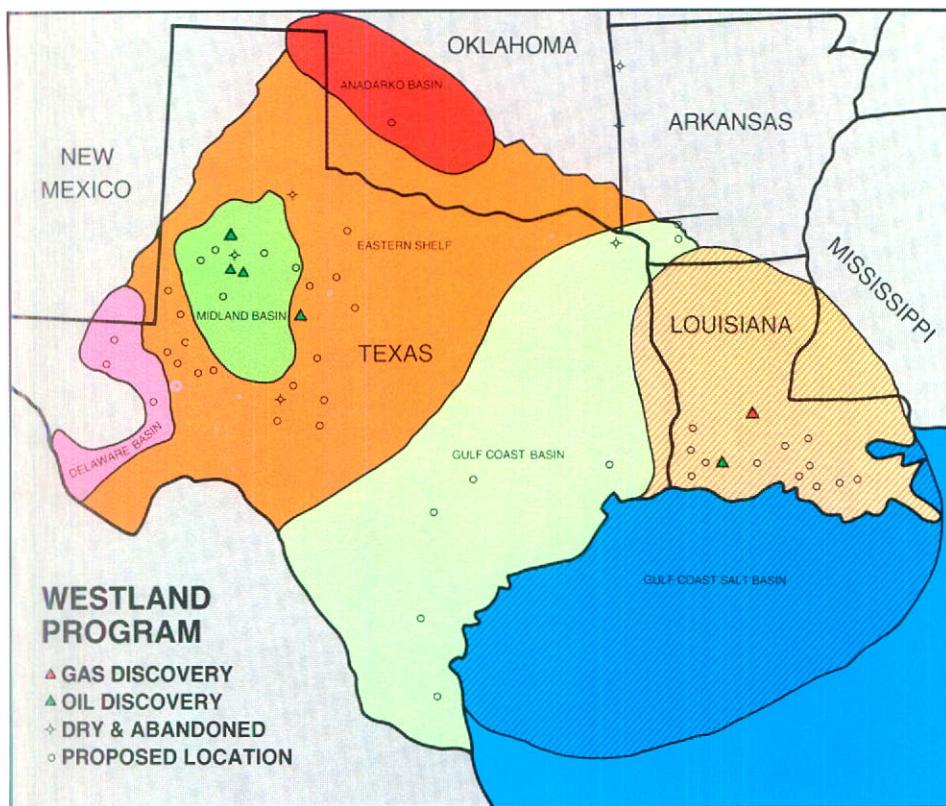
The principal targets in the Gulf Coast Salt Basin are expected to be gas-bearing tertiary sandstones associated with "down to the basin" faults or salt domes which are typically found at depths of between 11,000 feet and 17,000 feet. Gas markets are readily available in this area and usually provide a combination of price plus volume of deliveries to result in excellent returns on investment. Your Company expects to participate in twelve of these potentially profitable ventures in fiscal 1982.

The exploration targets in West Texas are mostly oil prospects. Usually, these ventures are at medium depth (7,000 to 10,000 feet), have more than one prospective payzone, and have the potential of discovering in excess of 1.5 million barrels of recoverable oil reserves per 640 acre unit. To date, Canso has participated in five of these ventures and has achieved an indicated success

Caddo County, Oklahoma



ratio of 80%. In fiscal 1982, Canso expects to have an interest in some 50 separate prospects in this area that will be generated by Westland.



The Delaware Basin is a deep gas province in which industry has discovered structurally controlled gas-bearing formations that have exceptionally high reserve allocations per well. Apart from the attraction of joining in ventures that have the potential to discover above-average reserves per well drilled, Canso is encouraged by the fact that gas from the deep zones (over 15,000 feet) in the Delaware Basin command the deregulated price of about \$9.00 (U.S.) per thousand cubic feet and also have ready access to gas markets. In fiscal 1982, Canso expects to have an interest in three separate Delaware Basin prospects.

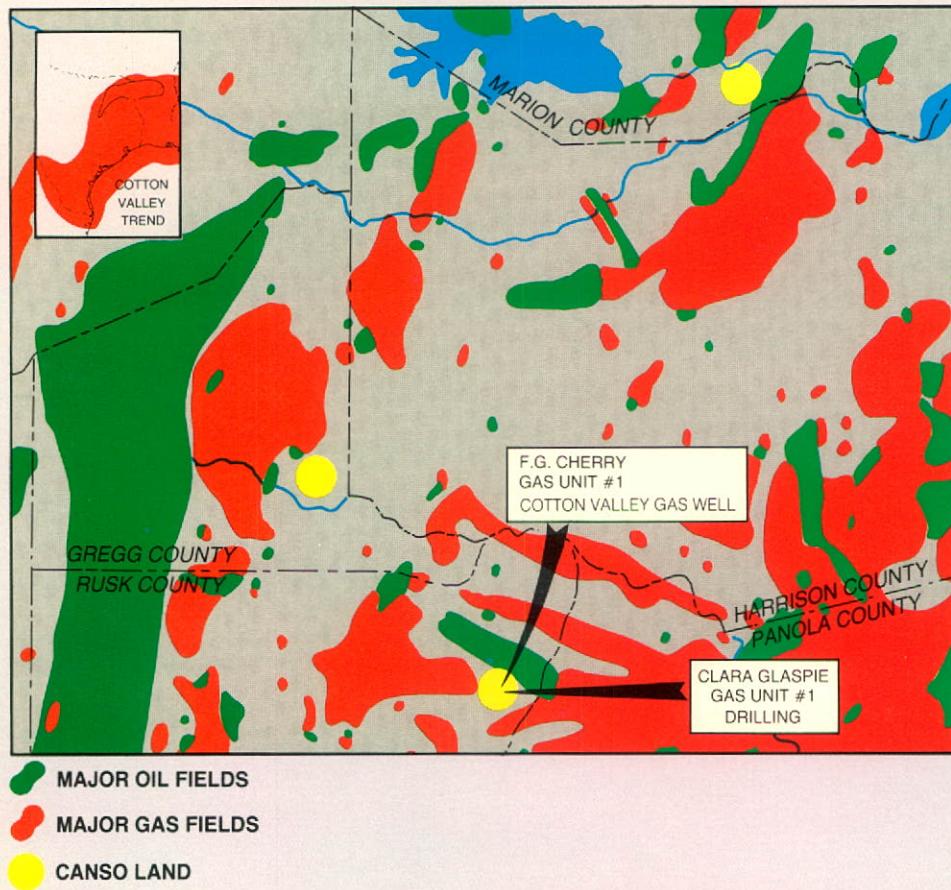
COTTON VALLEY GAS TREND

The Cotton Valley gas trend is essentially a continuous band of gas-bearing sandstones and carbonates that extends from north-central Texas into northwest Louisiana. The reservoir material is characterized by low permeability and qualifies as a "tight gas formation" for pricing purposes. Currently, the wellhead price of Cotton Valley gas is approximately \$5.50 (U.S.) per thousand cubic feet which, when combined with the low incidence of dry holes, results in providing a superior bread-and-butter play.

Canso now has exposure to about 9,000 acres on this low-risk gas trend and the first well of a 10 well exploration program was spudded in 1981. The potential of this well (F. G. Cherry Gas Unit #1) is awaiting results from a massive frac treatment, but preliminary indications are that it should be capable of producing at an initial rate of approximately one million cubic feet per day and should achieve payout within 24 months from the commencement of deliveries. A second well on this trend is currently drilling.

Canso will have a 100% working interest in each well during the payout period, after which the interest will become 75%. Industry's experience in this area has typically shown that approximately two billion cubic feet of recoverable gas reserves are established per well location.

It is noteworthy that three additional potentially gas-bearing formations lie uphole from the Cotton Valley sandstone (Rodessa, Pettit and Travis Peak)

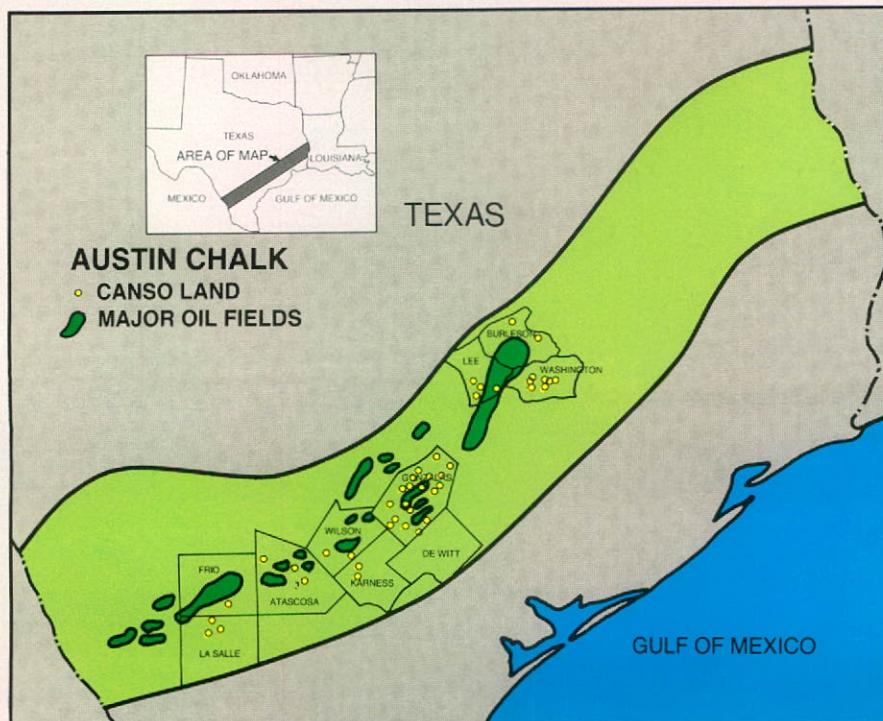


- MAJOR OIL FIELDS
- MAJOR GAS FIELDS
- CANSO LAND

and occur throughout the general area of Canso's land inventory. Naturally, when these potentially productive horizons are encountered, the economics of the program are materially enhanced.

AUSTIN CHALK OIL TREND

Canso holds varying interests in several parcels of land on this trend which, at the end of the fiscal year, amounted to 18,951 gross acres or 15,092 net acres.



Drilling Rosser 23-1
Oklahoma



A total of 3.6 net exploratory wells were drilled by Canso in this play in 1981 of which 2.7, or 75%, were completed as producers.

Your Company's position in the Austin Chalk was acquired with a view to farming-out a significant portion of it to reduce exposure to risk and increase the return on investment. This strategy remains intact.

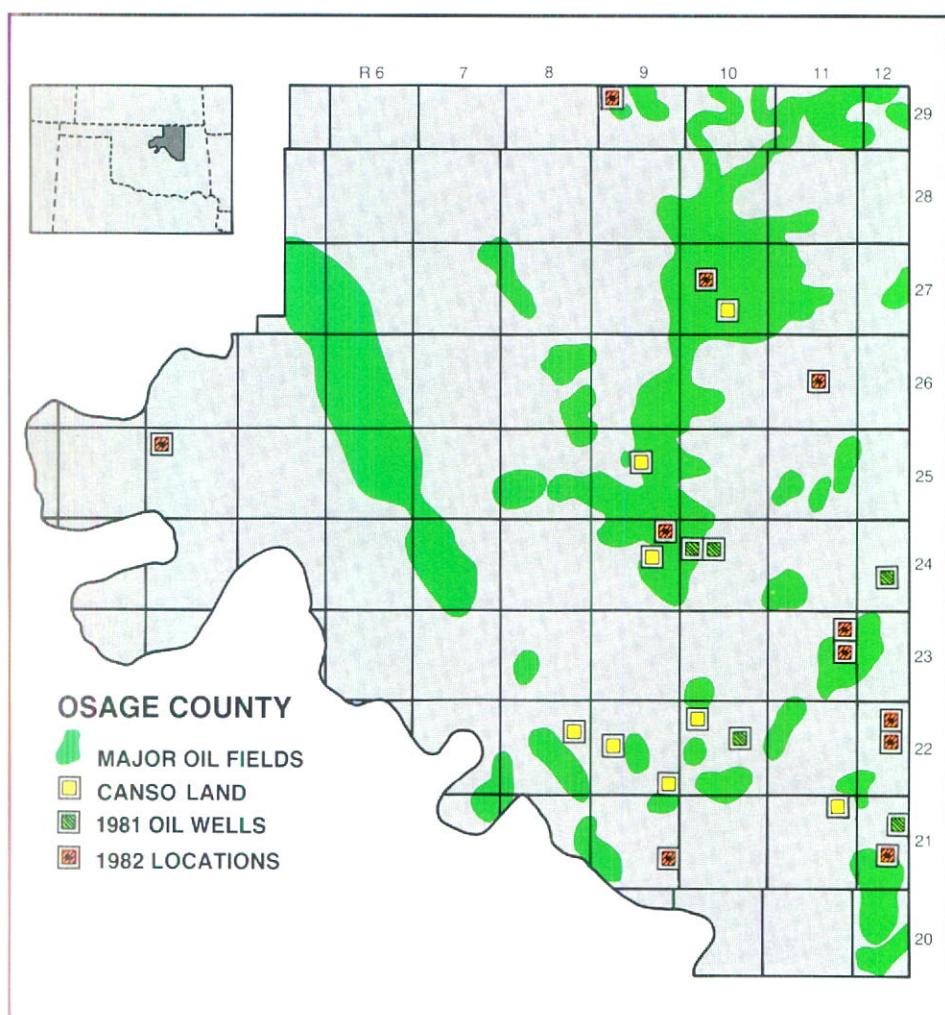
Just prior to the fiscal year end, Canso acquired 100% of the common shares of J. E. Carter Energy, Inc. of Houston, Texas whose principal assets are in the Austin Chalk and with whom your Company participated in several ventures. This acquisition, combined with Canso's other Austin Chalk interests, puts the Company in a strong position to negotiate favourable farmouts with other parties.

