Management's Report

The consolidated financial statements of Penn West Petroleum Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. In preparing the financial statements, management has made estimates because a precise determination of certain assets and liabilities is dependent on future events. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial records for the preparation of statements.

The consolidated financial statements have been examined by the external auditors and approved by the Board of Directors. The Board of Directors' financial statement related responsibilities are fulfilled through the Audit Committee. The Audit Committee is composed entirely of independent directors. The Audit Committee recommends appointment of the external auditors to the Board of Directors, ensures their independence, and approves their fees. The Audit Committee meets regularly with management and the external auditors to discuss reporting and control issues and to ensure each party is properly discharging its responsibilities. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

(signed)
Gerry J. Elms
Vice President, Finance
and Corporate Secretary

(signed)
Todd H.Takeyasu
Treasurer

(signed)
William E.Andrew
President

February 28, 2005

Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Penn West Petroleum Ltd. as at December 31, 2004, and 2003 and the consolidated statements of income and retained earnings and cash flow for the years then ended.These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards.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 the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)
KPMG LLP
Chartered Accountants

Calgary, Canada
February 28, 2005

Consolidated Balance Sheets

December 31

($000s)	2004	2003*
ASSETS		
Current		
Accounts receivable	**$ 160,479**	$ 141,574
Taxes receivable	**–**	26,257
Future income taxes (Note 6)	**25,310**	8,121
Other	**19,824**	16,539
	205,613	192,491
Property, plant and equipment (Note 2)	**3,661,844**	3,117,166
	$ 3,867,457	$ 3,309,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 306,596**	$ 248,174
Taxes payable	**11,174**	–
Dividends payable	**6,733**	87,405
Stock-based compensation (Note 3)	**71,017**	22,111
	395,520	357,690
Bank loan (Note 4)	**503,056**	442,394
Asset retirement obligations (Note 5)	**180,753**	172,761
Stock-based compensation, net of taxes (Note 3)	**20,951**	5,806
Future income taxes (Note 6)	**858,245**	676,738
	1,563,005	1,297,699
Shareholders' equity		
Share capital (Note 7)	**515,284**	505,569
Retained earnings	**1,393,648**	1,148,699
	1,908,932	1,654,268
	$ 3,867,457	$ 3,309,657

See accompanying notes to the consolidated financial statements.
*Restated, see Note 11.

Approved on behalf of the Board:

(signed)
N. Murray Edwards
Chairman

(signed)
Denis L. Russell
Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31

($000s, except per share amounts)	2004	2003*
Revenues		
Oil and natural gas	**$ 1,521,262**	$ 1,394,182
Royalties	**(296,054)**	(265,132)
	1,225,208	1,129,050
Expenses		
Operating	**300,278**	245,572
Transportation	**25,600**	26,359
General and administrative	**16,089**	12,504
Interest on long term debt	**17,012**	11,8
Depletion, depreciation and accretion	**413,074**	303,662
Stock-based compensation (Note 3)	**84,136**	48,002
Foreign exchange gain	**(40,394)**	(82,888)
	815,795	565,081
Income before taxes	**409,413**	563,969
Taxes		
Capital	**10,146**	10,150
Current income (Note 6)	**17,834**	9,898
Future income (Note 6)	**109,568**	97,343
	137,548	117,391
Net income	**$ 271,865**	$ 446,578
Retained earnings, beginning of year		
As previously reported	**$ 1,115,457**	$ 809,216
Accounting change (Note 5)	**33,242**	21,615
As restated	**1,148,699**	830,831
Net income	**271,865**	446,578
Dividends	**(26,916)**	(87,405)
Purchase of common shares (Note 7)	**–**	(41,305)
Retained earnings, end of year	**$ 1,393,648**	$ 1,148,699
Net income per common share (Note 8)		
Basic	**$ 5.05**	$ 8.30
Diluted	**$ 4.96**	$ 8.19

See accompanying notes to the consolidated financial statements.
*Restated, see Note 11.

