PENDARIES PETROLEUM LTD.

ANNUAL INFORMATION FORM
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

April 2, 1998

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GLOSSARY OF TERMS

The following is a glossary of terms and abbreviations used frequently throughout this Annual Information Form:

"Alberta Properties" means the Morinville Field, the Wintering Hills Field and the Grand Forks Field located in Alberta, Canada, in which the Company has an interest.

"Bohai Bay Blocks" means Block 04/36, Block 05/36, Getuo Block and Laopu Block, each located in the Bohai Bay, China.

"Cambro/Ordovician" means sedimentary rocks from geologic periods of the early Paleozoic era, ranging in age from about 400 to 500 million years ago.

"CNOOC" means the Chinese National Offshore Oil Company.

"CNPC" means the China National Petroleum Corporation.

"Common Shares" means the common shares of the Company.

"Company" means Pendaries Petroleum Ltd., a corporation continued under the *Business Corporations Act* (New Brunswick).

"EBS" means EBS & Associates, Inc., an independent geological and engineering consulting firm located in Houston, Texas.

"EBS Report" means the report prepared by EBS evaluating the crude oil and gas attributable to the Company as of January 1, 1998.

"Exchange Rights" means the rights granted by the Company and held by holders of Sino-American Class A Shares other than the Company and holders of options to purchase Sino-American Class A Shares to exchange Sino-American Class A Shares for Common Shares of the Company on a one-for-one basis.

"Foreign Contractors" means, for each Bohai Bay Block and the Pearl River Block, those non-Chinese companies that are parties to the Petroleum Contracts with the CNOOC or the CNPC, as applicable.

"Kerr-McGee" means Kerr-McGee Corporation, the parent company of the operator of each of the Bohai Bay Blocks and the Pearl River Block.

"Management Information Circular" means the management information circular sent to shareholders of the Company dated April 2, 1998 in connection with the Company's Annual and Special Meeting of Shareholders to be held on May 7, 1998.

"MBO" means thousand barrels of oil.

"MMCF" means million cubic feet of gas.

"MOFTEC" means the Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China.

"Operating Agreements" means the five operating agreements executed or to be executed by the Foreign Contractors who are parties to the related Petroleum Contracts, pursuant to which the respective rights and obligations of the parties as to each other under the respective Petroleum Contracts are defined.

"Pearl River Block" means Block 27/11 in the Pearl River Mouth Basin.

"Petroleum Contracts" means the five petroleum contracts among Kerr-McGee, Pendaries, certain of the Foreign Contractors and CNOOC in the case of Block 04/36, Block 05/36 and the Pearl River Block, and Kerr-McGee, the Company, certain of the Foreign Contractors and CNPC in the case of Getuo Block and Laopu Block, which contracts govern the exploration, development and production of the respective blocks covered in each such contract.

"Setsco" means Setsco Resources, Inc., the predecessor corporation to Sino-American.

"Sino-American" means Sino-American Energy Corporation, a corporation incorporated under the *Texas Business Corporation Act*.

"Sino-American Class A Shares" means the shares of Sino-American Class A common stock, US$.01 par value, of Sino-American.

"Sino-American Class B Shares" means the shares of Sino-American Class B common stock, US$.01 par value, of Sino-American.

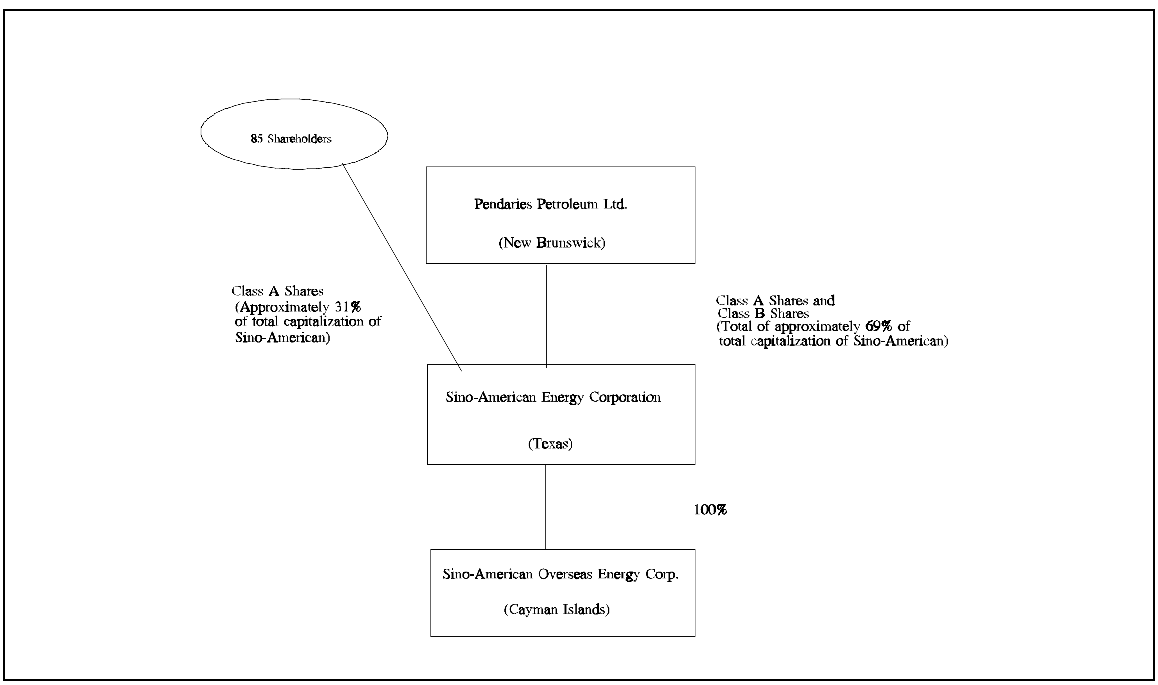
"Sino-American Overseas" means Sino-American Overseas Energy Corp., a corporation incorporated under the laws of the Cayman Islands and a wholly-owned subsidiary of Sino-American.

"Tertiary" means that portion of the geologic sedimentary section younger than Cretaceous and older than Quaternary ranging in age from approximately 55 million to 2 million years before present.

ITEM 1 - INCORPORATION

Pendaries Petroleum Ltd. was continued under the *Business Corporations Act* (New Brunswick) by articles of continuance dated September 9, 1996. The Company's principal executive office is located at 95 Wellington Street West, Suite 200, Toronto, Ontario, M5J 2N9 and its U.S. office is at 8 Greenway Plaza, Suite 910, Houston, Texas, 77046. The registered office of the Company in Canada is located at 10th Floor, Brunswick House, 44 Chipman Hill, Saint John, New Brunswick, E2L 4S6 and in Houston at 1100 Louisiana, Suite 1800, Houston, Texas, 77002.

The Company is a holding company whose primary asset is all of the issued and outstanding Sino-American Class B Shares and, as of December 31, 1997, 2,690,038 Sino-American Class A Shares, representing in the aggregate, approximately 69% of the issued and outstanding shares of common stock of Sino-American. Sino-American was incorporated under the *Texas Business Corporation Act* by articles of incorporation filed August 22, 1996. Prior to September 3, 1996, the business described below was carried on by Setsco, the predecessor corporation to Sino-American. On September 3, 1996, Setsco merged with and into Sino-American under the *Texas Business Corporation Act*. As a result, Sino-American, the surviving corporation in the merger, became the owner of the working interests in the Bohai Bay Blocks described below. Sino-American's interest in Block 27/11 described below is held through Sino-American Overseas. The following chart shows the corporate structure of the Company and its affiliated companies. All figures in the following chart are as of December 31, 1997.