SHALLOW OIL TREND, OKLAHOMA

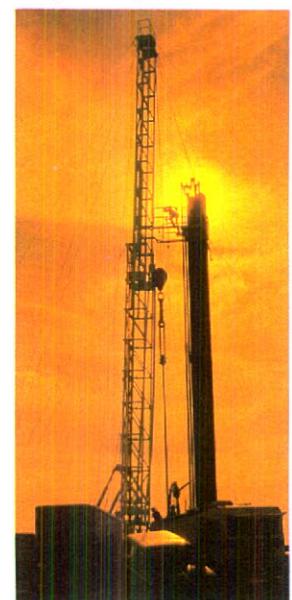
In 1981, Canso participated in a land acquisition and exploration program in Osage County, Oklahoma, to establish income from a project that has low exploration risks and where outlays can be tightly controlled. Canso's gross and net acreage position on this trend at year-end was 4,000 acres and 3,728 acres respectively.

During the year, six net exploratory wells were drilled in the Osage Project of which five are expected to be commercial discoveries once the technical evaluation has been completed. By the nature of the geological setting in this play, each successful exploration well can provide up to three development locations.

In the 1982 budget year, Canso has scheduled to drill 17 net development wells in the Project.



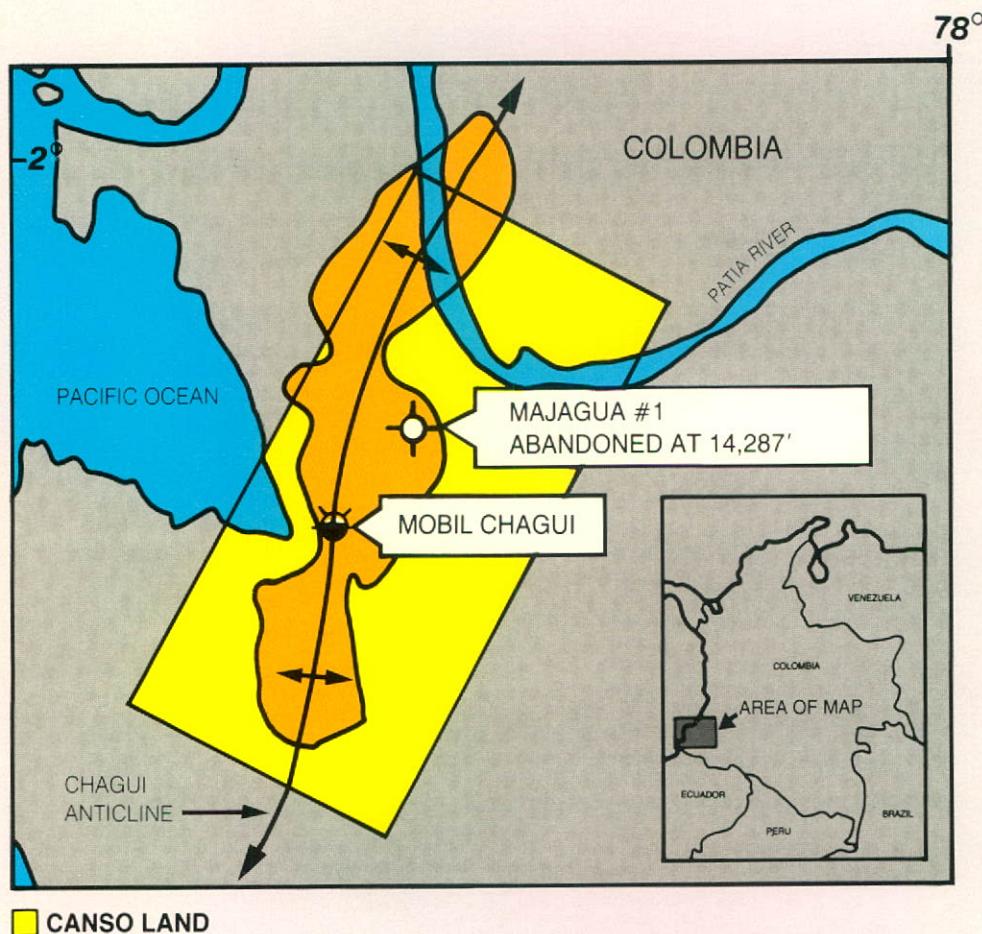
Osage County, Oklahoma



INTERNATIONAL EXPLORATION

COLOMBIA

In 1981, the Company participated to the extent of a 25% working interest, in the drilling of the Majagua #1 well on the Tumaco block located in an onshore permit in the southwest region of Colombia. The well failed to encounter reservoir rock but evidenced a very deep basin with sediments of over 30,000 feet. The well was drilled to 14,287 feet and had gas shows in a sand of lower Miocene age. By drilling this well, United Canso earned a net 61,750 acres in the block.



ITALY

In 1981, the Company examined several Italian offshore and onshore prospects. At year-end, Canso, together with one other Canadian oil company, obtained a non-exclusive prospecting license in an area offshore from northern Sicily that covers approximately 155,600 acres. Canso, as operator, will shoot approximately 185 miles of marine seismic to identify drillable structures and, if attractive anomalies are identified, a drilling permit will be applied for.

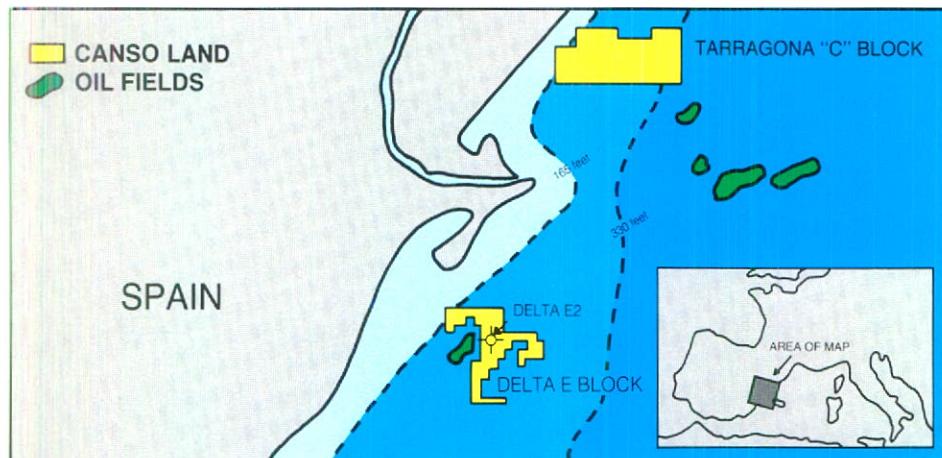
WEST GERMANY

United Canso holds 20,000 net acres in two permits in the German sector of the North Sea. As these permits were due to expire, the Company has farmed-out, in exchange for the drilling of one well to be spudded in spring 1982 on adjacent permits. Although Canso does not have an interest in this well, the farm-out will provide geological information of the area and extend the life of the permit. After completion of the farm-out Canso will retain a 3.3% interest in the 200,000 gross acres.

SPAIN

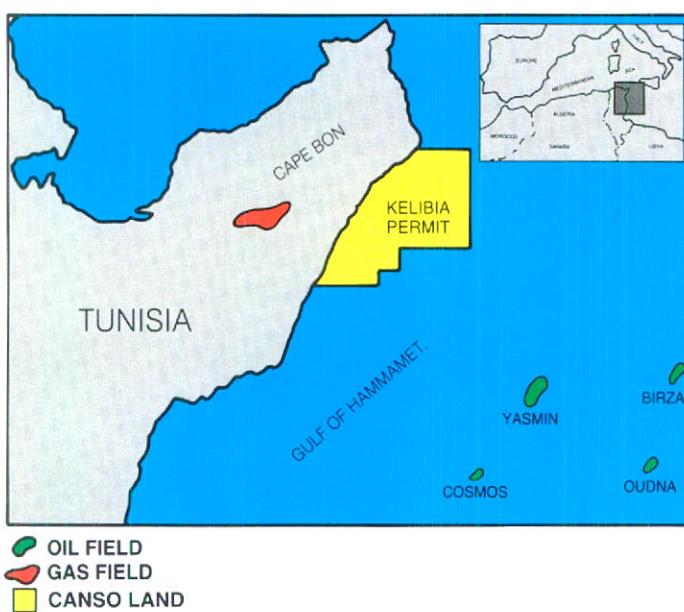
United Canso participated to the extent of a 14.4% working interest in the drilling of the Delta E#2 well on the Delta E permit located in Spain's offshore Mediterranean Basin. Delta E#2 encountered the anticipated reservoir, but a series of drillstem tests recovered only salt water. The northern part of the permit, which encompasses approximately 55,000 acres, has several seismically-defined anomalies and although no wells are planned for the area in 1982, a detailed geological analysis of it is expected to be undertaken.

The Company continues to hold a 20% working interest in the Tarragona C block which covers approximately 67,269 acres, on which further seismic work is planned for 1982.



TUNISIA

During 1981, United Canso evaluated the geological and economic aspects of exploration in Tunisia. Subsequent to the year end, these efforts culminated in obtaining a 15% working interest in a block encompassing 185,000 acres offshore from Cape Bon, Tunisia in the Gulf of Hammamet. The permit has been granted under a seismic option with the program commencing towards the end of 1981. A minimum of 185 miles of marine seismic will be shot, and if any favourable features are detected, Canso expects to participate in the drilling of a well. This basin has several large undeveloped oil accumulations located between 30 and 45 miles south-east of the Kelibia permit. Of these, the most noteworthy are: Birza (1,900 barrels oil per day), Yasmin (1,900 barrels oil per day), Oudna (10,000 barrels oil per day) and Cosmos (6,000 barrels oil per day).



Delta E-2, Spain

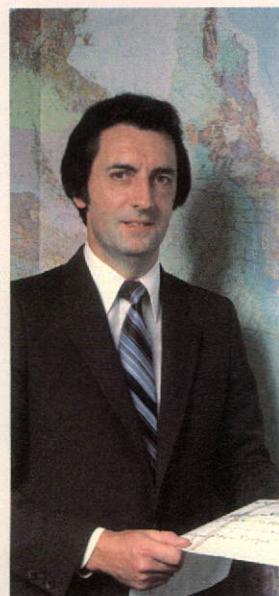


AUSTRALIA

The past year has been an exciting and constructive one for the company in Australia. Its' presence has seen direct involvement in and the conclusion of several significant developments. In fiscal 1981: -

- Canso Resources Limited was incorporated and set up its operational headquarters in Sydney. It employs a staff of eight encompassing the petroleum engineering, geological, geophysical and financial disciplines. Unlike most companies recently established in Australia, Canso is committed to becoming the operator of all projects in which it participates, wherever possible, and the strong technical expertise which has been established provides an advantageous position in the increasingly competitive Australian oil and gas exploration field.
- A conclusion was reached with the Magellan Group of Companies which will provide for the conversion of all previous indirect equity interests to direct working interests in oil and gas fields, exploration permits, plants, properties and equipment, in addition to obtaining an interest in adjacent exploration areas in the Amadeus basin.
- A settlement of traditional aboriginal claims was achieved and the long awaited granting of oil field production leases for the Mereenie oil and gas field occurred. These are the first production leases in the history of the Northern Territory and provided for the commencement of a field development program prior to the end of 1981. The drilling rig being used for the twenty well Phase I development over two years is owned by the Mereenie Consortium in which the Company has a 17.5% interest. A production rate of 5000 barrels per day from the field is believed to be an achievable target within five years. A significant cash flow is expected from Mereenie as the oil production will receive world prices less \$3.00 per barrel and is burdened by only an 11.5% royalty.
- The contract for twenty years supply of natural gas from the Palm Valley Field was signed with the Electricity Commission of the Northern Territory. This will provide an excellent test of the ultimate field deliverability in early contract months and will enable additional markets to be assessed. If the gas that is now in the matrix material of the reservoir, bleeds into the fracture systems, additional reserves will be proved-up. The Company's interest is 24.38% in this field. Delivery is scheduled to commence in 1984, with flow rates rising to 19 million cubic feet per day as the term of the contract progresses. The price to be received by 1984 could amount to about \$1.50 (Aust) per thousand cubic feet and has a price escalation clause.
- Intense Amadeus Basin exploration drilling commenced which will involve expenditures of \$40 (Aust) million by a consortium of Canadian and Australian companies. Upon completion of the program in Permits OP175 and OP178, the Company's working interests in these Permits (excluding Mereenie and Palm Valley) will be 26.08% and 33.3% respectively.
- An exploration farm-in agreement for AtP 239P in the Galilee Basin of Queensland was signed. The Company may earn up to a 60% interest in about twelve million acres.
- In the Canning Basin of Western Australia the Company believes that it had established rights to a 31% interest in EP114. This permit is adjacent to EP129 upon which the subsequent Blina oil discovery was made. However, with the resultant high interest in the area the permit holders attempted to invalidate the agreement and the matter now rests with the Supreme Court of Western Australia. The unfortunate circumstances surrounding this permit serve to further demonstrate one of the aims of the Company; to become involved early in relatively inactive, yet well located, permit areas and to be involved in their active development.
- Two applications are outstanding for new permit areas, the results of which await respective State Mines Department approval.