Consolidated Statements of Cash Flow

Years ended December 31

($000s)	2004	2003*
Operating activities		
Net income	**$ 271,865**	$ 446,578
Items not involving cash		
Depletion, depreciation and accretion	**413,074**	303,662
Future income taxes	**109,568**	97,343
Unrealized foreign exchange gain	**(11,909)**	(82,888)
Stock-based compensation (Note 3)	**84,136**	48,002
Cash flow	**866,734**	812,697
Decrease (increase) in non-cash working capital (Note 10)	**23,505**	(114,632)
Payments for surrendered options (Note 3)	**(15,613)**	(13,572)
Expenditures on abandonments	**(29,558)**	(14,314)
Cash from operating activities	**845,068**	670,179
Investing activities		
Additions to property, plant and equipment	**(883,708)**	(730,581)
Proceeds on sales of property, plant and equipment	**18,256**	101,180
Decrease in non-cash working capital (Note 10)	**50,024**	58,207
Cash used in investing activities	**(815,428)**	(571,194)
Financing activities		
Increase (decrease) in bank loan	**72,571**	(73,153)
Issue of common shares	**5,243**	26,714
Dividends paid	**(107,588)**	–
Purchase of common shares	**–**	(52,768)
Decrease in non-cash working capital (Note 10)	**134**	222
Cash used in financing activities	**(29,640)**	(98,985)
Increase in cash	**–**	–
Cash and cash equivalents, beginning of year	**–**	–
Cash and cash equivalents, end of year	**$ –**	$ –
Interest paid	**$ 16,986**	$ 12,369
Income and capital taxes (recovered) paid	**$ (9,452)**	$ 140,579

See accompanying notes to the consolidated financial statements.
*Restated, see Note 11.

Notes to the Consolidated Financial Statements

(all tabular amounts in $000s, except share and per share amounts)

1. Summary of significant accounting policies

These consolidated financial statements were prepared in accordance with generally accepted accounting principles in Canada. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

a) Principles of consolidation

The consolidated financial statements include the accounts of Penn West Petroleum Ltd. (the "Company") and all its wholly owned subsidiaries and partnerships.

b) Other current assets

Other current assets include deposits, prepayments and inventory. Inventories are valued at the lower of cost and net realizable value.

c) Property, plant and equipment

I) CAPITALIZED COSTS

The full cost method of accounting for oil and natural gas operations is followed whereby all costs of acquiring, exploring and developing oil and natural gas reserves are capitalized. These costs include lease acquisition, geological and geophysical, exploration and development and related equipment costs. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition results in a significant change in the depletion and depreciation rate.

II) DEPLETION AND DEPRECIATION

Depletion and depreciation of resource properties is calculated using the unit-of-production method based on production volumes before royalties in relation to total proved reserves as estimated by independent petroleum engineers. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes estimated facility and equipment salvage values and the cost of unevaluated property. Significant natural gas processing facilities, net of estimated salvage values, are depreciated using the declining balance method over the estimated useful lives of the facilities.

III) CEILING TEST

The recoverability of accumulated costs in a cost center is assessed based on undiscounted future cash flows from proved reserves and the cost of unproven properties. If accumulated costs are assessed to be not fully recoverable, the cost center is written down to its fair value estimated as the present value of expected future cash flows from proved and probable reserves and the value of unproved properties. Expected future cash flows are discounted at the Company's estimated risk free rate.

IV) ASSET RETIREMENT OBLIGATIONS

The fair value of legal obligations for property abandonment and site restoration are recognized as a liability on the balance sheet as incurred with a corresponding increase to the carrying amount of the related asset. Changes in the fair value of the liability over time are reflected as accretion charges included in depletion, depreciation and accretion. Revisions to the estimated amount or timing of the obligations are reflected as increases or decreases to the recorded liability. Asset retirement expenditures, up to the recorded liability at the time, are charged to the liability. Amounts capitalized to the related assets are amortized to income consistent with the depletion or depreciation of the underlying asset.

The estimates in ii) and iii) and iv) are based on forecast sales prices, costs and regulations expected at the end of the fiscal year.

d) Joint ventures

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

e) Hedging activities

The Company may use financial instruments to hedge exposure to fluctuations in oil and natural gas prices, electricity costs, exchange rates and interest rates. All contracted financial instruments are assessed for effectiveness as hedges and may be designated as hedges if certain criteria are met.

Gains or losses on oil and natural gas related instruments designated as a hedge are reported as adjustments to oil and natural gas revenues when the related production is sold. Gains or losses on electricity rate transactions designated as a hedge are recorded as adjustments to operating expenses when the related power is consumed. Gains or losses on interest rate hedging transactions are reported as adjustments to interest on long term debt over the period hedged. Gains or losses on foreign exchange hedging transactions are recognized as foreign exchange gain or loss or as an adjustment to oil revenues.