ITEM 2 - BACKGROUND AND DEVELOPMENT OF THE COMPANY'S BUSINESS

The Business of the Company

The Company is a holding company whose primary asset, as of December 31, 1997, is approximately 69% of the issued and outstanding shares of common stock of Sino-American. All of the issued and outstanding Sino-American Class A shares held by shareholders other than the Company, representing, as of December 31, 1997, approximately 31% of the issued and outstanding shares of common stock of Sino-American, are exchangeable for Common Shares of the Company on a one-for-one basis. As Sino-American Class A Shares are exchanged for Common Shares of the Company, the Company's interest in Sino-American will increase. Any unexercised Exchange Rights will expire on the earlier of (i) September 3, 2005; or (ii) at the option of the Company, any date on which the percentage of Sino-American Class A Shares held by shareholders other than the Company is less than 10% of the aggregate of the outstanding Sino-American Class A Shares and Sino-American Class B Shares; provided that the Company is required to provide the holders of Sino-American Class A Shares 90 days notice of such expiration. In addition, the Company owns an interest in certain proved developed reserves contained in the Alberta Properties.

Canadian Reserves

The Company purchased, at the closing of its initial public offering in late 1996, approximately US$1,850,000 of proved, developed reserves located in Alberta, Canada. The reserves are contained within three properties: the Morinville Field, located north of Edmonton, and the Wintering Hills and Grand Forks properties located south of Calgary. Morinville and Grand Forks are oil-producing properties, while Wintering Hills is exclusively gas-producing. Net monthly revenues generated by the three Alberta Properties are approximately US$51,000.

The Business of Sino-American

Overview

Sino-American and its wholly-owned subsidiary, Sino-American Overseas, hold certain offshore oil and gas exploration interests in the Bohai Bay and the Pearl River Mouth Basin in the People's Republic of China. Sino-American holds working interests in four blocks in the Bohai Bay covering approximately 1,132,968 acres: a 10% interest in Laopu Block - 78,332 acres; a 10% interest in Getuo Block - 76,108 acres; a 10% interest in Block 04/36 - 563,400 acres; and a 15% interest in Block 05/36 - 415,128 acres (collectively, the "Bohai Bay Blocks"). Sino-American Overseas holds a 10% interest in the Pearl River Block - 753,670 acres located in the Pearl River Mouth Basin of the South China Sea. Sino-American is, in the case of each of the Bohai Bay Blocks, one of three Foreign Contractors in each concession. In the Pearl River Block, Sino-American is one of four Foreign Contractors. The other party to the Petroleum Contracts is either the CNOOC or the CNPC. Under the Petroleum Contracts, the interests of the Foreign Contractors may be reduced proportionately upon the declaration of commerciality as the CNOOC or the CNPC, as applicable, is entitled to acquire a 51% working interest in any commercial development in each of the Bohai Bay Blocks and the Pearl River Block by paying its proportionate share of the development and operating costs. The four Bohai Bay Blocks and the Pearl River Block are operated by a wholly-owned subsidiary of

Kerr-McGee. To date, three exploratory wells and three delineation wells have been drilled on behalf of Sino-American and the other Block 04/36 Foreign Contractors which wells are estimated to hold an aggregate of 96 million barrels of proved undeveloped reserves and 280 million barrels of probable reserves on a risked basis. In addition, one exploratory well has been drilled in the Block 05/36 and one exploratory well has been drilled in Laopu Block to date by Sino-American and the other Foreign Contractors, which were found to contain non-commercial hydrocarbons.

Plan of Operation

The current plans of Sino-American and the other Foreign Contractors are to drill up to four additional exploratory or appraisal wells through 1998 in the Bohai Bay Blocks. See "Item 3 — Business of the Company - Future Exploration Plans in the Bohai Bay."

Sino-American and the other Foreign Contractors are studying various alternatives to achieve commerciality on the CFD 2-1 discovery prospect in Block 04/36. A 3-D seismic survey of the area is well underway with the shooting, processing and interpretation to be completed in mid-1998. Alternatives being considered are a fast track production system which would require the drilling of at least two more production wells and the re-entry of one or more existing wells. Another alternative is a long-term production test which will require the re-entry of one of the existing wells. The alternative chosen will depend upon the final analysis of the 3-D seismic survey.

In addition, Sino-American is participating in the geological and geophysical evaluation of the hydrocarbon prospects in the Pearl River Block. Geophysical data have been gathered and interpreted over several prospects and an exploratory well approximately 11,000 feet deep will be drilled in 1998. Should the exploratory test be successful, the Company anticipates that one or more appraisal wells could be drilled and tested in 1998. See "Item 3 — Business of the Company - Future Exploration Plans in the Pearl River Mouth Basin."

Although the 1999 exploration, appraisal and development budgets have not been prepared, Sino-American is anticipating the drilling of up to two exploration wells and six appraisal wells along with additional geological and geophysical work programs in its five China blocks during the first six months of 1999.

For costs associated with the plan of operation described above, see "Item 5 — Management's Discussion and Analysis of Financial Condition and Results of Operation".

Corporate Strategy

The Company has implemented a strategy which has permitted it to identify and participate in the exploration and development of overseas oil and gas properties which, to date, have been limited to China. This strategy includes the following key elements:

- Development of Prospects in China

  The Company believes that potentially significant undeveloped reserves, located in the shallow offshore waters and adjacent to nearby large onshore oil fields, underlie the Bohai Bay Blocks and the Pearl River Block. In management's opinion, this factor, in combination with the proximity to an oil and gas facility infrastructure, increasing market demand in the Pacific region, and a favorable fiscal regime, could result in attractive oil and gas investment opportunities in China. The Company has numerous potential prospects on which to conduct further geologic and geophysical activities in these areas. The Company intends to explore a multitude of avenues to bring existing prospect areas on production.

- Utilization of Strategic Alliances with Chinese and Western Oil and Gas Companies

  The Company believes that it maintains an excellent relationship with Chinese ministries and will leverage this cooperation to attempt to attract additional strong oil companies seeking to enter or enlarge their exploration activities in China. Company Chairman and CEO, Robert Rigney, has been involved in the Asian and U.S. oil and gas industries for more than 20 years. In addition, Urick Ho, a Vice President and Director of the Company and head of its Beijing office, has over 14 years of experience in the oil and gas industry in China. As a result of this experience, the Company has been able to foster alliances between Chinese companies and other larger Western oil and gas companies, in some cases earning an interest for the Company in the applicable concession. The Company expects to continue to enjoy the benefit of this involvement and experience in the future.

- Expansion of Reserve Base

  The Company plans to negotiate additional concession contracts in other offshore and onshore areas in China in order to expand its base of proved and probable reserves. Discussions are ongoing with current co-venturers regarding the acquisition of other properties.

- Selective Geographic Diversification

  The Company is investigating oil and gas prospects in those core international areas where management has experience and expertise. Depending upon its assessment of the potential for such investments, management believes that geologic and geographic diversification would lend added stability to the Company's reserve base and be beneficial to the shareholders.

History and Development of the Business

Management of Sino-American has been engaged in the oil and gas industry in Asia since the late 1970's when Mr. Rigney began selling oil field equipment to the Chinese government. These activities led to various other oil and gas related ventures throughout the 1970's and 1980's, including consulting work on behalf of the Chinese government and the export of crude oil by Mr. Rigney from China to Texas. In the early 1990's, Mr. Rigney acted as agent for the Chinese government to assist it in identifying foreign oil and gas companies possessing appropriate Western technology which could be utilized in China. The objective of the Chinese government was to grant concession rights in oil and gas properties to foreign operators and their partners who could best exploit the available opportunities. Mr. Rigney has also assisted various Chinese oil and gas enterprises in training their employees to use Western oil and gas technology and applications.

