

**CONSOLIDATED FINANCIAL STATEMENTS**

**PETROBANK ENERGY AND  
RESOURCES LTD.**

**December 31, 1999 and 1998**

## AUDITORS' REPORT

### To the Shareholders of Petrobank Energy and Resources Ltd.

We have audited the consolidated balance sheets of Petrobank Energy and Resources Ltd. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Petrobank Energy and Resources Ltd. as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

*Ernst + Young LLP*

Calgary, Canada  
March 14, 2000

Chartered Accountants

**Petrobank Energy and Resources Ltd.**

**CONSOLIDATED BALANCE SHEETS**

	<b>As at December 31,</b>	
	<b>1999</b>	<b>1998</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	<b>4,399,803</b>	3,337,846
Prepaid expenses <i>[note 2]</i>	<b>898,375</b>	881,679
	<b>5,298,178</b>	4,219,525
Prepaid gas processing fees <i>[note 2]</i>	<b>—</b>	458,332
Capital assets <i>[note 2]</i>	<b>68,757,356</b>	46,312,802
	<b>74,055,534</b>	50,990,659
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 6]</i>	<b>11,164,282</b>	8,504,749
Deferred revenue <i>[note 4]</i>	<b>442,800</b>	459,900
	<b>11,607,082</b>	8,964,649
Long-term debt <i>[note 3]</i>	<b>20,837,155</b>	7,376,730
Deferred revenue <i>[note 4]</i>	<b>1,656,612</b>	2,099,412
Future site restoration	<b>269,261</b>	157,261
Deferred income taxes	<b>3,033,866</b>	1,137,939
<b>Total liabilities</b>	<b>37,403,976</b>	19,735,991
<b>Shareholders' equity</b>		
Share capital <i>[notes 5 and 12]</i>	<b>30,819,116</b>	27,699,508
Retained earnings	<b>5,832,442</b>	3,555,160
	<b>36,651,558</b>	31,254,668
	<b>74,055,534</b>	50,990,659

*See accompanying notes*

On behalf of the Board:

“Jerald L. Oaks”  
Director

“John A. Brussa”  
Director

**Petrobank Energy and Resources Ltd.**

**CONSOLIDATED STATEMENTS OF  
INCOME AND RETAINED EARNINGS**

	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>1999</b>	<b>1998</b>
	\$	\$
<b>Revenue</b>		
Oil and natural gas	21,044,527	12,919,486
Royalties	(3,716,404)	(1,100,461)
	<b>17,328,123</b>	<b>11,819,025</b>
Other <i>[note 7]</i>	710,336	1,914,782
	<b>18,038,459</b>	<b>13,733,807</b>
<b>Expenses</b>		
Production	4,006,712	1,830,781
General and administrative	1,799,482	1,174,840
Interest on long-term debt	1,098,405	1,039,576
Depletion, depreciation and site restoration	6,610,863	4,736,866
	<b>13,515,462</b>	<b>8,782,063</b>
<b>Income before taxes</b>	<b>4,522,997</b>	<b>4,951,744</b>
Income taxes <i>[note 8]</i>	2,168,929	1,825,757
<b>Net income for the year</b>	<b>2,354,068</b>	<b>3,125,987</b>
<b>Retained earnings, beginning of year</b>	<b>3,555,160</b>	544,958
Repurchase of common shares <i>[note 5]</i>	(76,786)	(115,785)
<b>Retained earnings, end of year</b>	<b>5,832,442</b>	<b>3,555,160</b>
<b>Net income per share <i>[note 5]</i></b>		
Basic	0.07	0.11
Fully diluted	0.07	0.10