Financial instruments not designated as a hedge, not qualifying as a hedge, or no longer effective as a hedge are recorded on the balance sheet as an asset or liability with changes to the market value reflected in net income.

f) Enhanced oil recovery

The value of proprietary injectants is not recognized as revenue until re-produced and sold to third parties. The cost of injectants purchased from third parties for miscible flood projects is included in property, plant and equipment. Deferred injectant costs are amortized as depletion and depreciation over the period of expected future economic benefit on a straight-line basis. Costs associated with the production of proprietary injectants are expensed.

g) Foreign currency translation

Monetary items, such as receivables and borrowings, are translated to Canadian dollars at the rate of exchange in effect at the balance sheet date. Non-monetary items, such as property, plant and equipment, are translated to Canadian dollars at the rates of exchange in effect when the transaction occurred. Revenues and expenses denominated in foreign currencies are translated at the average exchange rates in effect during the period. Foreign exchange gains or losses on translation are included in net income.

h) Stock-based compensation

The Company has a stock option plan and an employee stock savings plan, as described in Note 7.

As the stock option plan includes a cash settlement alternative, stock-based compensation cost is measured for stock options outstanding at intrinsic value and recognized as an expense over the vesting period. Intrinsic value is the difference between the exercise price of stock options and the trading price of common shares at the end of the measured period. Provision is made for all vested options at the period end plus the portion of future option vestings attributable to the current period. Changes in intrinsic value of outstanding options between the grant date and the measurement date are reflected as stock-based compensation cost. Cash payments made on option exercises are charged against the stock-based compensation liability to the extent that prior provision was made for the payment. Payments in excess of the recorded liability are charged to stock-based compensation cost.

Costs in respect to the employee stock savings plan are expensed as incurred.

i) Revenue recognition

Revenues from the sale of crude oil, natural gas liquids and natural gas are recognized when title passes from the Company to the purchaser. Sales below or in excess of the Company's working interest share of production are recorded as inventory or deferred revenue, respectively.

j) Income taxes

The Company uses the liability method of accounting for future income taxes. Timing differences are calculated assuming that the financial assets and liabilities will be settled at their carrying amount. Future income taxes are computed on temporary differences using income tax rates that are expected to apply when future income tax assets and liabilities are realized or settled.

2. Property, plant and equipment

December 31,	**2004**	2003*
Oil and natural gas properties, and production and processing equipment	**$ 5,241,817**	$ 4,303,533
Other	**12,702**	11,984
	5,254,519	4,315,517
Accumulated depletion and depreciation	**(1,592,675)**	(1,198,351)
Net book value	**$ 3,661,844**	$ 3,117,166

*Restated, see Note 11.

During the years ended December 31, 2004 and 2003, no overhead expenses were capitalized. The cost of unevaluated property excluded from the depletion base as at December 31, 2004 was $284 million (2003 – $263 million). Estimated future capital to develop proved reserves of $397 million (2003 – $399 million) was included in the depletion base as at December 31, 2004.

3. Stock-based compensation

The Company commenced recording stock-based compensation costs in the second quarter of 2003. The continuity of the liability for stock-based compensation, based on the year end share price of $79.25 (2003 – $48.17), was as follows:

December 31,	2004	2003
Liability, beginning of period	**$ 27,917**	$ –
Provision	**84,136**	48,002
Cash payments on exercise of stock options	**(15,613)**	(13,572)
Liability settlements on stock options exercised for shares	**(4,472)**	(6,513)
Liability, December 31	**$ 91,968**	$ 27,917
Current portion*	**$ 71,017**	$ 22,111
Long term portion	**20,951**	5,806
	$ 91,968	$ 27,917

* The current portion of the stock-based compensation liability represents the Company's potential liability if all vested stock options, plus those vesting in the next year, were exercised for cash at the year end share price.

4. Bank loan

December 31,	2004	2003
Bankers' acceptances	**$ 154,181**	$ –
LIBOR advances (2004 – US$290 million, 2003 – US$340 million)	**348,875**	442,394
	$ 503,056	$ 442,394

The Company has a credit facility arranged with a syndicate of chartered banks that is unsecured and bears interest at the prime rate or bankers' acceptance rates plus a stamping fee and facility utilization fee. The maximum borrowing under the facility is $840 million consisting of a $765 million credit facility and a $75 million operating loan facility. The facility is subject to an annual review by the lenders at which time a lender can request conversion to a term loan with repayment in full after one year. As at December 31, 2004, the Company had outstanding letters of credit for $5.9 million (2003 – $6.6 million) that reduced the amount otherwise available to be drawn on the facilities.