In 1990, a large U.S. refining company sought the assistance of Mr. Rigney to identify investment opportunities for the refining company in China. Mr. Rigney introduced such refining company to Kerr-McGee, which sold the refining company an option to participate in up to 10% of any of Kerr-McGee's Chinese oil and gas investments made during 1994 and 1995. In 1995, Setsco, purchased this participation right. In 1994 and 1995, Kerr-McGee acquired its interests in the Bohai Bay Blocks, and Setsco exercised its option to participate in each of these blocks. Kerr-McGee offered to increase the percentage participation of Setsco in Block 05/36 to 15% and Setsco accepted the offer.

In late 1996, Kerr-McGee acquired an interest in the Pearl River Block and offered Sino-American a 10% interest in that block and Sino-American accepted the offer.

Kerr-McGee Corporation

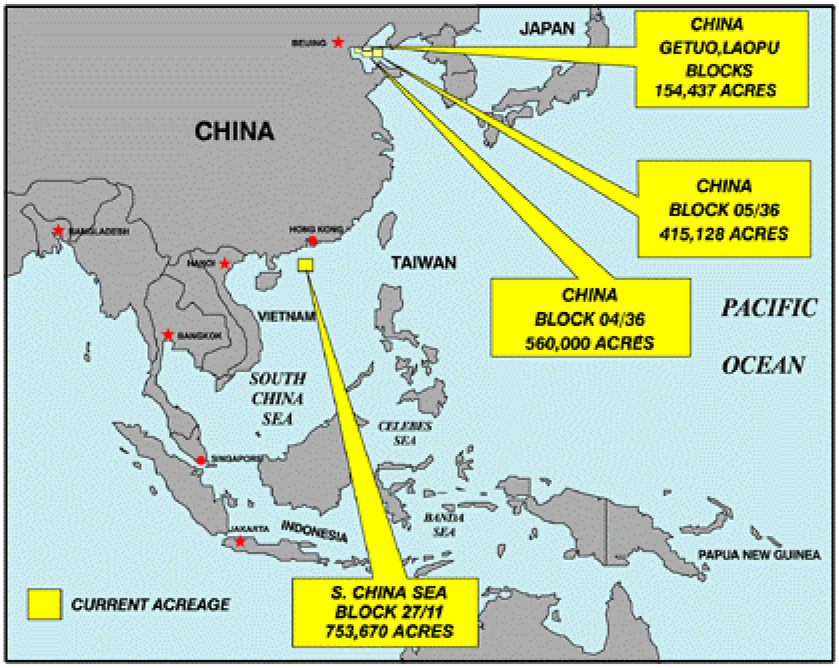
Kerr-McGee, through a wholly-owned subsidiary, is the operator of each of the Bohai Bay Blocks and the Pearl River Block. Kerr-McGee is a United States-based international oil and gas company listed on the New York Stock Exchange with a current market capitalization of more than US$3 billion. Kerr-McGee's proven oil and gas reserves in 1996 totalled 168 million barrels of crude oil and condensate and 523 billion cubic feet of natural gas of which approximately 69% are overseas.

Kerr-McGee is one of the early Western exploration companies to be selected as a partner by CNOOC and CNPC in the shallow water exploration of the Bohai Bay. Sino-American was instrumental in assisting Kerr-McGee in the acquisition of the concessions in the Bohai Bay. One of the factors in the decision by the Chinese government to choose Kerr-McGee to operate the Bohai Bay Blocks is Kerr-McGee's experience in the operationally similar U.S. Gulf of Mexico. In particular, Kerr-McGee pioneered many operations in the U.S. Gulf of Mexico, including the first offshore well in 1947 and the first offshore horizontal production well in 1991.

ITEM 3 - BUSINESS OF THE COMPANY

Background on the Bohai Basin and the Bohai Bay

The Bohai Bay lies within the North China Basin that covers more than 77,000 square miles, approximately 28,000 of which are offshore and approximately 49,000 of which are onshore. The basin encompasses portions of the provinces of Hebei, Henan, Shandong, Liaoning, Beijing, Tianjin and the Gulf or Bay of Bohai. The basin is bounded by the Yanshan Mountains in the north, the Taihangshan Mountains in the west and to the northeast and east by the Luxi and Jiaoliao uplifts.



Hydrocarbon exploration and production in China has greatly expanded since the founding of the People's Republic of China in 1949. Since that time, the Bohai Basin has become China's most prolific oil production basin, currently producing approximately 1.3 million barrels per day. Cumulative production to date from the Bohai Basin is estimated by CNOOC to exceed 8 billion barrels. Several large field complexes in the Bohai Basin originally had recoverable reserves of greater than one billion barrels.

The vast majority of the exploration and development within the Bohai Basin has occurred in the onshore portion of the basin due to the ease of onshore drilling and the limited offshore oil and gas technology available to the Chinese operators. As a result, the Company believes that the Bohai Bay is under-explored compared to the onshore Bohai Basin.

Petroleum exploration and development in the Bohai Bay started in the mid-1960's. Initially, offshore exploration was conducted by Chinese government-owned oil companies. In 1980, the Chinese began contacting foreign oil companies for help in exploration, technical expertise and financing of prospects. As a result, the offshore Bohai Bay was made available for exploration by foreign companies. Currently, there are several major oil and gas companies operating in the Bohai Bay, including Kerr-McGee, Texaco Inc., Phillips Petroleum, Occidental Petroleum, Apache Corporation, Exxon Corporation and Chevron.

As a result of the significant oil and gas development activity underway in the Bohai Basin, particularly in the onshore areas, an oil terminal with excess storage capacity is being built at Tanggu. The facility is capable of receiving oil tanker traffic, thereby providing the Bohai Basin with access to local and international oil markets. Recently, an oil pipeline through the western portion of the Bohai Bay to the Tanggu terminal was completed. The pipeline route does not cross any of the Bohai Bay Blocks; however, these blocks are located only 25 miles east of the Tanggu terminal.

The geology of the Bohai Bay is similar in many respects to the U.S. Gulf of Mexico, with Tertiary formations contributing a major portion of the production. The Tertiary sediments in the Bohai Bay are, however, primarily oil-prone as opposed to gas and condensate-prone sediments found in the U.S. Gulf of Mexico. The Bohai Basin contains prolific reserves which are trapped in erosional “highs” in Pre-Tertiary rocks. These hydrocarbon traps are referred to as “buried hills.” In addition to the thick Tertiary sandstone reservoirs draped over the buried hills, the buried hills themselves are important exploration targets in the Bohai Bay Blocks. The primary Tertiary play types are 4-way closures, drape over faults and fault traps. The hydrocarbon source rocks are thick, lower Tertiary lacustrine shales deposited in structural sags adjacent to the principal traps.

One of the principal advantages of operating in the Bohai Bay is that the water depth (varying from shoreline to 100 feet deep) allows conventional offshore technologies to be used in the appraisal, drilling and development of these fields. The principal benefits of using such technology are lower capital costs of drilling and establishing production facilities and greatly reduced lead times to initial production. The water depth in most of the concession area is deep enough to allow seismic vessels and oil tankers access to early production systems.

Currently there are several conventional jackup drilling rigs with experienced crews operating in the Bohai Bay.