*See accompanying notes*

**Petrobank Energy and Resources Ltd.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>1999</b>	<b>1998</b>
	\$	\$
<b>Operating Activities</b>		
Net income for the year	2,354,068	3,125,987
Add (deduct) non-cash items:		
Depletion, depreciation and site restoration	6,610,863	4,736,866
Deferred income taxes	2,048,000	1,755,616
Gain on sale of gas plant	—	(1,165,118)
Cash flow from operations	11,012,931	8,453,351
Changes in other non-cash items <i>[note 10]</i>	(327,688)	(1,569,517)
	<b>10,685,243</b>	<b>6,883,834</b>
<b>Financing Activities</b>		
Proceeds from issuance of common shares and special warrants	5,842,043	13,943,000
Repurchase of shares pursuant to normal course issuer bid	(134,492)	(200,925)
Share issue costs	(340,819)	(715,262)
Repayment of notes payable	—	(1,439,001)
Proceeds from (repayment of) long-term debt	13,460,425	(2,987,446)
	<b>18,827,157</b>	<b>8,600,366</b>
<b>Investing Activities</b>		
Expenditures on capital assets	(31,419,400)	(31,603,662)
Proceeds on sale of gas plant	—	12,000,000
Changes in other non-cash items <i>[note 10]</i>	1,907,000	4,119,462
	<b>(29,512,400)</b>	<b>(15,484,200)</b>
<b>Net change in cash</b>	<b>—</b>	<b>—</b>
<b>Cash position, beginning and end of year</b>	<b>—</b>	<b>—</b>
<b>Cash flow from operations per share <i>[note 5]</i></b>		
<b>Basic</b>	<b>0.33</b>	<b>0.30</b>
<b>Fully diluted</b>	<b>0.31</b>	<b>0.28</b>

*See accompanying notes*

## **Petrobank Energy and Resources Ltd.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 1999 and 1998

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Description of Business**

Petrobank Energy and Resources Ltd. (the "Corporation"), a public company incorporated under the Business Corporations Act (Alberta), is engaged in the production, development and exploration of oil and natural gas primarily in Alberta.

### **Basis of Presentation**

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Petrobank U.S.A. Inc., Petrobank International Inc., and 650582 Alberta Inc.

### **Capital Assets**

The Corporation follows the full cost method of accounting for its oil and natural gas operations whereby all costs related to the acquisition of petroleum and natural gas properties are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, and costs of drilling and equipping productive and non-productive wells.

Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depreciation and depletion of the petroleum and natural gas properties and production and gathering facilities are computed using the unit-of-production method based on the estimated proven reserves of oil and natural gas determined by independent consultants. Reserves are converted to common units on the basis of their approximate relative energy content. Costs of acquiring and evaluating unproven properties are excluded from depletion calculations until it is determined whether or not proven reserves are attributable to the properties or impairment occurs. Depreciation of office equipment is provided at 20% using the declining balance method.

The Corporation applies an annual ceiling test to the net carrying value of petroleum and natural gas properties to ensure that such costs do not exceed the estimated amount ultimately recoverable. This amount includes the estimated value of future net revenues from production of proven reserves at year end market prices less future estimated production, administrative, financing, future site restoration, and income tax costs plus the lower of cost or estimated market value of unproved properties.

## **Petrobank Energy and Resources Ltd.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 1999 and 1998

#### **Future Site Restoration**

Estimated future site restoration and abandonment costs, net of salvage values, are provided using the unit-of-production method based on estimated proven reserves. The annual charge is accounted for as an expense and the accumulated provision is reflected as a deferred liability. Actual site restoration costs are deducted from the accumulated provision in the year incurred. Costs are estimated based upon current legislation, costs, technology and industry standards.

#### **Measurement Uncertainty**

The amounts recorded for depletion and depreciation of the petroleum and natural gas properties and production and gathering facilities and for site restoration and abandonment are based on estimates of reserves and future costs. By their nature, these estimates, and those related to the future cash flows and estimated market values used to assess impairment, as well as the carrying value of unproven properties, are subject to measurement uncertainty and the effect on the consolidated financial statements of future years of changes to these estimates could be material.

#### **Financial Instruments**

The Corporation may utilize derivative financial instruments in its management of exposures to fluctuations in commodity prices, foreign currency exchange rates and interest rates.