In July 2004, the Company converted US$150 million of its U.S. denominated borrowings to Canadian dollars at an exchange rate of $0.755 CAD/USD resulting in a realized foreign exchange gain of $28.5 million. In January 2005, the Company converted US$80 million of its U.S. denominated borrowings to Canadian dollars at an exchange rate of $0.831 CAD/USD realizing an additional foreign exchange gain of $24.9 million.

5. Asset retirement obligations

Effective January 1, 2004, the Company retroactively adopted the new accounting recommendations for asset retirement obligations. The total future asset retirement obligation was estimated by management and external consultants, assuming current technology and enacted legislation, based on the Company's net interest in all wells and facilities. The obligation includes the estimated costs and timing of well and facility abandonments and the reclamation of associated sites. The impact of the new accounting recommendations on the comparative financial statements was as follows:

Consolidated Balance Sheet

As at December 31, 2003	As Reported	Change	As Restated
Assets			
Net property, plant and equipment	$ 2,953,658	$ 163,508	$ 3,117,166
Liabilities and shareholders' equity			
Deferred credits/stock-based compensation	67,563	(61,757)	5,806
Asset retirement obligations	–	172,761	172,761
Future income taxes	649,355	19,262	668,617
Retained earnings	$ 1,115,457	$ 33,242	$ 1,148,699

Consolidated Statement of Income and Retained Earnings

Year ended December 31, 2003	As Reported	Change	As Restated
Depletion, depreciation and accretion	$ 322,031	$ (30,164)	$ 291,867
Accretion (1)	–	11,795	11,795
Future income taxes	90,601	6,742	97,343
Net income	$ 434,951	$ 11,627	$ 446,578

(1) Included in depletion, depreciation and accretion.

Changes to asset retirement obligations were as follows:

	2004	2003
Asset retirement obligations at January 1	**$ 172,761**	$ 148,033
Liabilities incurred during the period	**18,800**	27,247
Liabilities settled during the period	**(29,558)**	(14,314)
Accretion	**18,750**	11,795
Asset retirement obligations at December 31	**$ 180,753**	$ 172,761

The total undiscounted, uninflated amount required to settle the asset retirement obligations at December 31, 2004 was $737 million. Asset retirement obligations were discounted using a credit-adjusted rate of 7.5 percent over the expected useful life of the underlying assets, which currently extends up to 50 years into the future with an average life of 22 years.

6. Income taxes

As at December 31, future income tax assets (liabilities) arose from temporary differences as follows:

	2004	2003
Property, plant and equipment	**$ (914,038)**	$ (727,927)
Asset retirement obligations	**64,420**	63,455
Bank loan	**(16,094)**	(14,399)
Stock-based compensation	**32,777**	10,254
Capital losses	**10,664**	–
Valuation allowance on capital losses	**(10,664)**	–
	$ (832,935)	$ (668,617)
Current future income tax assets	**$ 25,310**	$ 8,121
Future income tax liability	**(858,245)**	(676,738)
	$ (832,935)	$ (668,617)

The provision for income taxes reflects an effective tax rate that differs from the combined federal and provincial statutory tax rate as follows:

Years ended December 31,	2004	2003
Income before taxes	**$ 409,413**	$ 563,969
Corporate income tax rate	**39.4%**	40.4%
Computed income tax provision	**$ 161,309**	$ 227,844
Increase (decrease) resulting from:		
Non-deductible Crown payments, net	**72,657**	87,445
Resource allowance	**(74,245)**	(89,166)
Tax rate reductions	**(20,237)**	(99,959)
Non-taxable foreign exchange	**(7,473)**	(14,399)
Other	**(4,609)**	(4,524)
Total income taxes	**$ 127,402**	$ 107,241
Current	**17,834**	9,898
Future	**109,568**	97,343
	$ 127,402	$ 107,241

7. Share capital

a) Authorized

i) Unlimited number of preferred shares issuable in one or more series.

ii) Unlimited number of voting common shares without nominal or par value.