Background on the Pearl River Mouth Basin

The Pearl River Mouth Basin is an early Tertiary, extensional (rifted) sedimentary basin located on the northern margin of the South China Sea. This elongate basin lies immediately offshore Hong Kong and covers approximately 56,000 square miles. Commercial hydrocarbon production was established in the Pearl River Mouth Basin in the 1980’s, principally by major oil companies in cooperation with CNOOC. These companies include Kerr McGee, Amoco Corp., Phillips Petroleum, Chevron, Texaco Inc. and Agip. The established production is located northeast and southwest of the Pearl River Block. Production is predominantly oil from Tertiary sandstone reservoirs trapped in broad, subtle anticlinal traps and in one instance a carbonate reef. A 28 inch gas pipeline from Yaching field to Hong Kong passes approximately 38 miles northwest of the Pearl River Block possibly providing an efficient transportation method for any future gas production.

The Pearl River Block lies approximately 120 miles south of Hong Kong in water depths generally less than 350 feet. A number of exploratory tests, some with shows of hydrocarbon have been drilled in the vicinity including four exploratory wells on the Pearl River Block, each of which has now been abandoned. One of these Pearl River Block wells, the EP 18-1-1A, recovered 1,136 barrels of oil per day on test from a Tertiary sandstone at a depth of approximately 4,593 feet. Currently, three prospect leads have been identified on the Pearl River Block and are the focus of seismic and subsurface studies. Current plans include the drilling of an estimated 11,000 foot exploratory test in 1998.

The reservoir rocks are Tertiary sandstones with potential hydrocarbon accumulation trapped in fault related closures and Pre-Tertiary buried hills. The hydrocarbon source rocks are early Tertiary lacustrine shales. These characteristics are similar to those found in Bohai Bay.

The close proximity to the coast of China and major population centers should enhance the early development and marketing of commercial hydrocarbons found on the Pearl River Block.

Exploration Activities To Date in the Bohai Bay

Kerr-McGee and the other Foreign Contractors originally identified portions of the Bohai Bay as highly prospective due to their proximity to producing onshore fields, infrastructure, relatively shallow water and promising geologic structures. One of these identified structures contains a previously drilled Chinese discovery well, Well HZ-1, which contains over 230 feet of oil pay with oil gravities of 17 to 20 degrees API.

The Bohai Bay Blocks cover approximately 1.1 million gross acres across four contiguous concession blocks. Sino-American holds a 10% working interest in Block 04/36, Laopu Block and Getuo Block, and a 15% working interest in Block 05/36. These interests may be reduced proportionately upon the declaration of commerciality as the CNOOC or the CNPC, as applicable, is entitled to acquire a 51% working interest in any commercial development in each of the Bohai Bay Blocks by paying its proportionate share of the development and operating costs. See "- Description of Petroleum Contracts." The Bohai Bay Blocks are located near the western boundary of the Bohai Bay. Water depths range from zero feet to 100 feet, which ensures ready access to conventional offshore seismic, drilling and production techniques. As is the case with the majority of the offshore portion of the Bohai Basin, the Bohai Bay Blocks are relatively unexplored.

Interpretation of seismic and subsurface data indicates the presence of a thick Tertiary sedimentary section which is believed, on the basis of the composition of fields nearby, to contain rich hydrocarbon source rocks. Sino-American, Kerr-McGee and the other co-owners have acquired and processed over 6,000 miles of seismic data over the Bohai Bay Blocks. Additional seismic data acquisition, processing, and interpretation continues at present. To date, current interpretations have identified over 40 geologic prospects and leads that Sino-American believes to have the potential to contain commercial volumes of crude oil either on a stand-alone basis or as incremental additions to future developments.

In addition, seismic and sub-surface well control have identified the presence of a massive layer of volcanic basalt up to 2,500 feet thick covering the western portion of Block 04/36. Sino-American believes that this rock layer, where present, creates an effective seal against leakages from prospective reservoir rocks in the deeper stratigraphic section. Until recently, the presence and relative density of this thick layer of basalt has caused difficulty in seismically imaging the prospective structures and sediments beneath the basalt layer. Current technologies employed by Kerr-McGee have proven to be effective in identifying geologic structures that have been obscure in the past.

The following chart summarizes the principal wells drilled to date in the Bohai Bay Blocks.

Principal Wells Drilled to Date in the Bohai Bay Blocks

		Exploratory Wells		Appraisal Wells	
Block	**% Interest of the Company**	**Name**	**Date**	**Name**	**Date**
04/36	10%	HZ-1[1]	1973	--	--
		CFD 8-2-1	July 1995	--	--
		CFD 2-1-1	June 1996	CFD 2-1-2	March 1997
				CFD 2-1-3	July 1997
				CFD 2-1-4	December 1997
		CFD 1-1-1	Feb. 1998	--	--
Laopu	10%	Lao Hai-1	July 1997	--	--
05/36	15%	BZ 8-4-1	October 1997	--	--

(1) Drilled by the Chinese government, the former operator of the block.

Three exploration wells and three delineation wells have been drilled to date by Sino-American and its other co-owners in Block 04/36 utilizing current seismic information. The first exploratory well, Well 8-2-1, drilled to a depth of approximately 6,280 feet, encountered approximately 20 feet of oil pay sand with 26 degree API gravity crude. While the unrisked reserves discovered in Well 8-2-1 are believed to be about 20 million barrels, this was not considered to be economical without any other established production in the area.

The second exploratory well, Well CFD 2-1-1, was drilled in June 1996 to a depth of approximately 11,755 feet. Well CFD 2-1-1 tested 34 degree API, sweet crude oil with a high wax content and associated natural gas from a Cambro/Ordovician carbonate buried hill. Two separate tests were performed over a 364 foot interval. The lower interval flowed at a rate of approximately 980 barrels of oil per day and the upper interval at approximately 5,970 barrels of oil per day. No oil/water contact was encountered in the buried hill accumulation in Well CFD 2-1-1. Three appraisal wells have been drilled and tested to define further the aerial extent, thickness and reservoir properties of this buried hill accumulation. Data from these wells coupled with interpretation of 3-D seismic data currently being acquired are expected to enhance the seismic and subsurface interpretation of this and several other buried hill prospects identified on the Bohai Bay Blocks. Three of these prospects are on Block 04/36 and on trend with Well CFD 2-1-1.

Well CFD 2-1-2 was the first appraisal well on the CFD 2-1 prospect area. Well CFD 2-1-2 was approximately 1 mile northeast from Well CFD 2-1-1 in a water depth of 45 feet and was drilled to a depth of 13,143 feet in March 1997. Well CFD 2-1-2 tested at 4,100 barrels of oil per day of 34 degree API from a 63 foot perforated zone between 11,230 feet and 11,293 feet. Well CFD 2-1-2 encountered approximately 600 feet of oil column.

The second appraisal well, Well CFD 2-1-3, was drilled to a total depth of 13,028 feet at a location approximately 1-1/2 miles southeast of the discovery. Electric log, sidewall core and pressure data confirmed the presence of the CFD 2-1 reservoir in a new fault block. As a result, no drillstem tests were deemed necessary. Success in Well 2-1-3 caused the Foreign Contractors to move further east to drill the third appraisal well. Well CFD 2-1-4, located 3-1/2 miles east of the discovery, was drilled to a total depth of 13,966 feet. Well 2-1-4 was located to test the eastern extent of the CFD 2-1 reservoir. The well flowed at a daily rate of 2,992 barrels of oil and 3.7 million cubic feet of gas from perforations over the interval 12,140 to 12,336 feet.