Derivative contracts may be used to manage the price risk associated with crude oil and natural gas sales. Foreign exchange contracts may also be used to effectively fix the exchange rate on future United States dollar denominated sales. Gains and losses on these contracts are deferred and recognized in revenues when the related transactions occur. Interest rate swap agreements are used to effectively fix interest rates on floating rate debt. Net differences between amounts receivable and payable are reflected in interest expense on an accrual basis.

#### **Deferred Revenue**

Advance payments received under a gas sales contract are recognized as revenue when deliveries are made.

## Petrobank Energy and Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

#### Flow-through Shares

A portion of the Corporation's exploration and development activities are financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, the carrying value of the properties on which the expenditures have been made and the shares issued are recorded net of the tax benefits renounced to subscribers when the related expenditures are incurred.

#### Joint Operations

The majority of the Corporation's oil and natural gas operations are conducted jointly with others and accordingly these consolidated financial statements reflect only the Corporation's proportionate interests in such activities.

#### Income Taxes

The Corporation follows the deferral method of accounting for income taxes under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Corporation provides for deferred income taxes to the extent that income taxes otherwise payable are reduced by capital cost allowances and exploration and development costs in excess of the depletion and depreciation provisions recorded in the accounts.

## 2. CAPITAL ASSETS

	<b>December 31, 1999</b>		
	<b>Cost</b>	<b>Accumulated Depletion and Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
Petroleum and natural gas properties	<b>70,699,964</b>	<b>10,660,370</b>	<b>60,039,594</b>
Production and gathering facilities	<b>10,475,324</b>	<b>1,996,716</b>	<b>8,478,608</b>
Office equipment	<b>383,386</b>	<b>144,232</b>	<b>239,154</b>
	<b>81,558,674</b>	<b>12,801,318</b>	<b>68,757,356</b>

**Petrobank Energy and Resources Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 1999 and 1998

	<b>December 31, 1998</b>		
	<b>Cost</b>	<b>Accumulated Depletion and Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
Petroleum and natural gas properties	48,513,106	5,396,369	43,116,737
Production and gathering facilities	3,774,170	814,716	2,959,454
Office equipment	327,980	91,369	236,611
	<u>52,615,256</u>	<u>6,302,454</u>	<u>46,312,802</u>

At December 31, 1999 petroleum and natural gas properties include \$11,429,395 (1998 - \$12,690,974) relating to unproved properties and \$5,667,577 (1998 - \$5,311,778) of seismic costs incurred off the coast of Guinea Bissau which have been excluded from the depletion calculation. If the Corporation either elects not to drill a well on this concession or fails to successfully renegotiate its concession agreement before September 3, 2000, the carrying value of the Guinea Bissau assets will be expensed.

In November 1998, the Corporation sold its Alder Flats gas plant and gathering facilities for cash proceeds of \$12,000,000, resulting in a gain of \$1,165,118 (note 7). The Corporation paid \$1,000,000 as a prepayment of future gathering and processing fees. The prepayment amount is applied against monthly gathering and processing fees in equal monthly instalments of \$41,668 commencing in December 1998.

**3. LONG-TERM DEBT**

In October 1999, the Corporation entered into new bank credit facilities and has available a \$16,000,000 revolving term loan and an \$8,000,000 revolving operating demand loan under which it can borrow at bank prime or Bankers Acceptance Rates plus an applicable margin based on debt to cash flow ratios.

At December 31, 1999, the Corporation had drawn \$16,000,000 (1998 - \$7,376,730) under its revolving term loan and \$4,837,155 (1998 - \$nil) under the revolving operating demand loan. The effective rate on advances outstanding at December 31, 1999 was 6.1% (1998 - 6.0%).

The initial revolving period on the term loan ends on June 30, 2000, unless extended. At the end of the initial revolving period, the Corporation may request that the credit facility be extended for an additional 364 day period. The lender has the option of providing the 364 day extension or converting the loan to a four year term loan.