GILLIES, Kenneth A.
Managing Director of
Canso Resources, Australia



AMADEUS BASIN (OP 175 & 178)

To date, only twenty-five exploratory wells have been drilled in the vast area covered by OP175 and 178, with the majority of exploration taking place prior to 1970. Modern seismic techniques, in addition to more advanced geological and geochemical concepts will undoubtedly uncover many prospective targets throughout the basin. The group's exploration program has therefore been designed to evaluate both the regional stratigraphic framework of the area in addition to confirming previously defined prospects.

The exploration program commenced late in 1980 with 1,110 miles of seismic being shot by the end of September 1981. The seismic program which extends into 1982, involves 1,860 line miles of seismic. Several prospects have been defined and an ongoing appraisal of the area will continue as new seismic data becomes available. At the time of writing two of the programs ten exploratory wells had been drilled and one was in progress.

Wallaby No. 1, located seventeen miles southeast of Alice Springs, was drilled on an anticlinal feature that was originally identified in 1973 and was more recently outlined by a seismic survey conducted during 1980. The well bottomed at 7,950 feet in August but no economic quantities of hydrocarbons were discovered. However, the immense amount of stratigraphic data obtained from Wallaby will greatly assist in the future evaluation of the eastern portion of the Amadeus Basin.

Dingo No. 1 well is a gas discovery located twenty-five miles southeast of Palm Valley Gas Field in OP-175. It was drilled on a 10,800 acre anticlinal feature having in excess of 600 feet of vertical closure at the Arumbera interval. Log-derived porosities of the Arumbera sandstone ranged between 7% and 11%.

Two drill stem tests carried out on the well were successful in testing gas. On one test, an unstabilized flow of 5 million cubic feet per day decreasing to 1.7 million cubic feet per day was obtained over a period of 32 minutes. This test was taken in a 211 foot interval of the Arumbera Sandstone formation at a depth of between 9,812 feet and 10,023 feet. On another test, a steady gas flow of approximately 1.3 million cubic feet per day was obtained over 75 minutes from an 82 foot interval between 9,799 and 9,881 feet. The well was cased to total depth of 10,146 feet and further evaluations of the reservoir are expected to be conducted.

Mt. Winter No. 1, located forty miles west of the Mereenie oil and gas field in OP 178 was drilling ahead at about 700 feet at the time of this report. The well is being drilled on a broad anticlinal feature with indicated closure of 165 feet covering about 7000 acres. The objectives of this well are the Basal Cambrian sandstones expected at between 4000 and 5000 feet and the Late Proterozoic sediments below 5000 feet. The estimated total depth of Mt. Winter is 8200 feet. Canso will earn a 33.3 % working interest in the well upon completion of this program.

Seismic Crew, Queensland



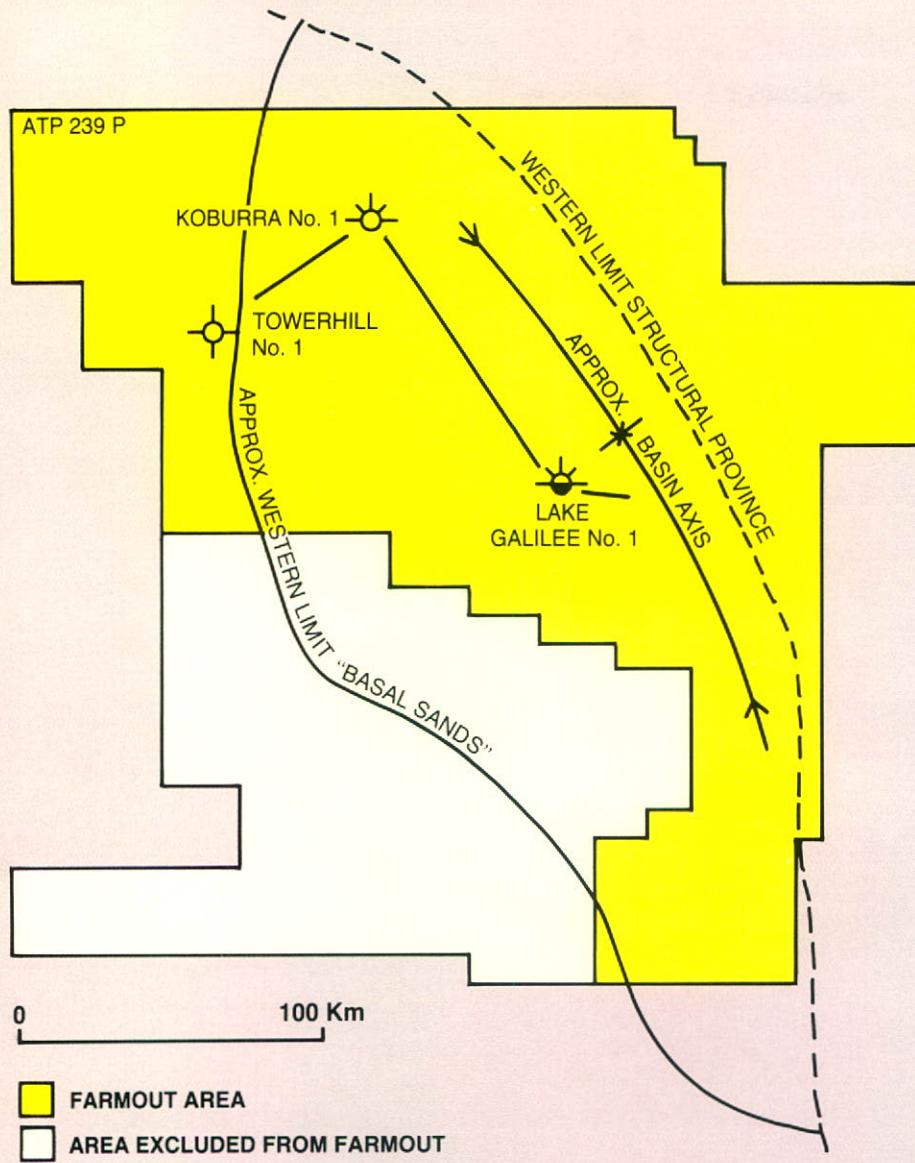
GALILEE BASIN (ATP 239P)

Canso Resources has recently farmed into a portion of Authority to Prospect 239P consisting of approximately 12.2 million acres. Canso, as operator, has the option to earn up to a 60% working interest in the lands by carrying out 2,790 miles of seismic and drilling four wells within the next three years.

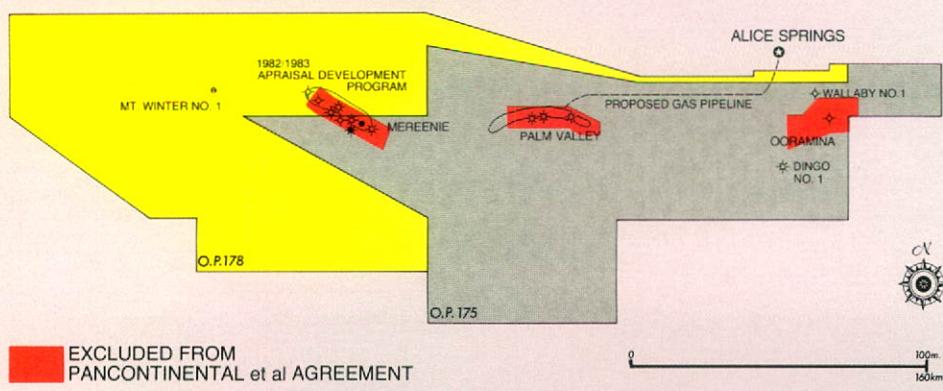
From early geophysical surveys and limited stratigraphic data, it has been determined that up to 18,000 feet of predominantly Continental sediments underly the farmout area.

The Eastern portion of the Galilee Basin is a structural province consisting of numerous large anticlinal features and fault blocks. In the western portion sediments are relatively undisturbed with only gently regional dips. In addition,

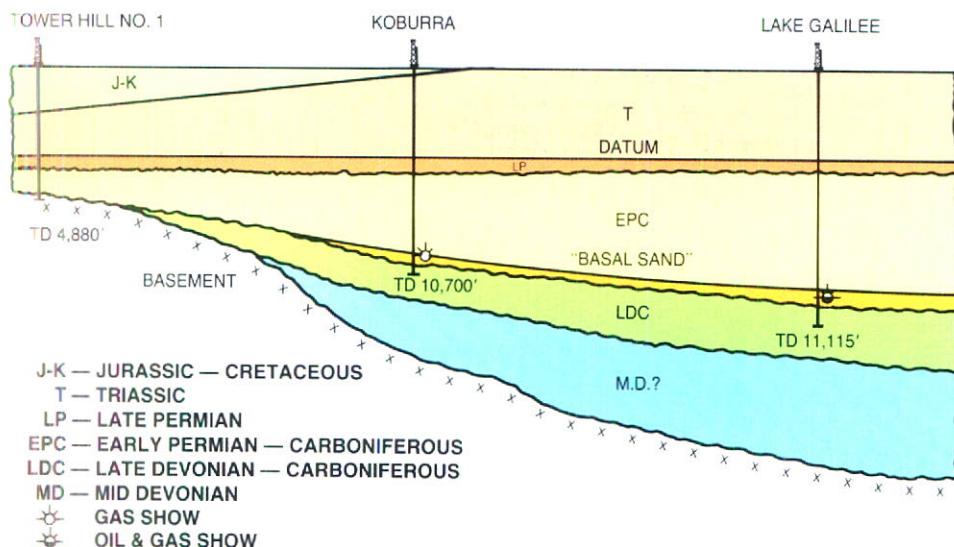
GALILEE BASIN (ATP 239 P)



AMADEUS BASIN (OP 175 & 178)



DIAGRAMMATIC STRATIGRAPHIC CROSS-SECTION ATP 239 P
GALILEE BASIN



there is seismic evidence to suggest that a Middle Devonian marine carbonate sequence underlies most of the farmout area. Also, several anomalies suggestive of reefal buildups have been observed.

During the 1960's, three wells were drilled in the farmout area. At Lake Galilee #1, 10 feet of 43° API oil and small amounts of gas were recovered on a test of the middle portion of an 800 foot sandstone section. Subsequent drill stem tests of the top of this zone failed due to mechanical problems and the well was abandoned. At Koburra #1, gas was encountered while air drilling through the same stratigraphic interval. The gas was flared at the surface and the well abandoned with no further evaluation of the zone.

Canso has contracted two seismic crews which will work in the Galilee area for twelve months. The initial program will consist of approximately 2,480 miles of seismic on a regional grid designed to evaluate the entire farmout area. Work is scheduled to commence in 1981. An additional 310 miles of seismic will be shot to firm up drilling prospects and a 12,000 foot Middle Devonian test is scheduled for 1983.

Immediately to the south and west on adjacent permits, a major international oil company has shot approximately 4,340 miles of seismic and will drill at least four wells of a sixteen-well program by early 1982.

Summary

The status of Canso's Australian interests is extremely encouraging in both an operating and organizational sense. The prospect of generating a meaningful cash flow from Mereenie and Palm Valley to help finance an increased exploration program adds considerable promise to the outlook. Additionally, the Company's current base of operations has been developed to the point where outside financing can be attracted and plans are underway to obtain equity funds from Australian sources.

CARTER, Wayne G.
Vice President, Land & Contracts



LAND

Your Company considers the Land Department to be an autonomous unit and a free-standing profit centre within the organization. This is somewhat different than that found in many companies, but it is considered that land dealings can be a profitable business unto themselves, as well as providing the traditional land functions to the exploration and production departments. United Canso has large land holdings relative to its exploration program. In the future, plans are to utilize this land inventory by the creation of exploration programs and farmout proposals, to encourage drilling by others.

LAND HOLDINGS

	At September 30, 1981	At September 30, 1980		
	GROSS ACRES	NET ACRES	GROSS ACRES	NET ACRES
OIL & GAS				
Arctic Islands	444,867	2,958	2,906,643	23,138
Yukon & N.W.T.	3,185	2,202	3,185	2,202
B.C.	163,133	24,858	158,318	21,564
Alberta	1,007,404	287,467	602,483	168,911
Saskatchewan	212,316	55,968	233,475	50,339
Manitoba	241,894	90,354	2,160	120
CANADA	2,072,799	463,807	3,906,264	266,274
	(839,190)	(187,776)	(1,582,037)	(107,803)
Alaska	942,339	235,585	942,339	235,585
North Dakota	50,453	4,959	50,772	4,992
Montana	122,609	25,840	166,796	29,950
Montana (Royalty)	9,915	—	9,915	—
Texas	22,733	12,492	5,784	2,410
Wyoming	73,700	8,627	75,540	9,318
Oklahoma	39,200	4,493		
Kansas	14,000	7,000		
Louisiana (Offshore)	10,000	900	10,000	900
Louisiana	5,905	289		
Utah	640	160		
UNITED STATES	1,291,494	300,345	1,261,146	283,155
	(522,872)	(121,597)	(510,764)	(114,638)
COLOMBIA S.A.	247,000	61,750		
	(100,000)	(25,000)		
Mereenie	146,500	25,168	146,500	25,168
Palm Valley	151,900	37,033	151,978	37,052
Ooraminna	165,120	24,768	165,076	24,761
Balance of OP175	5,948,169	1,551,128	5,948,169	1,551,282*
Balance of OP178	6,282,027	2,091,914	6,282,027	2,091,915*
Galilee Basin ATP 239P	10,444,160	6,266,496*		
AUSTRALIA	23,137,876	9,996,507	12,693,750	3,730,178
	(9,367,561)	(4,047,169)	(5,140,969)	(1,510,194)
WEST GERMANY				
(Offshore)	200,000	20,000	200,000	20,000
	(81,000)	(8,100)	(81,000)	(8,100)
SPAIN (Offshore)	295,168	27,100	220,000	33,485
	(119,500)	(10,972)	(89,100)	(13,561)
TOTAL OIL & GAS	27,244,337	10,869,509	18,281,160	4,333,092
	(11,030,123)	(4,400,614)	(7,403,870)	(1,754,296)
MINERALS				
(Canada)	30,340	11,609	51,749	15,387
	(12,283)	(4,700)	(20,958)	(6,231)
GRAND TOTAL	27,274,677	10,881,118	18,332,909	4,348,479
	(11,042,406)	(4,405,314)	(7,424,828)	(1,760,527)

* After Completion of certain work programs. Australian holdings are in the process of being converted to direct working interests.
Figures in brackets denote hectares

PRODUCTION

Crude Oil

Canada

In fiscal 1981, gross oil and natural gas liquids production from United Canso's Canadian properties averaged 1842 barrels per day, down 3% from 1980. The reduced production was primarily due to the continuing decline from wells in Boundary Lake, Innes and Smiley-Dewar. The acquisition of Great Basins effective February 1, 1981, added another 240 barrels per day to the average gross oil production rate over the eight month period of 1981's financial year.