In late 1997, on Block 04/36, the CFD 1-1-1 exploratory well spudded on a buried-hill prospect located 4 miles northwest of the CFD 2-1 discovery. This 14,000 foot test evaluated a deep seismic anomaly on trend with and believed to be similar in nature to CFD 2-1 buried hill. Samples, logs and paleontological data indicate this buried hill is composed of rocks of a different age and composition than the buried hill in the CFD 2-1 discovery. No significant shows of hydrocarbons were detected while drilling the buried hill section. A thick, porous Tertiary sandstone interval, approximately 500 feet thick, with good hydrocarbon shows was recorded while drilling. Further analysis through sidewall cores, logs and pressure tests indicate this interval has permeability too low to permit commercial production. Data from this well will be used in the assessment of several additional buried hill prospects. The 3-D seismic program currently being conducted over the CFD 2-1 discovery area may provide, in addition to better geologic structure definition, insight to variations in buried hill rock types.

During 1997, committed exploratory wells were drilled on the Laopu and 05/36 Blocks. The Lao Hai-1, on Laopu, was drilled to a total depth of 14,596 feet. Numerous hydrocarbon shows in the Tertiary sandstones were encountered, all of a non-commercial nature. The well provided valuable information about the geological trends and conditions to assist in the evaluation of several other prospects on Laopu and Getuo Blocks. On Block 05/36, the BZ 8-4-1 well was drilled to a total depth of 13,773 feet. While drilling, the well encountered an 800 foot interval of sandstone with somewhat encouraging hydrocarbon shows. However, upon flow testing, it was discovered that the permeability of the formation was too low to allow the flow of commercial quantities of hydrocarbons. Data from this well are important to the evaluation of several additional high-potential prospects on the block.

Exploration Activities To Date in the Pearl River Mouth Basin

Existing seismic and subsurface well data have been acquired and interpreted to evaluate the geologic leads in the Pearl River Block. Further, detailed proprietary seismic data were gathered over three of the most promising prospects in 1997. While the hydrocarbon trapping mechanism is different on each of the prospects, the principal objective reservoirs are Tertiary sandstones. These prospects are geologically and seismically similar in many respects to existing producing fields in the basin. Currently, drilling is underway on an exploratory well with a target depth of approximately 11,000 feet in the Pearl River Block.

Future Exploration Plans in the Bohai Bay

At year-end 1997 a 3-D seismic survey was being conducted over the CFD 2-1 development area on Block 04/36. These data, which will be processed and interpreted in 1998, are critical to the appraisal and fast-track development program for this field. Current plans call for the drilling of two additional appraisal wells on the CFD 2-1 prospect. These may be horizontal wells which, along with the discovery well, could be used as take points for an early production facility. The Company's current expectations are that limited production from the CFD 2-1 field could commence in 1999.

Also on Block 04/36, seismic reprocessing and reinterpretation have been completed on the CFD 11-1 prospect area. This prospect area has been partially appraised by the HZ-1 well, which the Chinese drilled in 1973. The HZ-1 well penetrated 230 feet of oil pay with 17 to 20 degrees API gravity oil. The operator is currently conducting engineering studies into alternative ways to develop and produce these crudes. It is likely a detailed seismic program, possibly a 3-D program, will be shot over the prospect area prior to drilling an estimated 4,600 foot test in 1998.

A series of buried hills occurs along the west to east trend on the northern boundary of Block 04/36. The prolific CFD 2-1 discovery in the Pre-tertiary Cambrian/Ordovician carbonates is on one of these buried hills. Thick, porous Tertiary sandstones, which drape over the buried hills, are also reservoir targets. Drill depths on these prospects vary from 11,500 feet to the east to 15,000 feet to the west. According to EBS, three of these prospects may be characterized as follows:

Prospect	Drill Depth (feet)	Aerial Extent (acres)
CFD 2-2	11,500	3,500
CFD 2-1	11,700	6,000
NB 31-3	15,000	14,900

In accordance with the Petroleum Contracts, a 9,840 foot exploratory well will be drilled on Getuo Block. Several prospects have been verified utilizing the seismic data gathered in 1997 and the subsurface data from the Lao Hai-1 well drilled on the adjacent Laopu Block. Getuo Block is in an intratidal zone requiring a shallow-water, barge-type rig. Rigs of this nature are available in Bohai Bay and the Company expects this well to be drilled in mid-1998.

On Block 05/36, several deep, buried-hill prospects located on the north flank of the Haizong High have been defined seismically. These prospects are surrounded by and overlain by thick Tertiary sandstones and shales which serve as source, seal and reservoirs in nearby onshore fields. Data on these prospects are currently being reinterpreted. The Foreign Contractors of Block 05/36 have committed to CNOOC to drill an exploratory test on this block in 1998. It is likely one of two of these high-potential prospects will be tested in the third quarter of 1998 by a 14,000 foot exploratory well.

Future Exploration Plans in the Pearl River Mouth Basin

Geological and geophysical evaluation of the hydrocarbon prospects in the Pearl River Block is planned for 1998. Drilling of one exploratory well, approximately 11,000 feet deep, is currently underway. For costs associated with the plan of operation described above, see "Item 5: Management's Discussion and Analysis of Financial Condition and Results of Operations".

Oil and Gas Reserves

EBS has conducted an independent evaluation of the Company's oil and gas reserves and the present value of future cash flows associated with such reserves based on escalated and constant price assumptions. This evaluation was effective as of January 1, 1998. Information from the EBS Report is summarized in the following tables.

All of the Company's proved reserves are located in Block 04/36 and in Canada. Sino-American presently has no proved developed reserves in China; however, as noted above, it has commenced delineation drilling to appraise the CFD 2-1 prospect area and will continue such drilling in 1998.

The present worth of estimated future cash flows contained in the following tables may not be representative of the fair market value of the reserves. Assumptions relating to costs, prices for future production and other matters are summarized in the notes following the tables. **There is no assurance that such price and cost assumptions will be attained and variances could be material. All estimated future cash flows as set forth in the following tables are stated after deduction of royalties, provisions for Chinese income taxes, Alberta Royalty Tax Credit and estimated future capital expenditures.** The EBS Report is based on certain factual data supplied by the Company, Kerr-McGee, published industry information sources and the non-confidential files of EBS.

Reserves and Economics
Based on Escalated Price Assumptions(5)(6)
as at January 1, 1998

	Reserves(1)		Present Worth (Net) (US$000's)			
				Discounted at		
	Net Oil (MBO)	Net Gas (MMCF)	Undiscounted	10%	15%	20%
Proved Developed Reserves(3)	111	850	$ 2,333	$ 1,511	$ 1,278	$ 1,108
Proved Undeveloped Reserves(3)	4,375	—	43,437	21,359	15,233	10,909
Total Proved Reserves	4,486	850	45,770	22,870	16,511	12,017
Probable Additional Reserves - Undeveloped(4)	21,098	—	248,018	105,730	71,909	49,854
Total Probable Additional - Unrisked	21,098	—	248,018	105,730	71,909	49,854
Total Proved & Probable - Unrisked	25,584	850	293,788	128,600	88,420	61,871
Total Probable Additional - Risked(2)	11,648	—	139,922	60,448	41,333	28,778
Total Proved & Probable - Risked	16,134	850	$ 185,692	$ 83,318	$ 57,844	$ 40,795

Reserves and Economics
Based on Constant Price Assumptions(5)(7)
as at January 1, 1998

	Reserves(1)		Present Worth (Net) (US$000's)			
				Discounted at		
	Net Oil (MBO)	Net Gas (MMCF)	Undiscounted	10%	15%	20%
Proved Developed Reserves(3)	111	850	$ 2,011	$ 1,350	$ 1,158	$ 1,015
Proved Undeveloped Reserves(3)	4,397	—	35,400	17,448	12,412	8,837
Total Proved Reserves	4,508	850	37,411	18,798	13,570	9,852
Probable Additional Reserves - Undeveloped(4)	21,123	—	190,494	81,921	55,790	38,639
Total Probable Additional - Unrisked	21,123	—	190,494	81,921	55,790	38,639
Total Proved & Probable - Unrisked .	25,631	850	227,905	100,719	69,360	48,491
Total Probable Additional - Risked(2) .	11,661	—	107,681	46,861	32,047	22,255
Total Proved & Probable - Risked . . .	16,169	850	$ 145,092	$ 65,659	$ 45,617	$ 32,107

Notes:

(1) Net reserves are defined as the working and royalty interest share of Canadian reserves and working interests in Chinese reserves accruing to the Company after all interests owned by others, including royalties, have been deducted.