## Petrobank Energy and Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

While the revolving operating loan is demand in nature, the bank has stated that it is not its intention to call for repayment before December 31, 2000 provided that there is no material adverse change in the financial position of the Corporation. Accordingly, the loan is classified as long-term.

Advances under these facilities are collateralized by a \$50 million demand debenture on all present and future assets of the Corporation as well as a general assignment of the Corporation's book debts, a negative pledge to provide fixed charges on major producing petroleum properties and an assignment of material contracts.

The Corporation also has an undrawn \$4,000,000 non-revolving acquisition/ development demand loan.

In July 1998, the Corporation entered into an interest rate swap agreement which effectively fixed the interest rate at 5.69% on \$15,000,000 of debt until July 2003 (note 9).

Interest paid approximates interest expense for each of the years ended December 31, 1999 and 1998.

#### 4. DEFERRED REVENUE

The Corporation has dedicated reserves and is obligated to deliver a certain volume of natural gas over a ten-year period which commenced on March 1, 1996. During 1999, the Corporation delivered 766,500 gigajoules of natural gas. The consideration received under the forward sales agreement has been deferred and will be recognized as revenue over the period of gas deliveries.

The Corporation's scheduled delivery obligations of natural gas under the forward sales contract and the corresponding annual recognition of revenue from the contract in future periods is as follows:

	<b>Scheduled Deliveries of Natural Gas (Gigajoules)</b>	<b>Revenue to be Recognized \$</b>
2000	738,000	442,800
2001	730,000	438,000
2002	730,000	438,000
2003	510,598	306,359
2004	398,280	238,968
Thereafter	392,143	235,285
	<b>3,499,021</b>	<b>2,099,412</b>

**Petrobank Energy and Resources Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 1999 and 1998

**5. SHARE CAPITAL**

**Authorized**

Unlimited number of common voting shares.  
Unlimited number of preferred shares issuable in series.

**Issued**

<b>Common shares</b>	<b>Number</b>	<b>Consideration \$</b>
<b>Balance, December 31, 1997</b>	<b>25,227,708</b>	17,398,158
Exercise of options	<b>415,000</b>	201,750
Exercise of special warrants (a)	<b>4,730,000</b>	9,460,000
Flow-through shares issued (b)	<b>1,902,778</b>	4,281,250
Repurchased pursuant to normal course issuer bid	<b>(99,000)</b>	(85,140)
Tax benefits renounced to flow-through shareholders (b), (c)	—	(3,160,309)
Share issue costs (net of deferred income tax benefit of \$319,061)	—	(396,201)
<b>Balance, December 31, 1998</b>	<b>32,176,486</b>	27,699,508
Exercise of options	<b>381,667</b>	292,417
Flow-through shares issued (d)	<b>2,018,046</b>	5,549,626
Repurchased pursuant to normal course issuer bid	<b>(67,100)</b>	(57,706)
Tax benefits renounced to flow-through shareholders (d)	—	(2,475,983)
Share issue costs (net of deferred income tax benefit of \$152,073)	—	(188,746)
<b>Balance, December 31, 1999</b>	<b>34,509,099</b>	30,819,116

a) On June 12, 1998, the Corporation issued 4,730,000 special warrants at a price of \$2.00 per special warrant for gross proceeds of \$9,460,000. During 1998, the special warrants were converted to 4,730,000 common shares at no additional cost.

b) On September 3, 1998, the Corporation issued 1,902,778 flow-through shares for gross proceeds of \$4,281,250. In 1998, the Corporation renounced tax expenditures of \$4,281,250 to the flow-through shareholders. The tax effect of \$1,910,294 relating to the renouncement has been recognized as a reduction of the carrying value of both share capital and petroleum and natural gas properties.