At the end of the fiscal year, gross oil production from Canada was about 2100 gross barrels per day, or about 1180 net barrels per day after the deduction of royalties.

United States

The average gross production rate from the United States in fiscal 1981 was approximately 360 barrels per day. The decline in output from established fields in the Powder River Basin of Wyoming was more than balanced by production from new oil wells that were completed in Texas and Utah towards the end of fiscal 1981. The acquisition of J. E. Carter Energy on August 25, 1981, added another 160 gross barrels of oil to the daily production over the last six weeks of the financial year.

Gross oil production from the U.S. was about 520 barrels per day at the financial year end, or about 430 net daily barrels after accounting for royalties and other burdens.

Natural Gas

Canada

Gross gas production from United Canso's properties in Canada during fiscal 1981 declined about 15% to average 9.3 million cubic feet per day. The decrease was due to lower productivity in the Jarrow, Sibbald and Silver areas. The Markerville Gas Unit did not contribute to production as was expected last year. It is now estimated that the first gas deliveries from this Unit will be in 1982 and will initially contribute about 0.3 million cubic feet per day of gross gas sales to Canso.

The acquisitions of Great Basins and Loucol added another 24.4 and 0.5 million cubic feet per day respectively to the average gross production rates for the last eight months of fiscal 1981 for Great Basins and last nine months for Loucol.

At year end, the gross and net production was at a rate of about 34 and 25 million cubic feet per day respectively.

In fiscal 1982, an increase of about 14% in gross production is expected. The single most important source of new production will occur in the Rowley area of Alberta where, gas gathering and compression facilities are now being installed. It is planned to have four gas wells on production by November 1982, delivering about 6.6 million cubic feet per day to Pan-Alberta Gas Ltd. Your Company's share of gross production will initially be 75%.

United States

In the United States the production rate of gas from the platform offshore Louisiana was reduced to about 30 million cubic feet per day. One well had to be shut in because of the production of water. Currently six wells are on stream in West Cameron Blocks 540 and 525. Canso's 9% working interest resulted in average gross gas sales of 3.5 million cubic feet per day during 1981 as compared to 1.4 in fiscal 1980. A decline is expected from this field in 1982 but should be more than offset by new production in the Anadarko Basin of Oklahoma and from the Cotton Valley Project of East Texas.

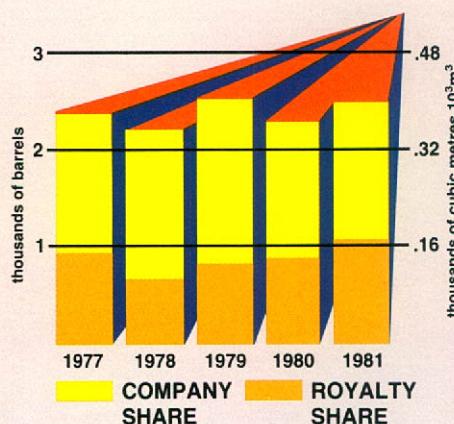
At year end, the gross and net rates of gas production from the U.S. were 3.6 and 2.9 million cubic feet per day respectively.

CYCA, Ronald B.
Vice President Production



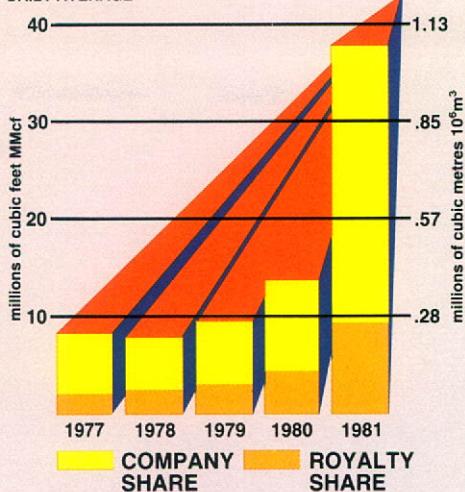
PRODUCTION OF CRUDE OIL & NATURAL GAS LIQUIDS

DAILY AVERAGE



PRODUCTION OF NATURAL GAS

DAILY AVERAGE



RESERVES

CRUDE OIL & NGL (Thousands of Barrels)

	Canada		U.S.A.		Australia		Total	
	Proven	Probable	Proven	Probable	Proven	Probable	Proven	Probable
At Sept. 30, 1980	4,771	1,742	370	220	not available		5,141	1,962
Added by Drilling	48	5	118	17	—	—	166	22
Added by Acquisitions	2,733	134	272	9	—	—	3,005	143
Revision of Prior Estimates	85	(148)	320	(62)	2,718	2,559	3,123	2,349
Production	(730)	—	(131)	—	—	—	(861)	—
At September 30, 1981	6,907	1,733	949	184	2,718	2,559	10,574	4,476
Thousands of cubic metres (10 ³ m ³)	1,098	275	151	29	432	407	1,681	711

NATURAL GAS (Millions of Cubic Feet)

	Canada		U.S.A.		Australia		Total	
	Proven	Probable	Proven	Probable	Proven	Probable	Proven	Probable
At Sept. 30, 1980	70,840	18,647	4,461	1,652	not available		75,301	20,299
Added by Drilling	4,860	699	107	—	—	—	4,967	699
Added by Acquisitions	298,519	14,159	162	—	—	—	298,681	14,159
Revision of Prior Estimates	7,352	(5,853)	529	1,093	85,700	42,000	93,581	37,240
Production	(9,416)	—	(1,288)	—	—	—	(10,704)	—
At September 30, 1981	372,155	27,652	3,971	2,745	85,700	42,000	461,826	72,397
Millions of cubic metres (10 ⁶ m ³)	10,532	783	112	78	2,425	1,189	13,069	2,050

All amounts are gross before royalty.

Australian reserves are in the process of being converted to direct working interests.

The crude oil and natural gas reserves of the Company have been evaluated by independent petroleum engineering companies. 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.

DRILLING

Your Company participated in 88 wells during the past fiscal year of which 61 wells were productive for a success rate of 69%.

	1981								1980							
	Oil		Gas		Dry		Total		Oil		Gas		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
EXPLORATORY																
Canada	3	0.2	11	2.0	11	4.8	25	7.0	8	1.6	16	3.3	57	7.7	81	12.6
U.S.A.	13	5.8	4	1.2	7	0.3	24	7.3	3	0.2	—	—	4	0.7	7	0.9
Spain	—	—	—	—	1	0.1	1	0.1	—	—	—	—	1	0.3	1	0.3
Australia	—	—	—	—	1	0.3	1	0.3	—	—	—	—	—	—	—	—
Colombia	—	—	—	—	1	0.3	1	0.3	—	—	—	—	—	—	—	—
Sub-Total	16	6.0	15	3.2	21	5.8	52	15.0	11	1.8	16	3.3	62	8.7	89	13.8
DEVELOPMENT																
Canada	—	—	21	15.5	4	2.1	25	17.6	10	6.0	9	2.0	5	3.5	24	11.5
U.S.A.	9	4.1	—	—	2	0.9	11	5.0	17	3.7	—	—	1	0.1	18	3.8
Sub-Totals	9	4.1	21	15.5	6	3.0	36	22.6	27	9.7	9	2.0	6	3.6	42	15.3
GRAND TOTAL	25	10.1	36	18.7	27	8.8	88	37.6	38	11.5	25	5.3	68	12.3	131	29.1

In addition, 15 wells were drilling at year end. Canso was the Operator of 24 wells out of the total 88 drilled in 1981. It is anticipated that the Company will be the Operator of a greater percentage of the wells drilled in the future.

INDUSTRIAL

The Industrial Division was created in 1981 as a profit center engaged in providing services and capital goods to the U.S. and Canadian oil industry. Your management believes that above-average returns on investment are obtainable from participating in this general field if the involvement is specialized but flexible. All of Canso's subsidiaries in the Industrial Division are wholly owned.

Lift Systems International was acquired in 1981 as a going concern and is engaged in the manufacturing of a range of pumping units that are in general use in the oil industry. LSI services both the Canadian and the U.S. markets from a plant located in Maidstone, Saskatchewan but once further penetration of the U.S. market has been achieved, LSI expects to start-up an assembly plant in Texas. The current staffing number is 27.

Heritage Industries Ltd. is an economically viable iron foundry located in Winkler, Manitoba. This company, with a workforce of 50, makes parts for LSI and fills-out its capacity with ductile and grey iron castings for agricultural equipment and heavy construction equipment manufacturers. The foundry has recently been expanded to broaden the product line as well as to improve operating efficiency.

McCullough Ditching & Welding Ltd. is a pipeline contractor which installs various sizes of gas and oil gathering and transmissions lines in the Western Canadian Provinces. The magnitude of jobs typically undertaken range from \$750,000 to \$3 million. McCullough has a staff of 6 permanent employees and has had experience in managing an additional 180 temporary employees. As of the end of November 1981 McCullough was working at 100% capacity.

Burl Construction Ltd. is a relatively new wholly-owned subsidiary of McCullough which contracts for construction of gas plants and compressor stations in the Western Provinces. Burl employs a permanent staff of four specialists.

HOOPER, William L.
Vice President Industrial



FINANCIAL

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED
CANSO
OIL & GAS
LTD.

The following analysis should be read in conjunction with the Consolidated Financial Statements and Notes. Trends in the Company's earnings, revenues, cash flow and capital expenditures are highlighted in the accompanying graphs and further trends appear in the five-year statistical review at the back of this report.

The Board of Directors has approved a significant change in the Company's method of accounting for its oil and gas operations to the full cost method from the successful efforts method. The United States Securities and Exchange Commission has recently permitted such a change. The Company believes the full cost method more accurately reflects the results of its substantial exploration activity and it is by far the most commonly used method of financial reporting by comparable Canadian oil and gas companies. This new method is described in Note 1(d) to the Consolidated Financial Statements. All prior year financial figures have been restated in this Annual Report to reflect the change to full cost accounting.

1981 COMPARED WITH 1980

The acquisition of Great Basins Petroleum Ltd., effective February 1, 1981, has resulted in substantial changes in the operations and financial position of the Company in fiscal 1981. United Canso's entry into the oilfield construction and manufacturing industry, effective January 1, 1981, created further changes.

Earnings

United Canso recorded net earnings (after extraordinary items) for the year ending September 30, 1981 of \$196,000 or 3 cents per share compared with a net loss of \$477,000 or 7 cents per share in 1980. Reference should be made to Note 14 to the Consolidated Financial Statements, in which segmented information including operating income, revenues and assets by industry segments and geographic areas is provided.

Revenues

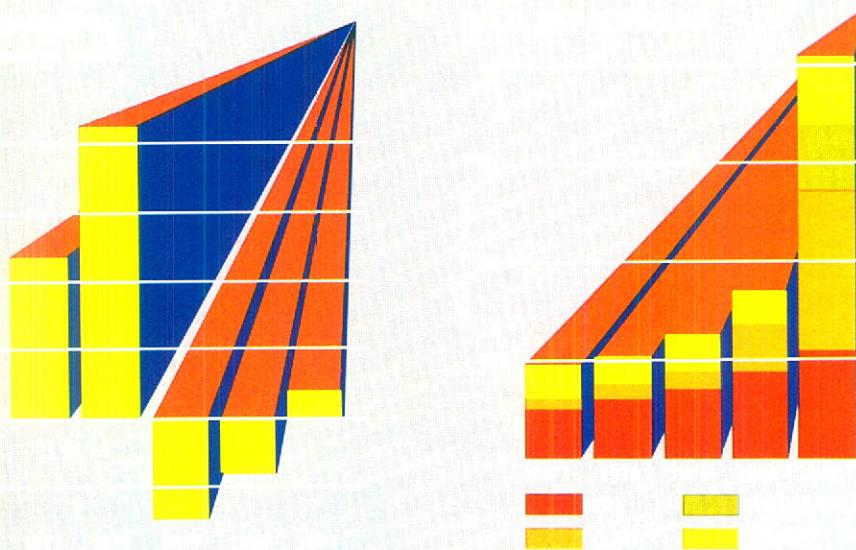
Total revenues for the year ended September 30, 1981, were up 141% to \$41.5 million compared with \$17.2 million the year before. Of the increase of \$24.3 million, Great Basins accounted for \$10.8 million, substantially all from the sale of natural gas. In addition U.S. gas revenues increased \$1.0 million to \$3.1 million and U.S. oil revenues were up \$1.0 million at \$3.9 million. Canadian oil revenues were up \$0.8 million at \$6.5 million and Canadian gas sales, other than Great Basins, were basically unchanged at \$3 million in 1981. The industrial sector accounted for \$7.9 million of revenues, while interest income increased \$2.8 million to \$5.5 million as a result of higher interest rates and larger amounts invested.