(2) The reserve volumes of the total probable additional reserves in the EBS Report have been reduced by 50% of $^{8}/_{8}$ths volume computed through the Petroleum Contracts to account for the risk associated with the recovery of those reserves.

(3) Proved Reserves are the estimated quantity of crude oil, condensate, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions (i.e., at prices and costs as of the date the estimate is made). Reservoirs are considered proved if economic productibility is supported by either actual production or conclusive formation tests. In certain instances, proved reserves may be assigned on the basis of a combination of core analysis and/or electrical and other type logs which indicate the reservoirs are analogous to similar reservoirs in the same field which are producing or have demonstrated the ability to produce on a formation test. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest-known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

The proved reserves are subdivided into the following groups, depending on the status of their development:

(a) Proved Developed Reserves are defined as oil and gas reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

(b) Proved Undeveloped Reserves are defined as oil and gas reserves that are expected to be recovered from new wells on un-drilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on un-drilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other un-drilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

(4) Probable Reserves are defined as oil and gas reserves that are supported by favourable engineering and geological data, but which are subject to some element of risk which prevents classification as Proved Reserves. The presentation of probable additional reserves does not comply with guidelines of the United States Securities and Exchange Commission, which guidelines permit only the presentation of proved reserves. Probable Reserves are subdivided into Probable Developed Reserves and Probable Undeveloped Reserves on the same basis as noted above in respect of Proved Developed Reserves and Proved Undeveloped Reserves. At this time, all of the Company's Probable Reserves are Probable Undeveloped Reserves.

(5) Cash flows presented in the EBS Report are based on the following cost and production assumptions:

Bohai Bay Blocks

(a) Generally, exploration capital includes geological and geophysical costs, operator's general and administrative expenses and the cost of a discovery and two (2) confirmation wells for each prospect. Two prospects (CFD 11-1 and Getuo Bei) have an additional confirmation well assigned.

(b) Development capital includes the estimated cost for "production complexes" as described below:

1. For Bohai Bay, each production complex is assumed to include 15 producing and six injection wells. The base production complex package, including export facilities, is estimated to cost US$175 million for Block 04/36, prospect CFD 11-1 and US$185 million for all other prospects. This base production complex is augmented on certain prospects with additional costs ranging from US$30 million to US$78 million generally as start-up additional costs for initial production for a given block. The number of platforms is estimated primarily on the aerial extent in conjunction with the anticipated reservoirs thereunder.

2. For the Pearl River Block, the initial production complex is estimated at US$352 million with additional satellite complexes at US$104 million where required.

(c) First production is generally estimated to begin twenty-four months after the last confirmation well.

(d) For the purposes of the EBS Report, a production profile of initially 12 to 33 months flat rate followed by a 17% annual exponential decline and 12 to 15 years of productive life was used. In conjunction with this forecast profile, unrisked initial producing rates ranging from 1,500 to 5,000 potential barrels of oil per day per well are used.

(e) Operating costs are set at US$0.50 per barrel as a variable cost plus US$16 million per production complex per year fixed cost for the Bohai Bay Blocks and US$30 million per production complex per year for Block 27/11.

Canadian Properties

(a) Capital costs are deducted, beginning in 2006, for well abandonment.

(b) Production forecasts reflect a continuation of productive decline trends of individual wells.

(c) Fixed and variable operating costs are based on continuation of historical data.

It should be noted that changes in governmental regulations or deviations of actual prices from those used in the EBS Report could significantly alter future cash flow to be received from the interests evaluated. The cash flows used in the EBS Report are annual projections for fiscal year time periods beginning January 1, 1998.

(6) The oil reference prices used in the escalated price determination are based on EBS' base case price forecast effective January 1, 1998 (i) for China of US$18.50 per barrel escalated at 3 1/2% per year until the price per barrel reaches US$26.00, at which time the oil reference prices are held constant thereafter at US$26.00 per barrel; and (ii) for Canada of US$18.83 per barrel escalated at 3 1/2% per year until the price per barrel reaches US$26.00, at which time the oil reference prices are held constant thereafter at US$26.00 per barrel. Operating and capital costs are assumed to escalate at an annual rate of 3 1/2% during the period of oil price escalation.

(7) The oil reference prices used in constant price determination are based on prices in effect January 1, 1998 (i) for China of US$18.50 per barrel with no inflation; and (ii) for Canada of US$18.83 per barrel with no inflation.

(8) Initial oil reference prices, estimated base operating costs, future capital expenditures and the timing of capital expenditures were supplied by the operator and the Company and accepted by EBS to be reasonable.

(9) The reserves presented in the EBS Report are estimates only and should not be construed to be exact quantities. Such reserves were calculated primarily by volumetric analysis. Reserves estimates based on volumetric analyses are inherently less reliable than those based on lengthy production history. The reserves estimated in the EBS Report may or may not be actually recovered and if recovered, the estimates of cash flow therefrom could be more or less than that estimated in the EBS Report.

(10) Titles to the evaluated interest were not examined by EBS, nor was the degree or type of interest owned independently confirmed.

(11) Field inspections of the properties evaluated in the EBS Report were not made by EBS.

(12) Environmental issues, if any, are not addressed in the EBS Report.

Capital Expenditures

In 1997, Sino-American incurred US$7,739,641 of capital expenditures and from January 1, 1998 until the end of February 1998, Sino-American incurred an additional US$1,264,000 of capital expenditures. The following is a summary of the capital expenditures which Sino-American currently expects it will have to incur in the Bohai Bay Blocks and the Pearl River Block over the next ten years:

Capital Expenditure Projections
(In thousands)

Year	Exploration All Blocks	Development All Blocks	Total Capital Costs
1998	US$9,809	US$0	US$9,809
1999	22,470	1,691	24,161
2000	29,650	20,036	49,686
2001	17,790	38,196	55,986
2002	13,285	42,438	55,723
2003	12,745	42,341	55,086
2004	8,655	43,886	52,541
2005	2,630	45,337	47,967
2006	—	31,704	31,704
2007	—	20,140	20,140
	US$117,034	US$285,769	US$402,803

See "Item 5 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

Description of Petroleum Contracts

Oil and gas exploration of each of the Bohai Bay Blocks and the Pearl River Block is governed by a separate petroleum contract.

Block 04/36: Under the Petroleum Contract governing Block 04/36 dated August 17, 1994, Kerr-McGee China Petroleum Ltd., Murphy Pacific Rim, Ltd. and Sino-American have working interests in the block of 45%, 45% and 10%, respectively.