b) Issued

Common shares	Number	Consideration
Balance, December 31, 2002	53,732,540	$ 483,805
Issued on exercise of stock options for common shares	1,208,750	26,714
Liability settlement on stock options exercised for shares		6,513
Purchase of shares under Normal Course Issuer Bid	(1,249,000)	(11,463)
Balance, December 31, 2003	53,692,290	$ 505,569
Issued on exercise of stock options for common shares	176,455	5,243
Liability settlement on stock options exercised for shares	–	4,472
Balance, December 31, 2004	**53,868,745**	**$ 515,284**

c) Normal course issuer bid

In February 2003, the Company announced its intention to make a Normal Course Issuer Bid (the "2003 Bid") through the facilities of the Toronto Stock Exchange. The 2003 Bid commenced on February 27, 2003 and continued until February 26, 2004. During this period, a maximum of five percent of the issued and outstanding common shares, being 2,687,824 shares, were eligible for purchase and cancellation. A total of 1,249,000 shares were purchased under the 2003 Bid, at an average cost of $42.25 per share and at a total cost of $53 million, of which $41 million was charged to retained earnings and $12 million was charged to share capital.

In March 2004, the Company announced another Normal Course Issuer Bid (the "2004 Bid"), through the facilities of the Toronto Stock Exchange. The 2004 Bid commenced on March 8, 2004 and extends for a maximum of one year. A maximum of five percent of the issued and outstanding common shares of the Company, being 2,689,796 shares, are eligible for purchase and cancellation. No shares were purchased under the 2004 Bid.

d) Employee stock savings plan

The Company has an employee stock savings plan (the "Savings Plan") for the benefit of all salaried employees. Under the Savings Plan, employees may elect to contribute up to 10 percent of their salary. In general, the Company matches employee contributions at a rate of $1.50 for each $1.00 of employee contribution. Employee contribution common shares may be issued from treasury at the average quarter-end market prices or purchased in the open market. In 2004 and 2003, all employee contribution common shares were purchased in the open market. In 2004, 87,787 Company contribution common shares were purchased in the open market at an average price of $66.90 per common share and a total cost of $5.9 million (2003 – 97,533 shares at an average price of $43.39 per common share and a total cost of $4.2 million).

e) Stock options

The Company has a stock option plan (the "Stock Option Plan") for the benefit of its employees and directors. Generally, stock options vest over a five year period and, if unexercised, expire six years from the date of grant. In the second quarter of 2003, the Stock Option Plan was amended to provide option holders the right to receive cash for the surrender of vested stock options. To reflect the tandem nature of the plan in 2004, stock-based compensation costs of $84 million (2003 – $48 million) were charged to income.

During 2004, the Company paid $15.6 million for the surrender of 523,305 vested stock options (2003 – $13.6 million on 741,820 vested stock options) where the cash alternative was selected. These payments were charged against the stock-based compensation liability.

Total stock option activity relating to the Stock Option Plan was as follows:

	Shares	Weighted Average Exercise Price
Balance, December 31, 2002	5,005,750	$ 29.97
Granted	1,563,850	41.32
Exercised for common shares	(1,208,750)	22.10
Exercised for cash	(741,820)	28.33
Forfeited	(392,240)	$ 35.36
Balance, December 31, 2003	4,226,790	$ 36.21
Granted	389,275	59.07
Exercised for common shares	(176,455)	29.71
Exercised for cash	(523,305)	31.92
Forfeited	(187,325)	$ 46.35
Balance, December 31, 2004	**3,728,980**	**$ 39.00**

As at December 31, 2004, there were 4,052,820 common shares (2003 – 4,229,275) reserved for future issuance. The table below summarizes information about stock options outstanding at December 31, 2004:

Range of Exercise Prices	**Outstanding as of December 31, 2004**	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	**Exercisable as of December 31, 2004**	Weighted Average Exercise Price
$15.00 – $22.50	**62,600**	0.2	$ 18.57	**62,600**	$ 18.57
$22.51 – $33.77	**879,790**	1.2	31.50	**621,070**	31.31
$33.78 – $50.63	**2,506,890**	3.7	39.70	**621,975**	38.88
$50.64 – $75.96	**279,700**	5.4	60.89	**–**	–
	3,728,980	3.2	$ 39.00	**1,305,645**	$ 34.30

As at December 31, 2004, options to purchase 1,305,645 shares (2003 – 875,480 shares) were exercisable.