Expenses

Total expenses exclusive of income taxes, increased 108% in the current year from \$17.8 million to \$37 million, reflecting acquisitions and increased production. Operating expenses were up \$0.9 million primarily due to the addition of the Great Basins field office and an expanded engineering group. The Canadian federal government's new Petroleum and Gas Revenue Tax (introduced January 1, 1981), which is not deductible for income tax purposes, cost the Company \$1.9 million. The cost of goods sold in the industrial sector added \$7.6 million to expenses. General and administrative expenses increased \$1.5 million in 1981 to \$5.4 million, due primarily to industrial selling and administrative expenses of \$0.9 million and the addition of Great Basins administrative salaries and expenses of \$0.7 million. Interest of \$6.0 million on long term debt was incurred for the first time in 1981, following the issue of \$50

WALKER, David C.
Vice President Finance





million of convertible debentures in late May, 1981 and a drawdown on the Company's bank line of credit of \$130 million on September 1, 1981 to finalize the Great Basins acquisition. Depletion and depreciation of \$11.5 million in 1981 was an increase of \$2.2 million over the prior year and includes a provision of \$3.9 million for impairment in the carrying value of certain properties, primarily in Colombia, South America and \$2.1 million for depletion of the cost of Great Basins properties. The change in the computation of depletion and depreciation to the production revenue basis from the production quantity basis reduced the 1981 provision by \$3.2 million.

Income Taxes

The total provision for income taxes of \$4.3 million in 1981 was up substantially from \$0.1 million last year. The effective consolidated tax rate of 96% on pretax earnings of \$4.5 million is primarily attributed to the new Petroleum and Gas Revenue Tax and provincial Crown royalties which are not deductible for income tax purposes, as well as losses of subsidiaries which cannot be offset against earnings of other companies in the consolidated group. Further details of the income tax provision are included in Note 7 to the Consolidated Financial Statements.

Extraordinary Items

These are summarized in Note 13 to the Consolidated Financial Statements.

Changes in Financial Position

Funds Generated from Operations and other Sources

As reported in the Consolidated Statement of Changes in Financial Position, funds generated from operations increased 58.5% to \$15.9 million or \$2.39 per share in 1981 from \$10.0 million or \$1.53 per share in the prior year. Great Basins cash flow for the eight months of Canso's ownership was \$6.2 million. The other major source of funds in 1981 was \$189.2 million proceeds from long term financings of which \$50 million was from the 10½% convertible debentures and \$136.1 million was a drawdown against the \$175 million bank line-of-credit.

The proceeds from the exercise of share options and incentives of \$3.8 million was up from \$0.5 million in 1980. Of these proceeds \$3.5 million was financed by loans from the Company to the employees qualifying for the equity incentive plan.

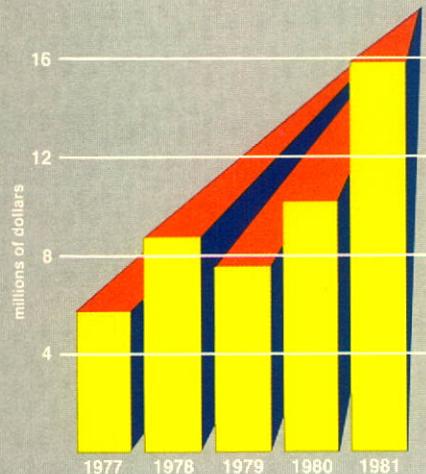
Acquisitions and other Capital Expenditures

The acquisition of the three Great Basins companies was designed to increase and significantly extend the cash flow base of the Company through the substantial natural gas reserves of Great Basins which have an economic life of over forty years. Despite the failure of the Canadian federal and Alberta

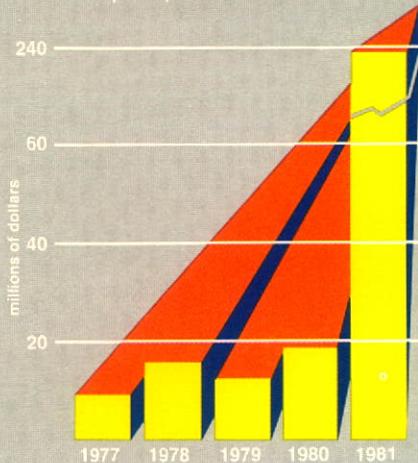
Heritage Foundry, Manitoba



FUNDS GENERATED FROM OPERATIONS



CAPITAL EXPENDITURES (including investments & advances to affiliated companies)



provincial energy pricing agreement to provide additional revenues to the industry, this acquisition will still produce healthy cash flows in the future. Net operating income from proved reserves of the Great Basins companies is forecast, by independent engineering consultants, to increase over the next five years from \$16 million in 1982 to \$35 million by 1986. With the Company's present financing structure and current high interest rates, however, the Great Basins cash flow is projected to be just sufficient to cover the financing costs of the acquisition over the next two years.

United Canso's cash flow from its other properties and the unused portion at September 30, 1981 of some \$40 million of the bank line-of-credit of \$175 million, is still available for ongoing exploration and development activities. The Company has budgeted oil and gas related capital expenditures of up to \$46 million for the 1982 fiscal year, of which approximately \$8 million will be expended in Canada, \$20 million in the United States, \$15 million in Australia and \$3 million in other foreign countries.

The industrial segment including Lift Systems International, Heritage Industries Ltd. and McCullough Ditching & Welding Ltd. were acquired effective January 1, 1981 at a cost of \$4.1 million and are expected to take a further year of development before becoming profitable. This delay is primarily due to the current slowdown in the exploration and development activities of the oil and gas industry in Canada. During the nine months to September 30, 1981 this segment had net losses of \$1.2 million.

In addition to acquisitions, other capital expenditures amounted to \$57.6 million in the year ending September 30, 1981 compared to \$15.0 million the year before. Of the current year's expenditures \$20.4 million was for land acquisitions, \$23.6 million for exploration, \$5 million for development and \$8.6 million for real estate and other tangible assets. Note 15 to the Consolidated Financial Statements provides a geographic breakdown of the oil and gas related expenditures. All of the non oil and gas expenditures related to assets in Canada.

Working Capital

The acquisitions, capital expenditures and other applications of funds for the current year totalling \$243.3 million exceeded funds generated from operations, proceeds of long term financings and other sources of funds totalling \$210.3 million, by \$33 million. This shortfall had the effect of converting working capital of \$23.8 million at the start of the fiscal year to a \$9.2 million working capital deficiency at September 30, 1981. The Company's available bank credit lines of some \$40 million at year-end more than cover this deficiency.

1980 COMPARED WITH 1979

Earnings

United Canso recorded a net loss for the 1980 fiscal year of \$477,000 or 7 cents per share down from a loss of \$745,000 or 11 cents per share in 1979.

Revenues

In 1980, production revenues amounted to \$13.9 million compared to \$8.6 in the prior year. The increase of 61% was due to increased natural gas production in Canada and the United States, and higher prices for both crude oil and natural gas.

Expenses

Total expenses, including income taxes, increased significantly to \$17.9 million in fiscal 1980 from \$14.1 million in the prior year, up 27%. Operating expenses were higher by \$1.1 million at \$3.6 million, reflecting the increased natural gas production and higher costs of producing U.S. offshore gas. Depletion and depreciation of \$9.3 million was up \$3.6 million over 1979 due mainly to the start of depletion of the U.S. offshore platform and equipment and the write-off of costs related to the abandonment of the Delta J permit in Spain. General and administrative expenses in 1980 totalled \$3.9 million, an increase of \$0.8 million from the year before. This increase was attributable to the costs incurred by the prior management in the proxy fight for control of the Board and related litigation. The provision for income taxes was down to \$0.1 million from \$1.9 million in 1979.

INFLATION ACCOUNTING

In December, 1981 the Canadian Institute of Chartered Accountants issued an Exposure Draft entitled Reporting the Effects of Changing Prices which proposes the adoption of an accounting model designed to eliminate the distorting effects of inflation on financial statements. As no accounting recommendation on this subject has yet been issued by the Institute and also due to the special problems which relate to the treatment of oil and gas assets, the Company has decided not to publish any inflation accounting data.

SUMMARY OF QUARTERLY FINANCIAL RESULTS (unaudited) For The Years Ended September 30, 1981 and 1980 (thousands of Canadian dollars, except per share amounts)

	Funds Generated from Operations				Earnings (Loss) before Extraordinary Items		Net Earnings / (Loss)	
	Total Revenues		1981		1981	1980	1981	1980
	1981	1980	1981	1980				
First Quarter.....	\$ 5,577	\$ 3,451	\$ 4,015	\$ 2,224	\$ 2,152	\$ 322	\$ 2,669	\$ 322
Second Quarter.....	11,805	3,772	5,645	2,895	1,778	(547)	1,024	(547)
Third Quarter.....	11,729	4,027	5,101	942	1,134	(1,622)	1,451	(1,622)
Fourth Quarter.....	12,341	5,971	1,148	3,976	(4,893)	1,196	(4,948)	1,370
Year.....	<u>\$41,452</u>	<u>\$17,221</u>	<u>\$15,909</u>	<u>\$10,037</u>	<u>\$ 171</u>	<u>\$ (651)</u>	<u>\$ 196</u>	<u>\$ (477)</u>

	Market Prices of Common Shares*				Earnings (Loss) per share before Extraordinary Items		Earnings/(Loss) Per Share	
	1981		1980		1981	1980	1981	1980
	High	Low	High	Low				
First Quarter.....	\$25.38	\$20.00	\$21.00	\$11.25	\$ 0.33	\$ 0.05	\$ 0.40	\$ 0.05
Second Quarter.....	29.88	19.38	30.00	13.00	0.27	(0.08)	0.16	(0.08)
Third Quarter.....	30.00	23.50	25.00	16.00	0.17	(0.25)	0.22	(0.25)
Fourth Quarter.....	24.50	12.88	27.00	21.00	(0.72)	0.18	(0.73)	0.21
Year.....	30.00	12.88	30.00	11.25	0.03	(0.10)	0.03	(0.07)

1980 and first three quarters of 1981 restated to reflect the change to full cost accounting for oil and gas operations

*As quoted by the Toronto Stock Exchange

CONSOLIDATED STATEMENT OF EARNINGS

Three years ended September 30, 1981

(thousands of Canadian dollars, except share and per share amounts)

	1981	1980	1979
		(Restated)	(Restated)
Revenue			
Crude oil	\$ 10,733	\$ 8,470	\$ 6,743
Natural gas	16,621	5,385	1,843
Industrial	7,886		
Interest	5,489	2,685	2,861
Other	723	681	1,859
	<u>41,452</u>	<u>17,221</u>	<u>13,306</u>
Expenses			
Operating			
Oil and gas	4,498	3,624	2,487
Petroleum and gas revenue tax	1,922		
Industrial	7,627		
General and administrative	5,416	3,868	3,030
Interest on long term debt	5,952		
Depletion and depreciation	11,500	9,331	5,772
Equity in earnings of affiliates	85	973	879
	<u>37,000</u>	<u>17,796</u>	<u>12,168</u>
Earnings (loss) before income taxes and extraordinary items	4,452	(575)	1,138
Provision for income taxes (Note 7)			
Current	128	120	540
Deferred	4,153	(44)	1,343
	<u>4,281</u>	<u>76</u>	<u>1,883</u>
Earnings (loss) before extraordinary items	171	(651)	(745)
Extraordinary items (Note 13)	25	174	
Net earnings (loss)	<u>\$ 196</u>	<u>\$ (477)</u>	<u>\$ (745)</u>
Earnings (loss) per share			
Before extraordinary items	\$.03	\$ (.10)	\$ (.11)
After extraordinary items	\$.03	\$ (.07)	\$ (.11)
Weighted average number of shares outstanding	<u>6,645,526</u>	<u>6,574,796</u>	<u>6,536,114</u>

See accompanying notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Three years ended September 30, 1981

(thousands of Canadian dollars)

	1981	1980	1979
		(Restated)	(Restated)
Balance at beginning of year			
As previously reported	\$21,448	\$37,577	\$38,743
Adjustment to conform to full cost method of accounting (Note 2)	5,515	4,020	3,599
As restated	26,963	41,597	42,342
Net earnings (loss)	196	(477)	(745)
Stock dividend		(14,157)	
Balance at end of year	<u>\$27,159</u>	<u>\$26,963</u>	<u>\$41,597</u>

See accompanying notes

CONSOLIDATED BALANCE SHEETS

September 30, 1981 and 1980

(thousands of Canadian dollars)

		ASSETS	
		1981	1980
		(Restated)	
Current			
Cash		\$ 101	
Marketable securities, at cost (which approximates market)		24,537	
Accounts receivable		\$ 21,201	5,985
Inventories		7,354	122
Other assets		487	272
		<hr/> 29,042	<hr/> 31,017
 Investments and advances (Note 3)		10,341	6,947
 Property and equipment			
(including oil and gas properties accounted for by the full cost method) (Notes 2 and 4)		271,619	39,104
		<hr/>	<hr/>
		\$311,002	\$77,068

On Behalf of the Board:

Director

T. J. Jacobsen

Director

J. Duby

LIABILITIES AND SHAREHOLDERS' EQUITY

	1981	1980
		(Restated)
Current		
Bank indebtedness	\$ 7,761	
Accounts payable	19,722	\$ 4,568
Accrued liabilities	7,696	2,106
Deferred income taxes (Note 7)		603
Long term debt due within one year (Note 6)	3,096	
	<u>38,275</u>	<u>7,277</u>
Long term debt (Note 6)	<u>191,191</u>	
Deferred revenue	<u>2,825</u>	
Deferred income taxes (Note 7)	<u>9,689</u>	<u>6,120</u>
 Shareholders' equity		
Share capital (Note 8)	6,871	6,590
Contributed surplus (Note 8)	<u>34,992</u>	<u>30,118</u>
	41,863	36,708
Retained earnings	<u>27,159</u>	<u>26,963</u>
	<u>69,022</u>	<u>63,671</u>
 Contingencies (Note 9)		
	<u><u>\$311,002</u></u>	<u><u>\$77,068</u></u>

See accompanying notes

AUDITORS' REPORT

To the Shareholders of
United Canso Oil & Gas Ltd.