Block 05/36: Under the Petroleum Contract governing Block 05/36 dated January 23, 1996, Kerr-McGee China Petroleum Ltd., Newfield China Ltd. and Sino-American have working interests in the block of 50%, 35% and 15%, respectively.

Getuo Block and Laopu Block: Under the Petroleum Contracts governing Getuo Block and Laopu Block, respectively, both dated July 21, 1995, Kerr-McGee China Petroleum Ltd., Energy Development Corporation (China) Inc. and Sino-American have working interests in each of the blocks of 56⅔%, 33⅓% and 10%, respectively.

The Pearl River Block: Under the Petroleum Contract governing the Pearl River Block dated December 10, 1996, Kerr-McGee China Petroleum Ltd., Santa Fe Energy Resources of China Ltd. and Sino-American Overseas have working interests in the block of 50%, 40% and 10%, respectively.

Regulatory Approvals

The Petroleum Contracts for the Bohai Bay Blocks and the Pearl River Block received the approval of MOFTEC. Sino-American has received approval of the merger of Setsco and Sino-American for the Bohai Bay Blocks from CNOOC and CNPC. No such approval is required for the Pearl River Block.

Term of Contracts

Each Petroleum Contract has a maximum term of 30 years. The contracts are divided into three periods: the exploration period, the development period and the production period.

Exploration Period

Work to be performed and expenditures to be incurred during the exploration period, which consists of three phases totalling seven years, are the exclusive responsibility of the Foreign Contractors. The Foreign Contractors' obligations in the three exploration phases for each of the Bohai Bay Blocks and the Pearl River Block are as follows:

- During the first three years, the Foreign Contractors must complete seismic lines totalling 350 kilometers in each of the Bohai Bay Blocks and 1,000 kilometers in the Pearl River Block, drill and complete two 9,843 foot exploratory wells in the case of the Block 04/36, one 9,843 foot exploratory well in each of Getuo Block and Laopu Block, one 6,562 foot well in Block 05/36 and one 11,483 foot well in the Pearl River Block and incur minimum exploration expenditures of

US$5,000,000 in each of the Bohai Bay Blocks and US$6,000,000 in the Pearl River Block.

- During the next two years, the Foreign Contractors must complete additional seismic data acquisition in Block 04/36, Block 05/36 and the Pearl River Block, drill and complete one 4,921 foot exploratory well in Block 04/36, one 6,562 foot exploratory well in Block 05/36, two 11,483 foot exploratory wells in each of Getuo Block and Laopu Block and one 11,483 foot well in the Pearl River Block and incur minimum exploration expenditures of US$3,000,000 in each of Block 04/36 and Block 05/36, US$6,000,000 in each of Getuo Block and Laopu Block and US$5,000,000 in the Pearl River Block.

- During the last two years, the Foreign Contractors must complete additional seismic lines totalling 250 kilometers in Block 04/36, Block 05/36 and the Pearl River Block, drill and complete one 4,921 foot exploratory well in Block 04/36, one 6,562 foot exploratory well in Block 05/36, two 9,843 foot exploratory wells in each of Getuo Block and Laopu Block and one 11,483 foot well in the Pearl River Block and incur minimum exploration expenditures of US$2,500,000 in Block 04/36, US$3,000,000 in Block 05/36, US$6,000,000 in each of Getuo Block and Laopu Block and US$5,000,000 in the Pearl River Block.

At the end of the first three year surface exploration phase, the Foreign Contractors are obligated to relinquish 25% of the surface area as it existed on the date of execution of each Petroleum Contract. Because of the extensive exploration efforts expended on Block 04/36, CNOOC has granted permission for entry into Phase II with no relinquishment of the contract area. Phase II extends to August 1999. The Company does not anticipate that in 1999 it will be in a position to determine the optimal acreage to relinquish and plans with the other Foreign Contractors to request another extension into Phase III. There can be no assurance that such additional extension will be granted. If such extension is not granted, the Company may be required to relinquish as much as 43.7% of Block 04/36 in 1999. At the end of the second phase of the exploration period, the Foreign Contractors are obligated to relinquish 25% of the contract area remaining after subtracting each development area and/or production area therefrom. At the end of the last phase of the exploration period, the Foreign Contractors must relinquish all contract areas not under development or production. Upon completion of all work and financial obligations, the Foreign Contractors may relinquish their entire interest in any block at the end of each exploration period.

Development Period

The development period for any field discovered during the exploration period commences on the date of approval of the Ministry of Energy of the development plan for an oil and/or gas field. CNOOC or CNPC, as applicable, has the option to participate for a 51% interest (or to such lesser extent that CNOOC or CNPC, as applicable, elects to participate) in the development and production periods by paying its proportionate share of the development and operating costs and receiving its proportionate share of oil and gas production.

Production Period

The production period of any oil and/or gas field in the area covered by a Petroleum Contract will be a period of 15 consecutive years commencing, for each field, on the date of commencement of commercial production as determined under the Petroleum Contract.

Annual gross production ("AGP") of each oil and gas field shall be determined separately and shall be allocated in the following sequence:

(a) 5% of AGP shall be used to pay the Chinese Value-Added Tax.

(b) In the case of Block 04/36, Block 05/36 and the Pearl River Block, 62.5% of AGP shall be deemed "cost recovery oil" and shall be used first for payment of royalties, second for the recovery of operating costs and then for the recovery of exploration and development costs (including a preferred return on development costs equal to 9% per annum), in that order.

In the case of Getuo Block and Laopu Block, royalties are paid out of AGP before the determination of the amount of cost recovery oil. Then 60% of AGP shall then be deemed "cost recovery oil" and shall be used to recover costs incurred by the parties, first for the recovery of operating costs, and then for the recovery of exploration and development costs (including a preferred return on development costs equal to 9% per annum), in that order.

(c) The royalty payable under (b) above is determined on a field-by-field basis on the following sliding scale:

Barrels of Annual Crude Oil Production[1]	**Royalty Rate**[1]
Up to 7,300,000	-
7,300,000 to 10,950,000	4 %
10,951,000 to 14,600,000	6 %
14,601,000 to 21,900,000	8 %
21,901,000 to 29,200,000	10 %
Over 29,200,000	12.5%

Notes:

(1) Based on risked, escalated proven, probable and potential reserves, Sino-American estimates that the average royalty rate for the Bohai Bay and Pearl River Blocks will be approximately 2%.

(d) The remaining amount of AGP shall be deemed "remainder oil" and shall be further divided into "allocable remainder oil" and "Chinese share oil." Allocable remainder oil is calculated based on a sliding scale formula relating to the amount of production, and is shared by CNOOC or CNPC, as applicable, and the Foreign Contractors in proportion to their respective interests. For Block 04/36, Block 05/36 and the Pearl River Block, a maximum of 96% and a minimum of 30% of remaining AGP shall be allocable remainder oil. For Getuo Block and Laopu Block, a maximum of 96%

and a minimum of 64% of remaining AGP shall be allocable remainder oil. All oil remaining after the above allocations are effected is designated Chinese share oil and shall be allocated to CNOOC, CNPC, or another Chinese government designee. Based on risked, proven, probable and potential reserves, Sino-American estimates that the average Chinese share oil will be approximately 6.0% of AGP.

At the expiration of the production period, the producing areas must be relinquished by the Foreign Contractors.