8. Net income per share amounts

The Company follows the treasury stock method to compute the dilutive impact of stock options. The treasury stock method assumes that the proceeds received from the assumed exercise of in-the-money stock options are used to purchase common shares at average market prices.

The weighted average number of common shares used to calculate per share amounts was:

Years ended December 31,	2004	2003
Basic	**53,819,484**	53,793,072
Diluted	**54,802,957**	54,531,272

9. Financial instruments

Financial instruments, included in the balance sheets, are comprised of accounts and taxes receivable, current liabilities and the bank loan. The fair values of these financial instruments approximate their carrying amounts due to the short term maturity of the instruments and the market rate of interest and exchange rates applied to the bank loan.

All of the accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risk. The Company, from time to time, uses various types of financial instruments to reduce its exposure to fluctuating oil and natural gas prices, electricity costs, exchange rates and interest rates. The use of these instruments exposes the Company to credit risks associated with the possible non-performance of counterparties to derivative instruments. The Company limits this risk by transacting only with financial institutions with high credit ratings and by obtaining security in certain circumstances.

The Company's revenue from the sale of crude oil, natural gas liquids and natural gas are directly impacted by changes to the underlying commodity prices. To ensure that cash flows are sufficient to fund planned capital programs, costless collars may be utilized. These instruments ensure that commodity prices realized will fall into a contracted range for a contracted sales volume. Forward power contracts fix a portion of future electricity costs at levels determined to be economic by management.

Variations in interest rates directly impact interest costs. From time to time, the Company may increase the certainty of future interest rates using financial instruments to swap floating interest rates to fixed.

Crude oil sales and certain bank loans are referenced to or denominated in U.S. dollars. Accordingly, realized crude oil prices and debts in Canadian dollars are directly impacted by CAD/USD exchange rates. From time to time, the Company may use financial instruments to fix future exchange rates.

As at December 31, 2004, the Company had the following financial instruments outstanding:

	Notional Volume	Remaining Term	Pricing/Rate	Market Value* Year End
Natural gas				
AECO Costless Collars	75,000 GJ/d	Jan/05 – Mar/05	$7.30 to $13.10/GJ	$ 6,840
Electricity				
Alberta Power Pool Swaps	60 MW	2005	$41.00 to $50.00/MWh	2,092
Alberta Power Pool Swaps	60 MW	2006	$42.25 to $43.15/MWh	2,457
Alberta Power Pool Swaps	35 MW	2007	$46.00/MWh	$ 460

* Unrealized gain based on calculations using posted rates for similar contracts at the balance sheet date.

10. Cash flows

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

Years ended December 31,		2004		2003
Accounts receivable	$	**(18,905)**	$	4,013
Taxes receivable		**26,257**		(26,257)
Other current assets		**(3,285)**		(2,537)
Accounts payable and accrued liabilities		**58,422**		62,852
Taxes payable		**11,174**		(94,274)
	$	**73,663**	$	(56,203)
Operating activities	$	**23,505**	$	(114,632)
Investing activities		**50,024**		58,207
Financing activities		**134**		222
	$	**73,633**	$	(56,203)

11. Accounting changes and 2003 financial statement reclassifications

Effective January 1, 2004, the Company retroactively adopted the accounting recommendations for Asset Retirement Obligations. The accounting policies are detailed in Note 1 c) iv) to these Consolidated Financial Statements. Comparative financial information has been restated as detailed in Note 5 to these Consolidated Financial Statements.

Certain transportation costs totalling $25,600 (2003 – $26,359) were retroactively reclassified from a component of oil and natural gas revenues to a separate expense in the Consolidated Statements of Income and Retained Earnings.

As detailed in Note 6 to these Consolidated Financial Statements, future income tax assets of $25,310 (2003 – $8,121) related to the current portion of the stock-based compensation liability were reclassified to a current future income tax asset from a component of the long term future income tax liability.

12. Strategic alternatives process

On August 20, 2004, the Board of Directors recommended that the assets of the Company be converted into an income trust contingent on receipt of a satisfactory advance tax ruling from the Canada Revenue Agency. To date, the ruling remains pending. Upon receipt of a satisfactory advance tax ruling, the Company intends to submit a Plan of Arrangement to shareholders for approval. If approved, the new business model could significantly impact future operations including dividend/distribution policies, capital programs, hedging activities, acquisition hurdle rates and compensation policies.