We have examined the consolidated balance sheets of United Canso Oil & Gas Ltd. as at September 30, 1981 and 1980 and the consolidated statements of earnings, retained earnings, and changes in financial position for the three years ended September 30, 1981. 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, 1981 and 1980 and the results of its operations and the changes in its financial position for the three years ended September 30, 1981 in accordance with accounting principles generally accepted in Canada consistently applied after giving retroactive effect to the change, with which we concur, in the method of accounting for oil and gas operations as described in Note 2.

Calgary, Canada
December 14, 1981

Clarkson Gordon
Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Three years ended September 30, 1981
 (thousands of Canadian dollars)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1981

1. Summary of significant accounting policies

The financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada which are substantially in conformity with accounting principles generally accepted in the United States. 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. The excess consideration paid for the shares of subsidiaries over their net book values at dates of acquisition has been attributed to the related property and equipment.

b) Inventories

Inventories are valued at the lower of average cost and net realizable value.

c) Investments

Investments in United Canso Oil & Gas Co. (N.T.) Pty. Ltd. and Magellan Petroleum (N.T.) Pty. Ltd. are accounted for by the equity method. Under this method the investments are carried at cost plus equity in undistributed earnings since acquisition. Other investments are carried at cost and income is recorded only as dividends are declared.

d) Property and equipment

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized in the following cost centres: Canada, the United States, Australia, Spain and Colombia. Such costs include land acquisition costs, geological and geophysical expense, interest and other carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. No gains or losses are recognized upon disposition of oil and gas properties accounted for under the full cost method.

Other property and equipment is carried at cost. Investment tax credits related to equipment are recorded as a reduction of costs.

e) Depletion and depreciation

The introduction of the National Energy Program in Canada and the signing of the related Energy Pricing and Taxation Agreements have led the Company to conclude that, effective October 1980, it is more appropriate to provide for depletion and depreciation of capitalized oil and gas costs based on production revenues rather than on production quantities. Accordingly, depletion and depreciation charges included in these financial statements have been calculated at rates for each cost centre based on the proportion of current production revenues to current and estimated future revenues from proved reserves as determined by independent reservoir engineers. Estimated future revenues in Canada are based on prices contained in the Energy Pricing and Taxation Agreements and in the United States on current prices except for changes provided by contractual agreements. As a result, the provision for depletion and depreciation of capitalized oil and gas costs for the year ended September 30, 1981 is \$3,215,000 less than it would have been had the calculation been based on reserve quantities. In prior years, the provision was computed on the composite unit-of-production method based on proved reserves of oil and gas quantities.

Certain undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be ascertained through further exploration.

Depreciation of other property and equipment is provided on the straight line basis at rates based on the estimated useful lives of the assets ranging from four to twenty years.

f) 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 to earnings. At September 30, 1981 no mining projects had entered the commercial production stage.

1. Accounting Policies (continued)

g) Joint venture accounting

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

h) Foreign currency translation

Current assets and current liabilities of foreign subsidiaries are translated into Canadian dollars at year-end rates of exchange. Long term assets and liabilities are translated at rates in effect at the dates the assets were acquired or the obligations incurred. 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 the three years ended September 30, 1981 were not significant.

i) Deferred revenue

Payments received for undelivered gas are deferred and are recognized as revenue when deliveries are made or on expiry of the period allowed for such deliveries.

j) 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 allowances and exploration, development and lease acquisition costs permitted by income tax legislation in excess of the related depletion and depreciation provided in the accounts.

k) Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding during the year. The calculation of earnings per share on a fully diluted basis assumes conversion of all obligations and exercise of all share options which in 1981 had no dilutive effect on earnings per share.

2. Change in accounting

During the year the Company retroactively changed its method of accounting for oil and gas operations to the full cost method as described in Note 1 (d) from the successful efforts method. The Company believes this method more accurately reflects its acquisition and exploration activities. The result of this change for 1981 was to increase net earnings by \$6,382,000 (\$.96 per share) (1980 — \$1,490,000, \$.23 per share; 1979 — \$481,000, \$.07 per share) and as at September 30, 1980 to increase retained earnings by \$5,515,000, property and equipment by \$6,271,000, and deferred income taxes by \$756,000.

3. Investments and advances

	1981	1980
	(thousands of Canadian dollars)	
Australian companies		
United Canso Oil & Gas Co. (N.T.) Pty. Ltd.		
Equity, (40%)	\$ 83	\$ 127
Advances	1,196	1,122
	<hr/> 1,279	<hr/> 1,249
Magellan Petroleum (N.T.) Pty. Ltd.		
Equity, (30%)	659	700
Advances	1,479	1,423
	<hr/> 2,138	<hr/> 2,123
Total Australian companies	3,417	3,372
Other investments (cost)		
Quoted (market value 1981 — \$3,263;		
1980 — \$4,837)	3,218	1,255
Unquoted	3,706	2,320
	<hr/> \$10,341	<hr/> \$6,947

4. Property and equipment

	Investment at Cost	Accumulated Depletion and Depreciation	Net Investment 1981	Net Investment 1980
(thousands of Canadian dollars)				(Restated)
Oil and gas properties, including exploration, development and production equipment expenditures	\$294,178	\$35,813	\$258,365	\$37,221
Industrial operations	4,081	630	3,451	
Mineral interests	911		911	1,155
Other property and equipment	9,603	711	8,892	728
	<u>\$308,773</u>	<u>\$37,154</u>	<u>\$271,619</u>	<u>\$39,104</u>

Costs of certain undeveloped properties (Australia, Colombia, Spain and the Oklahoma and Texas areas of the United States) which have been excluded from the depletion calculation during the year amounted to \$26,853,000 (1980 — \$170,000). Interest of \$644,000 (1980 — nil; 1979 — nil) relating to these undeveloped properties has been capitalized during 1981. Depletion and depreciation includes a provision of \$3,872,000 (1980 — \$2,375,000; 1979 — \$1,218,000) for impairment in the carrying value of oil and gas properties.

The following summarizes property and equipment by geographic area:

	1981	1980
(Restated)		
(thousands of Canadian dollars)		
Canada	\$212,875	\$27,973
United States	51,567	10,961
Other foreign	7,177	170
	<u>\$271,619</u>	<u>\$39,104</u>

5. Acquisitions

During the year the Company acquired the shares of several companies engaged in oil and gas exploration and development and industrial operations, which acquisitions have been accounted for by the purchase method. The details of the transactions are as follows:

	Great Basins Group	Other	Total
(thousands of Canadian dollars)			
Net non-current assets acquired:			
Property and equipment	\$164,604	\$21,805	\$186,409
Long term debt assumed	(3,613)	(1,520)	(5,133)
Deferred revenue	(2,033)	(62)	(2,095)
	<u>158,958</u>	<u>20,223</u>	<u>179,181</u>
Shares issued in exchange		(1,327)	(1,327)
	<u>158,958</u>	<u>18,896</u>	<u>177,854</u>
Working capital (deficiency)	6,473	(15,973)	(9,500)
Net purchase price financed principally by long term debt	<u>\$165,431</u>	<u>\$ 2,923</u>	<u>\$168,354</u>

Other acquisitions include the shares of Loucol Petroleum Ltd. exchanged for 90,000 shares of the Company at a market value of \$1,327,000.

The excess of the purchase price over the net book value of assets acquired of \$113,415,000 has been attributed to property and equipment and is being depleted and depreciated in accordance with the policy described in Note 1 (e).

6. Long term debt

	1981
Bank production loans	(thousands of Canadian dollars)
In Canadian funds with interest	
at bank prime rate	\$ 75,734
In U.S. funds with interest at the	
London Interbank Offered Rate plus 3/4%	
(U.S.\$50,000,000)	\$ 60,340
10½% convertible subordinated debentures	
due May 31, 1996	50,000
Other	8,213
	<u>194,287</u>
Less amounts due within one year	3,096
	<u>\$191,191</u>

During the year the Company arranged a line-of-credit of \$175,000,000 to finance exploration and development and the acquisition of the Great Basins Group of companies. The bank production loans advanced under this line-of-credit are revolving and have no specified terms of repayment. Accordingly, none of the production loans have been classified as a current liability at September 30, 1981.

The bank has the option until July 13, 1983 to convert the production loans to common shares of the Company at a price established by formula prescribed in the loan agreement. Should the Company not accept the conversion option, the interest rates on the aggregate outstanding loan amount in excess of \$55,000,000 will be increased to the bank prime rate plus 1/4% and the London Interbank Offered Rate plus 1%. The Company has the option at any time to convert the loans to a term loan repayable over a period of up to ten years. Should the Company not comply with certain conditions defined in the loan agreement, the loans shall convert to a ten year term.

As security for the production loans, the Company has pledged certain oil and gas properties, has assigned production revenue from those properties, has made a general assignment of book debts and has issued a floating charge debenture on its assets. Furthermore, the loans contain restrictions concerning, among other things, the payment of dividends, the disposition of oil and gas properties and the assumption of additional debt.

The 10½% convertible subordinated debentures are unsecured and are convertible into common shares of the Company up to May 31, 1991 at a price of \$31.625 per share. The debentures are redeemable at any time at the Company's option at 108% prior to June 1, 1984 and at declining prices thereafter. Commencing on May 31, 1992 the Company is required to provide a sinking fund for redemption in an annual amount not less than 5% nor more than 7% of the debentures outstanding on May 31, 1991.

Production bank loans repayable in U.S. dollars have been translated at the rates of exchange in effect at the dates the obligations were incurred, which method differs from that generally accepted in the U.S. The effect of the difference at September 30, 1981 is not significant.

Approximate instalments of long term debt due in each of the years 1982 to 1986 are:

1982 — \$3,096,000 ; 1983 — \$2,090,000 ; 1984 — \$241,000 ;
1985 — \$ 259,000 ; 1986 — \$ 277,000.

7. Income taxes

Deferred income taxes were provided as follows:

	1981	1980	1979
	(Restated)	(Restated)	
Excess of exploration and development expenditures claimed for tax purposes over depletion provided in the accounts	\$3,930	\$ 194	\$1,204
Excess of income tax capital cost allowance over depreciation provided in the accounts ..	812	250	562
Foreign exchange transactions	(547)	(105)	(298)
Other net	(42)	(383)	(125)
	<u>\$4,153</u>	<u>\$ (44)</u>	<u>\$1,343</u>

7. Income Taxes (continued)

The Company's U.S. oil and gas subsidiaries have non-capital loss carryforwards of approximately U.S. \$1,520,000 at September 30, 1981 to offset future taxable income, of which U.S. \$1,249,000 expires in 1984, and U.S. \$271,000 expires in 1985. In addition, investment tax credits of U.S. \$420,000 are available to reduce future federal tax liabilities. The Company's industrial subsidiaries have non-capital loss carryforwards of approximately \$1,193,000 which expire in 1986. 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:

	1981	1980	1979
	(Restated)		(Restated)
	(thousands of Canadian dollars)		
Earnings (loss) before income taxes and extraordinary items	<u>\$4,452</u>	<u>\$ (575)</u>	<u>\$1,138</u>
Average statutory tax rate	47.8%	47.4%	46.0%
Computed "expected" income tax expense	<u>\$2,128</u>	<u>\$ (272)</u>	<u>\$ 523</u>
Increase in income taxes resulting from			
Non-deductible crown royalties and other payments	3,524	2,298	1,999
Federal resource allowance	(2,522)	(1,226)	(983)
Non-deductible petroleum and gas revenue tax	926		
Provincial allowances and rebates	119	(556)	(512)
Losses of subsidiaries	472		826
Non-deductible depletion and depreciation	663		
Other non-deductible expenses	158	471	286
	<u>3,340</u>	<u>987</u>	<u>1,616</u>
Decrease in income taxes resulting from			
Earned depletion allowance	(810)	(497)	(577)
Reassessment of income taxes	(347)	(110)	188
Other	(30)	(32)	133
	<u>(1,187)</u>	<u>(639)</u>	<u>(256)</u>
Actual income tax provision	<u>\$4,281</u>	<u>\$ 76</u>	<u>\$1,883</u>

The components of income before income taxes between domestic and foreign categories together with related income taxes are set out below.