## Petrobank Energy and Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

- c) The Corporation renounced the remaining \$2,806,509 of expenditures related to the November 12, 1997 flow-through share issue during 1998 (tax effect \$1,250,015).
- d) On June 14, 1999 and July 16, 1999 the Corporation issued 1,544,046 and 474,000 flow-through shares for gross proceeds of \$4,246,126 and \$1,303,500 respectively. In 1999, the Corporation renounced tax expenditures of \$5,549,626 to the flow-through shareholders. The tax effect of \$2,475,983 relating to the renouncement has been recognized as a reduction of the carrying value of both share capital and petroleum and natural gas properties.

#### Stock Options

The Corporation has established a stock option plan whereby the Corporation may grant options to its directors, officers, employees and underwriters for up to 3,571,000 common shares. The exercise price of each option equals the market price of the Corporation's stock on the date of the grant. Stock options vest evenly over the three-year period from the date of grant and expire five years after the date of grant. No compensation expense is recognized when stock options are either issued or exercised. The following is a continuity of stock options outstanding for which shares have been reserved:

	1999		1998	
	Shares	Weighted -Average Exercise Price \$	Shares	Weighted-Average Exercise Price \$
Opening	<b>3,256,500</b>	<b>1.70</b>	2,610,000	1.39
Granted	<b>285,000</b>	<b>1.93</b>	1,116,500	2.03
Exercised	<b>(381,667)</b>	<b>(0.76)</b>	(415,000)	(0.49)
Cancelled	<b>(258,167)</b>	<b>(2.23)</b>	(55,000)	(2.18)
Closing	<b>2,901,666</b>	<b>1.80</b>	3,256,500	1.70

## Petrobank Energy and Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

The following summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices \$	Number Outstanding At Dec. 31, 1999	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price \$	Number Exercisable At Dec. 31, 1999	Weighted Average Exercise Price \$
1.18 to 1.70	980,000	2.8	1.36	636,665	1.35
1.80 to 2.00	1,240,000	3.6	1.90	531,667	1.91
2.05 to 2.45	681,666	2.9	2.25	343,932	2.26
	2,901,666	3.2	1.80	1,512,264	1.75

The Corporation instituted a shareholders' rights protection plan, effective November 26, 1998, whereby rights to purchase additional common shares were issued and attached to each outstanding common share and are exercisable only upon the commencement or announcement of a take-over bid for the Corporation's common shares, or until a person acquires 20% or more of the Corporation's common shares. The plan requires reconfirmation at every third Directors' meeting and expires on November 26, 2008.

#### Per Share Amounts

Net income per share and cash flow from operations per share have been calculated based on the weighted average number of shares outstanding for the year of 33,448,688 (1998 - 28,496,046).

Cash flow from operations per share is based on cash flow from operations before changes in other non-cash items.

#### 6. RELATED PARTY TRANSACTIONS

The Corporation paid the following amounts to an officer and director and to a company controlled by the officer and director:

	1999 \$	1998 \$
Interest on notes payable	—	56,316
Fees for office and management services	90,000	74,400

## Petrobank Energy and Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

At December 31, 1999, accounts payable and accrued liabilities includes an amount of \$7,852 (1998 - \$14,102) payable to this related party. In December 1998, notes payable to this related party of \$1,439,001 were fully repaid.

These transactions have been recorded at their exchange amounts in the normal course of operations.

#### 7. OTHER REVENUE

	1999	1998
	\$	\$
Processing and related revenues	533,336	670,095
Interest and other income	177,000	79,569
Gain on sale of gas plant [note 2]	—	1,165,118
	<b>710,336</b>	<b>1,914,782</b>

Processing and related revenues for 1999 consists of natural gas production incentive revenues pursuant to an agreement which expires in April 2001.