	1981		
	Canada	U.S.	Total
Earnings (loss) before income taxes and extraordinary items	<u>\$ 2,602</u>	<u>\$1,850</u>	<u>\$4,452</u>
Provision for income taxes			
Current	\$ 128	\$	\$ 128
Deferred	3,258	895	4,153
	<u>\$ 3,386</u>	<u>\$ 895</u>	<u>\$4,281</u>
	1980		
	Canada	U.S.	Total
Earnings (loss) before income taxes and extraordinary items	<u>\$(1,104)</u>	<u>\$ 529</u>	<u>\$ (575)</u>
Provision for income taxes			
Current	\$ 120	\$	\$ 120
Deferred	(218)	174	(44)
	<u>\$ (98)</u>	<u>\$ 174</u>	<u>\$ 76</u>

7. **Income Taxes** (continued)

	1979		
	Canada	U.S.	Total
Earnings (loss) before income taxes and extraordinary items	<u>\$2,858</u>	<u>\$(1,720)</u>	<u>\$1,138</u>
Provision for income taxes			
Current	\$ 540		\$ 540
Deferred	1,343		1,343
	<u>\$1,883</u>		<u>\$1,883</u>

8. **Share capital**

a) **Authorized**

On March 11, 1981 the Shareholders of the Company approved special resolutions eliminating the restrictions that limited each person to voting no more than 1,000 shares and altering authorized share capital to:

10,000,000 preferred shares, par value \$10 per share (1980 — nil) and,

25,000,000 common shares, par value \$1 per share (1980 — 12,000,000)

b) **Issued**

	Number of common shares	Share capital, \$1 par value	Contributed surplus	Total
(thousands of Canadian dollars)				
Balance at				
September 30, 1979	5,938,312	\$ 5,938	\$ 16,097	\$ 22,035
Shares issued				
Exercise of share options	54,300	54	496	550
Stock dividend	597,802	598	13,525	14,123
Balance at				
September 30, 1980	6,590,414	6,590	30,118	36,708
Shares issued				
Equity Incentive Plan	157,000	157	3,299	3,456
Incentive Stock Option Plan	33,700	34	338	372
Acquisitions (Note 5)	90,000	90	1,237	1,327
Balance at				
September 30, 1981	<u>6,871,114</u>	<u>\$ 6,871</u>	<u>\$ 34,992</u>	<u>\$ 41,863</u>

c) **Share options and incentives**

The Board of Directors of the Company approved an Equity Incentive Plan for Key Employees (New Plan) effective July 13, 1981. The New Plan provides that an employee who is granted an award may choose either share options, or a share purchase combined with an interest free loan from the Company or a combination of the two. As the funds from such interest free loans are used to purchase treasury shares, no outlay of funds is effectively made by the Company. All options and purchases are at 95% of market price. Options become 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 effective vesting on shares purchased under the New Plan is over the same three year period.

The Company's previous Incentive Stock Option Plan (Old Plan) will no longer be available for awards. Those employees whose shares were fully exercisable under the Old Plan are able to exercise their options within five years of their award, up to March 5, 1983. Those employees whose shares were not fully exercisable surrendered their options under the Old Plan and were granted awards under the New Plan. All options outstanding under the Old Plan are exercisable at \$10.125.

The Company is assessing the effect of changes introduced in the recent Canadian Federal Budget and the need to revise the terms and conditions of the existing plans as a result of these changes.

8. Share Capital (continued)

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

	Old Plan			New Plan		
	Officers	Employees	Total	Officers	Employees	Total
Outstanding at September 30, 1979 . . .	36,000	65,000	101,000			
Granted at \$15.91	10,000		10,000			
Exercised at \$10.12	(9,000)	(45,300)	(54,300)			
Surrendered and cancelled		(3,200)	(3,200)			
Outstanding at September 30, 1980	37,000	16,500	53,500			
Granted	122,700	18,650	141,350		2,000	2,000
Exercised at \$10.12	(27,000)	(4,000)	(31,000)			
Exercised at \$21.37	(2,700)		(2,700)			
Surrendered and cancelled	(130,000)	(17,000)	(147,000)			
Purchased at \$22.01				140,000	17,000	157,000
Outstanding at Sept. 30, 1981	Nil	14,150	14,150	140,000	19,000	159,000

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

d) Shares reserved

Common shares were reserved at September 30, 1981 as follows:

	Shares
For conversion of subordinated debentures	1,581,028
Under the New Plan	330,000
Under the Old Plan	14,150
	<hr/>
	1,925,178

9. Contingencies

The Securities and Exchange Commission ("SEC") has completed its examination and private investigation of United Canso, Catawba Corporation ("Catawba") and Catawba's other client companies. The SEC requires only that the Company amend past filings made with the SEC by filing a Form 8 with a copy of the SEC Civil Complaint attached and that the Company distribute this Complaint to all shareholders. The Company has also agreed to hold in escrow royalty payments owing to Catawba until funds in the escrow account amount to U.S. \$500,000, following which the Company has agreed to distribute such sum net of any taxes due, by way of a dividend to its shareholders, other than any shareholder who is, or was also a Catawba shareholder. At September 30, 1981 such withheld royalties amounted to U.S. \$255,000.

The civil action brought by the Company and two shareholders against Catawba and several former officers and directors of the Company has not been resolved. This is an action for fraud and illegality in causing the Company to enter into Management Agreements with Catawba and to pay Catawba U.S. \$3,196,000 as a purported settlement in lieu of an overriding royalty on the sale of the North Sea interests in 1975. Five counterclaims have been asserted by the defendants, and the Company has sought to assert five new claims based on allegations detailed in the civil complaint of the SEC of U.S. Securities law violations and additional breaches of fiduciary duty by the defendants. It is the opinion of management that the assets of the Company will not be impaired by the outcome of this suit.

A wholly owned subsidiary of Canso Oil & Gas, Inc., J.E. Carter Energy, Inc. ("Carter Energy") is a joint defendant in an action brought by Moore Construction, Inc. whereby Moore has alleged breach of contract and is claiming actual damages of \$2,500,000 as well as punitive damages of \$5,000,000. In

9. Contingencies (continued)

the opinion of management, the claim is without merit and no provision has been reflected in the accompanying financial statements.

A number of creditors have filed claims against Carter Energy and certain former affiliates for the payment of outstanding liabilities. These claims have been recorded in the accounts to the extent of the liabilities owed directly by Carter Energy. A provision of \$500,000 has been made for the claims against former affiliates of approximately \$1,000,000 for which the creditors may have recourse to Carter Energy.

10. Related party transactions

The law firm of Holland and Holland has rendered legal services to the Company for fees of \$138,400 (1980 — \$24,066). Mr. J. W. 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.

The \$50,000,000 10½% convertible subordinated debentures referred to in Note 6, were issued to the following related parties:

Realwest Energy Ltd.	\$35,000,000
Thomas J. Jacobsen	10,000,000
John Duby	5,000,000

Mr. D. L. Hiebert, President and a director of United Canso, is a shareholder of Realwest Energy. Mr. S. Sheinin, chairman and a shareholder of Realwest Energy, was appointed a director of United Canso on June 22, 1981.

Mr. Jacobsen is a director and Dr. Duby is an Executive Vice-President and a director of United Canso.

11. Remuneration of directors

Aggregate remuneration paid or payable during the year to directors of the Company in their capacity as directors amounted to \$76,125 (1980 — \$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 \$46,431 (1980 — \$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 items

	1981	1980
		(Restated)
		(thousands of Canadian dollars)
Income taxes of U.S. subsidiaries eliminated on application of net operating loss carry- forwards (Note 7)	\$ 895	\$174
Reimbursement of shareholder committee costs, approved by shareholder special resolution	(1,217)	
Proceeds from sale of interest in Minex, Inc. previously written off (less applicable income taxes of \$68,000)	347	
	<u>\$ 25</u>	<u>\$174</u>

14. Segmented information

The Company is engaged in two industries i) exploration for and development of crude oil and natural gas and ii) oilfield manufacturing and service (industrial), with operations primarily in Canada and the United States. The following is an analysis of certain financial information by industry segments and geographic area:

	1981	1980	1979
		(Restated)	(Restated)
		(thousands of Canadian dollars)	
Industry segments			
Revenue			
Crude oil and natural gas	\$ 27,354	\$ 13,855	\$ 8,586
Industrial	7,886		
Interest and other	6,212	3,366	4,720
	<u>\$ 41,452</u>	<u>\$ 17,221</u>	<u>\$ 13,306</u>
Operating income (loss)			
Crude oil and natural gas	\$ 9,864	\$ 900	\$ 327
Industrial	(171)		
	<u>9,693</u>	<u>900</u>	<u>327</u>
Other expenses	9,497	1,377	1,072
Net earnings (loss)	<u>\$ 196</u>	<u>\$ (477)</u>	<u>\$ (745)</u>
Identifiable assets			
Crude oil and natural gas	\$278,409	\$ 68,238	\$ 68,403
Industrial	12,449		
	<u>290,858</u>	<u>68,238</u>	<u>68,403</u>
Other	20,144	8,830	5,832
	<u>\$311,002</u>	<u>\$ 77,068</u>	<u>\$ 74,235</u>

	1981	1980	1979
		(Restated)	(Restated)
		(thousands of Canadian dollars)	
Geographic area			
Revenue			
Canada	\$ 33,758	\$ 12,123	\$ 11,251
United States	7,694	5,098	2,055
	<u>\$ 41,452</u>	<u>\$17,221</u>	<u>\$13,306</u>
Operating income			
Canada	\$ 16,527	\$ 5,537	\$ 6,318
United States	2,617	1,104	(53)
	<u>19,144</u>	<u>6,641</u>	<u>6,265</u>
Other expenses	18,948	7,118	7,010
Net earnings (loss)	<u>\$ 196</u>	<u>\$ (477)</u>	<u>\$ (745)</u>
Identifiable assets			
Canada	\$234,432	\$55,163	\$59,019
United States	58,745	14,788	10,930
	<u>293,177</u>	<u>69,951</u>	<u>69,949</u>
Other	17,825	7,117	4,286
	<u>\$311,002</u>	<u>\$77,068</u>	<u>\$74,235</u>

15. Costs incurred and capitalized costs related to oil and gas producing activities

The following table sets forth in thousands of Canadian dollars (i) costs incurred in oil and gas producing activities (whether charged to expense or capitalized) and (ii) the aggregate capitalized costs relating to oil and gas producing activities and the aggregate amount of depletion and depreciation and valuation adjustments:

	1981				
	Canada	United States	Australia	Other	
Capitalized costs incurred				Total	
Property acquisition	\$ 2,206	\$16,934		\$ 238	\$19,378
Exploration	4,108	9,212	\$ 4,306	5,736	23,362
Development	4,422	573			4,995
Mineral exploration	279				279
Interest capitalized	644				644
	<u>\$11,659</u>	<u>\$26,719</u>	<u>\$ 4,306</u>	<u>\$ 5,974</u>	<u>\$48,658</u>
Costs charged to expense					
Production	\$ 3,587	\$ 911		\$	\$ 4,498
Depletion and depreciation and valuation adjustments	3,665	4,166		3,239	11,070
	<u>\$ 7,252</u>	<u>\$ 5,077</u>		<u>\$ 3,239</u>	<u>\$15,568</u>
	1980 (Restated)				
	Canada	United States	Other	Total	
Capitalized costs incurred					
Property acquisition	\$ 1,150	\$ 215		\$ 1,365	
Exploration	3,678	636	\$ 2,755	7,069	
Development	2,844	2,826		5,670	
Mineral exploration	386			386	
	<u>\$ 8,058</u>	<u>\$ 3,677</u>	<u>\$ 2,755</u>	<u>\$14,490</u>	
Costs charged to expense					
Production	\$ 2,553	\$ 1,071		\$ 3,624	
Depletion and depreciation and valuation adjustments	4,033	2,923	\$ 2,375	9,331	
	<u>\$ 6,586</u>	<u>\$ 3,994</u>	<u>\$ 2,375</u>	<u>\$12,955</u>	
	1979 (Restated)				
	Canada	United States	Other	Total	
Capitalized costs incurred					
Property acquisition	\$ 1,197	\$ 83		\$ 1,280	
Exploration	2,680	1,163	\$ 1,008	4,851	
Development	2,368	1,548		3,916	
Mineral exploration	230			230	
	<u>\$ 6,475</u>	<u>\$ 2,794</u>	<u>\$ 1,008</u>	<u>\$10,277</u>	
Costs charged to expense					
Production	\$ 2,129	\$ 358		\$ 2,487	
Depletion and depreciation and valuation adjustments	2,808	1,746	\$ 1,218	5,772	
	<u>\$ 4,937</u>	<u>\$ 2,104</u>	<u>\$ 1,218</u>	<u>\$ 8,259</u>	

16. Subsequent events

The Company has reached an agreement with Magellan Petroleum Corporation to exchange its 40% and 30% equity shareholding in United Canso Oil & Gas Co. (N.T.) Pty. Ltd. and Magellan Petroleum (N.T.) Pty. Ltd. respectively, for direct working interests in certain Australian permits.

SUPPLEMENTARY INFORMATION

RESERVE RECOGNITION ACCOUNTING (UNAUDITED)

a) Introduction

The United States Securities and Exchange Commission (SEC) believes that neither of the traditional methods of accounting (full cost and successful efforts) provides sufficient information on the financial position and operating results of oil and gas producers. Although the SEC has ceased developing Reserve Recognition Accounting (RRA) as a method of accounting for oil and gas producing activities in the primary financial statements, the SEC regulations still require that the Company prepare supplementary information in accordance with RRA until an alternative method of accounting is developed. The following information is disclosed in compliance with the regulations of the SEC.

b) Estimated quantities of proved reserves

All proved crude oil and natural gas reserves of the Company are developed. As prescribed by the SEC, these quantities of such reserves are presented net after royalties and form the basis for the calculations included in the following sections. The quantities are based upon reports by independent reservoir engineers, and have been calculated in accordance with SEC definitions. These reports do not include any reserves for Australia where the Company is converting its equity interest in certain companies which have reserves into direct working interests.