#### 8. INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying statutory corporate income tax rates to income before taxes. The principal reasons for this difference are as follows:

	1999	1998
	\$	\$
Income before taxes	4,522,997	4,951,744
Statutory income tax rate	44.62%	44.62%
Anticipated tax expense	2,018,161	2,209,468
Increase (decrease) in income tax resulting from:		
Non-deductible Crown charges	1,965,398	1,080,554
Alberta Royalty Tax Credit	(614,746)	(594,181)
Resource allowance	(1,600,519)	(1,119,962)
Non-tax base depletion	304,308	162,416
Other	(24,602)	17,321
Deferred income tax provision	2,048,000	1,755,616
Large corporations tax	120,929	70,141
Income tax provision	<b>2,168,929</b>	<b>1,825,757</b>

**Petrobank Energy and Resources Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 1999 and 1998

At December 31, 1999, the Corporation had non-capital losses for income tax purposes of approximately \$3,763,000 which are available for application against future taxable income and which expire in the years 2001 (\$218,000), 2002 (\$543,000), 2003 (\$2,337,000) and 2004 (\$665,000). In addition, at December 31, 1999 the Corporation had accumulated tax pools of approximately \$49,554,000 which may be used to reduce future taxable income.

**9. FINANCIAL INSTRUMENTS AND  
FINANCIAL RISK MANAGEMENT**

The nature of operations and the issuance of debt expose the Corporation to fluctuations in commodity prices, foreign currency exchange rates and interest rates. The Corporation manages these risks by operating in a manner that minimizes its exposure to the extent practical, and through the periodic use of derivative contracts. The Board of Directors periodically reviews the results of all derivative activities and all outstanding positions.

Except as described below, the Corporation does not have any significant concentrations of credit risk nor does it hold any financial instruments with significant off-balance sheet risk of accounting losses.

**Interest Rate Risk Management**

The Corporation manages its exposure to interest rate risk on floating rate borrowings through the periodic use of derivative financial instruments. At December 31, 1999, the Corporation had fixed the interest rates on 72% of its floating rate debt at a rate of 5.69% through a \$15 million interest rate swap agreement which matures in July 2003. The interest rate swap agreement provides for the receipt or payment of the difference between floating and fixed rates of interest based on the notional principal amount.

**Fair Value of Financial Instruments, Including Derivative Financial Instruments**

The fair value of recognized financial instruments at December 31, 1999 and 1998 approximate their carrying value. The fair value of the unrecognized interest rate swap at December 31, 1999 was (\$265,623) (1998 - (\$381,884)). The estimated fair value of the swap is based on public trading values.

## Petrobank Energy and Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

#### 10. CHANGES IN OTHER NON-CASH ITEMS

	December 31	
	1999	1998
	\$	\$
Accounts receivable	(1,061,957)	(303,328)
Prepaid expenses	(58,377)	(381,679)
Accounts payable	2,659,533	4,638,692
Prepayment of gas processing fees	—	(1,000,000)
Reduction of prepaid gas processing fees	500,013	41,668
Recognition of deferred revenue	(459,900)	(445,408)
	<b>1,579,312</b>	<b>2,549,945</b>
Attributable to investing activities	<b>1,907,000</b>	<b>4,119,462</b>
Attributable to operating activities	<b>(327,688)</b>	<b>(1,569,517)</b>

#### 11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. These financial statements adopt, on a retroactive basis, the recommendations of the Canadian Institute of Chartered Accountants with respect to the Statement of Cash Flows.

#### 12. SUBSEQUENT EVENT

On March 14, 2000, the Corporation entered into an agreement with an investor wherein the investor agreed to purchase up to 8,609,000 units from the Corporation at \$1.50 per unit. Each unit will consist of one voting preferred share and one common share purchase warrant. The preferred shares bear a 6% dividend payable in common shares of the Corporation and are convertible at the holder's option into common shares of the Corporation at \$1.50 per share. The share purchase warrants may be exercised to acquire common shares at \$1.50 per share for a period of 30 months. In addition, the investor has agreed to provide management services to the Corporation for a period of five years in return for fees of \$300,000 per year and the issuance of 2,000,000 share purchase warrants with similar terms to the warrants described above. On March 14, 2000, the investor purchased 6,666,667 units for \$10,000,000. A further 1,942,333 units may be purchased on or before April 13, 2000 for \$2,913,499.