Estimated Proved Oil and Gas Reserves

Three Years ended September 30, 1981

	Canada		United States		Total	
	Crude Oil & NGL's	Natural Gas	Crude Oil & NGL's	Natural Gas	Crude Oil & NGL's	Natural Gas
Reserves Sept.30/78	3,983	54,770	364	3,157	4,347	57,927
Discoveries	183	5,650	41	369	224	6,019
Sales of reserves		(2,485)				(2,485)
Production	(372)	(2,445)	(145)		(517)	(2,445)
Reserves Sept.30/79	3,794	55,490	260	3,526	4,054	59,016
Revisions to previous estimates	(152)	(2,871)	48	928	(104)	(1,943)
	3,642	52,619	308	4,454	3,950	57,073
Discoveries	107	5,692	86	0	193	5,692
Production	(394)	(2,702)	(95)	(736)	(489)	(3,438)
Reserves Sept.30/80	3,355	55,609	299	3,718	3,654	59,327
Revisions to previous estimates	202	3,787	237	319	439	4,106
	3,557	59,396	536	4,037	4,093	63,433
Discoveries	38	4,191	88	79	126	4,270
Acquisition of reserves	1,408	228,514	203	120	1,611	228,634
Production	(413)	(7,066)	(110)	(1,056)	(523)	(8,122)
Reserves Sept. 30/81	<u>4,590</u>	<u>285,035</u>	<u>717</u>	<u>3,180</u>	<u>5,307</u>	<u>288,215</u>

Crude oil and natural gas liquids stated in thousands of barrels.

Natural gas stated in millions of cubic feet.

c) Estimated future net revenues and present value thereof

As prescribed by the S.E.C., estimated future net revenues are computed by applying current year prices of oil and gas (with consideration of future price changes to the extent provided by contractual arrangements) to estimated future production of proved oil and gas reserves and deducting future expenditures (based on current year costs) to be incurred in developing and producing the proved reserves. In Canada the increases in selling prices and taxes contained in the Energy Pricing and Taxation Agreements have been reflected in the computation and inflation is built into costs for the years where pricing is guaranteed. As prescribed by the S.E.C., a 10% discount factor has been applied to the estimated future net revenues to determine the present value.

Estimated Future Net Revenues

	1981	United States	Total
	Canada	United States	Total
(thousands of Canadian dollars)			
Estimated Future Net Revenues			
1982	\$ 21,470	\$ 6,656	\$ 28,126
1983	23,171	5,617	28,788
1984	29,747	4,455	34,202
Remaining	885,951	11,609	897,560
	<u>\$960,339</u>	<u>\$28,337</u>	<u>\$988,676</u>
Present Value of Estimated Future Net Revenues	<u>\$333,515</u>	<u>\$21,593</u>	<u>\$355,108</u>
1980			
	1980	United States	Total
	Canada	United States	Total
(thousands of Canadian dollars)			
Estimated Future Net Revenues			
1981	\$ 7,209	\$ 4,739	\$ 11,948
1982	6,530	3,788	10,318
1983	6,293	2,700	8,993
Remaining	91,269	4,804	96,073
	<u>\$111,301</u>	<u>\$16,031</u>	<u>\$127,332</u>
Present Value of Estimated Future Net Revenues	<u>\$ 50,463</u>	<u>\$12,976</u>	<u>\$ 63,439</u>

1979 information not available

d) Statement of Reserve Recognition Accounting Policies

Beginning in 1979, the SEC required that companies present unaudited financial information on the basis of RRA. The accounting policies set forth below have been followed in preparing the RRA presentations. Under RRA, an asset is recognized and earnings recorded when proved reserves are added through exploration and development activities. A dollar valuation of proved reserves is developed as follows:

- (1) Estimates are made of quantities of proved reserves and the future period during which they are expected to be produced based on current economic conditions,
- (2) The estimated future production of proved reserves is priced on the basis of year-end prices except that future prices are increased for fixed and determinable escalation provisions in contracts including the Canadian Energy Pricing and Taxation Agreements (to a maximum of 75% of the current world oil price),
- (3) The resulting future gross revenue streams are reduced by estimated future costs to develop and to produce the proved reserves, based on current cost estimates (except for Canadian costs which are inflated in the years when prices have been escalated),
- (4) The resulting future net revenue streams are reduced to present value amounts by applying a 10 percent discount factor.

As acknowledged by the SEC, this method of accounting is not intended as an estimate of the fair market value of a company's oil and gas properties nor does it represent the type of earnings normally reported in the financial statements. Due to many uncertainties inherent in this method of accounting, the Company considers RRA to be potentially very misleading.

e) Summary of Oil and Gas Producing Activities on the basis of RRA

The following RRA Summary reports the present value of future revenues (net of royalties, exploration, development and production expenses) from proved reserves added during the year, together with revisions to estimates of reserves proved in prior years and accretion of discount. Accretion of discount is a revision due to the process of discounting. The revision is due to the production schedule of proved reserves being advanced one year on the discount table. Each year as full production is realized the

discount factor becomes smaller, a higher present value amount results and income is recognized due to the increase. Revisions to prior year estimates are broken down between those attributable to changes in prices and costs and all other, which includes changes in the quantity of the reserve estimates and changes in estimated rates of production. Current years exploration and development expenditures in relation to proved reserves are deducted to arrive at earnings for RRA. Income taxes are calculated for Canada and the United States by applying appropriate statutory tax rates to RRA results before provision for income taxes (after taking into account the effect of the non-deductible Petroleum and Gas Revenue Tax and Crown royalties). Foreign losses for R.R.A. have been tax effected in Canada and the United States.

Summary of Oil and Gas Producing Activities
On the Basis of Reserve Recognition Accounting
Two years ended September 30, 1981

	<u>Canada</u>	<u>United States</u>	<u>Foreign</u>	<u>Total 1981</u>	<u>Total 1980</u>
(thousands of Canadian dollars)					
Additions to estimated proved reserves	\$ 4,473	\$ 2,888		\$ 7,361	\$ 6,987
Revision to reserves proved in prior years					
Changes in prices	15,001	169		15,170	14,068
Accretion of discount	4,835	4,903		9,738	4,244
Other	5,046	1,298		6,344	10,659
	<u>24,882</u>	<u>6,370</u>		<u>31,252</u>	<u>28,971</u>
Exploration and development expenses	(10,688)	(2,586)	(5,974)	(19,248)	(4,166)
RRA earnings before income taxes	18,667	6,672	(5,974)	19,365	31,792
Provision for income taxes	(10,996)	(3,069)	2,827	(11,238)	(16,184)
Net earnings from oil and gas producing activities on the basis of RRA (before other income and expenses)	<u>\$ 7,671</u>	<u>\$ 3,603</u>	<u>\$ (3,147)</u>	<u>\$ 8,127</u>	<u>\$15,608</u>

f) Changes in Present Value of Estimated Future Net Revenue from Proved Oil and Gas Reserves

This summary reconciles future discounted net revenues at September 30, 1981 with those reported at September 30, 1980.

Changes in Present Value
of Estimated Future Net Revenues from Proved Reserves
On the Basis of Reserve Recognition Accounting
Two Years ended September 30, 1981

	<u>Canada</u>	<u>United States</u>	<u>Total 1981</u>	<u>Total 1980</u>
(thousands of Canadian dollars)				
Balance at beginning of year	\$ 50,463	12,976	63,439	\$41,344
Revisions to reserves proved in prior years	24,882	6,370	31,252	28,971
	<u>75,345</u>	<u>19,346</u>	<u>94,691</u>	<u>70,315</u>
Additions to estimated proved reserves	4,473	2,888	7,361	6,987
Acquisitions of proved Reserves	268,661	5,329	273,990	
Production, net of lifting costs	(14,964)	(5,970)	(20,934)	(13,863)
Balance at end of year	<u>\$333,515</u>	<u>\$21,593</u>	<u>\$355,108</u>	<u>\$63,439</u>

The excess of net present value of acquired reserves over the acquisition price amounted to \$105,670,000.

FIVE-YEAR STATISTICAL REVIEW

FINANCIAL

	1981	1980	1979	1978	1977
REVENUES					
Oil and gas	\$27,354	\$13,855	\$ 8,586	\$ 7,398	\$ 6,068
Industrial	7,886	—	—	—	—
Interest and other	6,212	3,366	4,720	3,513	3,468
	<u>41,452</u>	<u>17,221</u>	<u>13,306</u>	<u>10,911</u>	<u>9,536</u>
EXPENSES					
Operating	14,047	3,624	2,487	1,855	1,473
Depletion and depreciation	11,500	9,331	5,772	4,308	4,269
General and administrative	5,087	4,114	2,555	2,230	2,268
Exchange (gains) losses	329	(246)	475	(2,761)	(2,382)
Interest on long term debt	5,952	—	—	—	—
Adjustment of equity investments	85	973	879	786	(161)
	<u>37,000</u>	<u>17,796</u>	<u>12,168</u>	<u>6,418</u>	<u>5,467</u>
Earnings (loss) before income taxes and extraordinary items	4,452	(575)	1,138	4,493	4,069
Provision for income taxes	4,281	76	1,883	2,344	2,895
	<u>171</u>	<u>(651)</u>	<u>(745)</u>	<u>2,149</u>	<u>1,174</u>
Extraordinary items	25	174	—	—	—
NET EARNINGS (LOSS)	\$ 196	\$ (477)	\$ (745)	\$ 2,149	\$ 1,174
Per Share					
before extraordinary items	\$ 0.03	\$ (0.10)	\$ (0.11)	\$ 0.33	\$ 0.18
after extraordinary items	\$ 0.03	\$ (0.07)	\$ (0.11)	\$ 0.33	\$ 0.18
FUNDS GENERATED FROM OPERATIONS	15,909	10,037	7,572	8,831	5,841
Per Share	2.39	1.53	1.16	1.35	.90
CAPITAL EXPENDITURES					
Property and equipment	57,606	14,975	10,335	14,830	8,681
Investments and advances	3,479	3,634	1,968	523	159
WORKING CAPITAL (deficiency)	(9,233)	23,740	31,796	36,527	42,996
Per Share	(1.34)	3.60	4.86	5.59	6.59
LONG TERM DEBT	191,191	—	—	—	—
SHAREHOLDER'S EQUITY	69,022	63,671	63,632	64,377	62,175
Per share	10.05	9.66	9.74	9.85	9.54
TOTAL ASSETS	311,022	77,068	74,235	76,560	69,619
SHARES					
Average Number of shares outstanding (000's)	6,645	6,574	6,536	6,536	6,520
Market price					
(Canadian \$) — High	30.00	30.00	18.90	12.83	11.48
— Low	12.88	11.25	7.88	7.20	6.08
(U.S. \$) — High	25.38	24.75	16.31	9.90	10.24
— Low	10.63	8.66	7.43	5.85	5.96

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

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

OPERATING

	1981	1980	1979	1978	1977
PRODUCTION —					
gross before royalties — daily					
Crude oil and natural gas liquids — bbls	2,455	2,250	2,363	2,187	2,288
Natural gas — thousands of cubic feet	37,736	13,250	9,450	8,464	8,747
GROSS RESERVES —					
proven and probable					
Crude oil — thousands of bbls	15,050	7,103	7,269	7,726	7,532
Natural gas — millions of cubic feet	534,223	95,600	92,803	91,860	78,693
DRILLING ACTIVITY					
Gross wells	88	131	69	70	50
Net wells					
Successful	29	17	17	17	11
Dry	9	12	5	7	4
LAND HOLDINGS -					
thousands of acres					
Gross	27,275	18,333	19,869	23,635	26,276
Net	10,870	4,336	4,716	4,886	5,096

OFFICERS

	TITLE
BANKS, C. David	Executive Vice President Oil & Gas
CARTER, Wayne G.	Vice President, Land & Contracts
CYCA, Ronald B.	Vice President Production
DELP, Billy R.	Chairman of the Board
DUBY, John	Executive Vice President Corporate Planning
HIEBERT, Donald L.	President and Chief Executive Officer
HOLLAND, J. William	Secretary
HOOPER, William L.	Vice President Industrial
MOFFITT, Robert J.	Vice President Corporate Development
SILENZI, Sandro	Vice President Exploration
ST. CLAIR, Robert W.	Treasurer
WALKER, David C.	Vice President Finance & Assistant Secretary

BOARD OF DIRECTORS

Billy R. Delp Fort Worth, Texas	President, Nu-Way Oil Company
Dr. John Duby Calgary, Alberta	Executive Vice President, United Canso Oil & Gas Ltd.
D. L. Hiebert Calgary, Alberta	President, (as of January 15, 1982) United Canso Oil & Gas Ltd.
J. William Holland Chicago, Illinois	Attorney and Vice President, Holland & Holland (Associated).
Thomas J. Jacobsen Calgary, Alberta	President (to January 15, 1982) United Canso Oil & Gas Ltd.
Dr. George H. Laycraft Vancouver, British Columbia	Executive Vice President and Director Dusty Mac Mines Ltd. (N.P.L.)
Sandy Sheinin Vancouver, British Columbia	Chairman, Realwest Energy Corporation and Manager, The Founding Group
Robert W. St. Clair Fort Worth, Texas	President, Thrift Distributors, Inc.

CORPORATE AND HEAD OFFICE
3700, 700 - 2nd Street S.W.
Calgary, Alberta

PRINCIPAL OPERATING SUBSIDIARIES
Canso Oil & Gas, Inc.
Canso Resources Limited
Canso Spain, Inc.
Great Basins Petroleum Ltd.
Heritage Industries Ltd.
Lift Systems International
Loucol Petroleum Ltd.
McCullough Ditching & Welding Ltd.
Burl Construction Ltd.

REGISTRAR AND TRANSFER AGENT
Guaranty Trust Company of Canada,
Calgary, Alberta

CO-TRANSFER AGENTS
First Jersey National Bank,
Jersey City, New Jersey
United California Bank,
Los Angeles, California

AUDITORS
Clarkson Gordon, Calgary, Alberta.

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