Administration of Contracts

A wholly owned subsidiary of Kerr-McGee is the operator of each of the Bohai Bay Blocks and the Pearl River Block. The Petroleum Contracts are administered by a joint management committee comprised of an equal number of representatives of the Foreign Contractors and CNOOC or CNPC, as applicable. Disputes must first be resolved through negotiation and then through local arbitration conducted by the China International Economic and Trade Arbitration Commission, but in the event the parties fail to agree on such local arbitration, the dispute shall be arbitrated before a panel of three arbitrators, one appointed by each of the parties and the third appointed by the two arbitrators so designated (or failing such appointment, by the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden). The arbitration panel shall conduct the arbitration in accordance with the rules of the United Nations Commission on International Trade Law of 1976 (subject to the rules expressly provided in the applicable petroleum contract). Each of the Petroleum Contracts is governed by Chinese law.

Offices

The Company's maintains an office at 95 Wellington Street West, Suite 200, Toronto, Ontario, M5J 2N9 and comprise 6,910 square feet of leased space. Lease payments are $86,000 per annum. The lease expires on June 29, 1998.

The Company also maintains an office at 8 Greenway Plaza, Suite 910, Houston, Texas, 77046 which comprises 4,678 square feet of leased space. Lease payments currently are US$53,500 per annum. The lease expires on November 1, 2002.

Employees

As at December 31, 1997, Sino-American had 7 employees in Houston, Texas and 2 employees in Beijing, China, and the Company had 2 employees in Toronto, Ontario.

Environmental Matters

The Company's operations are subject to various laws and regulations relating to the protection of the environment, which have become increasingly stringent. Management believes the Company's current operations are in compliance with current environmental laws and regulations. There are no environmental claims pending or, to management's knowledge, threatened against the Company. There can be no assurance, however, that current regulatory requirements will not change, currently unforseen environmental incidents will not occur or past non-compliance with environmental laws will be discovered with respect to the Company's properties.

ITEM 4 - SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following summary of consolidated financial information has been derived from the consolidated financial statements of the Company for the financial years ended December 31, 1995, December 31, 1996 and December 31, 1997. This information should be read in conjunction with the management discussion and analysis and the consolidated financial statements appearing in the Company's 1997 Annual Report and specifically incorporated herein by reference.

Annual Information

	Year Ended December 31 1995	Year Ended December 31 1996	Year Ended December 31 1997
Revenues	US$ 567,058	US$ 361,346	US$ 1,518,864
Net Income (loss)	161,575	(404,406)	(884,341)
Earnings Per Share:			
- basic	0.08	(0.08)	(0.10)
- fully diluted	0.05	(0.08)	(0.10)
Total Assets	3,653,616	26,684,138	31,499,576
Long Term Debt	126,885	—	—
Dividends Per Share	—	—	—

Quarterly Information

The chart below sets out selected financial information for the last four quarters.

	December 31, 1997	September 30, 1997	June 30, 1997	March 31, 1997
Revenues	US$ 395,610	US$ 376,829	US$ 328,524	US$ 417,901
Net Income (loss)	(214,895)	(237,505)	(242,139)	(189,802)
Earnings Per Share:				
- basic	(0.02)	(0.03)	(0.03)	(0.02)
- fully diluted	(0.02)	(0.03)	(0.03)	(0.02)

Consolidated quarterly financial information is not available for the Company's fiscal year ended December 31, 1996 since the Company was not a public company at that time and did not prepare interim financial statements.

Dividends

The Company has no stated dividend policy nor is there any restriction on the payment of dividends other than those imposed by corporate law and regulation. Neither the Company nor Sino-American has paid any dividends to date. The Company's current intention is to reinvest its earnings to finance the growth of its business. The payment of dividends on Common Shares in the future will depend on the needs of the Company to finance growth, its financial condition and other factors which the board of directors may consider appropriate in the circumstances.

ITEM 5 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to the information under the heading "Management's Discussion and Analysis" on pages 13 to 21 inclusive of the Company's 1997 Annual Report for management's discussion and analysis of the Company for the fiscal year ended December 31, 1997, which discussion and analysis are specifically incorporated herein by reference.

ITEM 6 - MARKET FOR SECURITIES

The Common Shares of the Company are listed and posted for trading on The Toronto Stock Exchange under the symbol "PDQ". The Company has no other outstanding classes of shares apart from the Common Shares. Pursuant to an exchange rights agreement (the "Exchange Rights Agreement") between the Company and Sino-American dated August 29, 1996, as amended, each Sino-American Class A Common Share is exchangeable for one Common Share of the Company.

ITEM 7 - DIRECTORS AND OFFICERS

The directors of the Company are elected at each annual meeting of shareholders and hold office until the next annual meeting of shareholders or until their successors are elected or appointed. The names and municipalities of residence of the directors and officers of the Company as of the date hereof and until the annual meeting of shareholders scheduled for May 7, 1998, and the periods during which they have served as directors of the Company, if applicable, are set forth below.

Name and Municipality of Residence	Principal Occupation and Business	Director Since
Directors		
Robert E. Rigney Houston, Texas	Chairman and Chief Executive Officer of the Company	1996
Val G. Bennett Santa Fe, New Mexico	Businessman	1996
John T. Evans Toronto, Ontario	Senior Partner, Osler Hoskin & Harcourt (Law Firm)	1997
Paul H. Farrar Toronto, Ontario	Chairman, Adelaide Capital Corporation and Company Director	1996
Bobby J. Fogle Houston, Texas	Vice-President, Finance of the Company	1997
Urick Ho Beijing, China	Vice-President of the Company	1996
Robert W. Martin Toronto, Ontario	Chairman, Silcorp Limited (Convenience Store Operator) and Company Director	1996
James C. Roe Sugar Land, Texas	Businessman	1996
Guy B. Snowden Boca Raton, Florida	Businessman	1997
Marvin Yontef Toronto, Ontario	Senior Partner, Stikeman, Elliott (Law Firm)	1996
Officers		
Frederic Tietz Houston, Texas	President of the Company	
Philip R. Henry Houston, Texas	Vice-President, Operations of the Company	
Kevin O'Connor Toronto, Ontario	Vice-President, Investor Relations of the Company	
Charles R. Erickson Houston, Texas	Secretary and Legal Counsel of the Company	

Directors' and Officers' Occupations and Associations for the Previous Five Years

Robert E. Rigney - Chairman, Chief Executive Officer and a director of the Company since its inception and of Sino-American since 1994. Prior to that time, Mr. Rigney was a diplomat, oil company executive and consultant in Asia for over 20 years. Mr. Rigney has been responsible for obtaining oil concessions in China, Indonesia and other Asian countries. He has also assisted various Chinese oil and gas enterprises to train their employees in the use of Western oil and gas technology and applications.

Val G. Bennett - Director of the Company and Sino-American. Mr. Bennett was employed by the El Paso family of companies from 1953 to 1980 in various capacities, including Director of Marketing, Corporate Representative in Washington, D.C. and Vice-President of El Paso LNG Services Company in Paris, France. Mr. Bennett was one of the principals that purchased the El Paso Products Company from Burlington Railroad in 1984 and served as Senior Vice-President of that firm until he retired in 1988.

John T. Evans - Director of the Company. Mr. Evans has been a Senior Partner of Osler, Hoskin & Harcourt in Toronto, Ontario since April 1993 and is a director of various other companies. Prior to 1993, Mr. Evans was a senior partner of Blake, Cassels & Graydon in Toronto, Ontario.

Paul H. Farrar - Director of the Company. Mr. Farrar was a Senior Vice-President of a Canadian chartered bank prior to 1994. He is now Chairman of Adelaide Capital Corporation and a director of various other companies.

Bobby J. Fogle - Director of the Company, Vice-President, Finance of the Company and Director and Chief Financial Officer of Sino-American. Prior to joining Sino-American in 1996, Mr.Fogle was employed by The Keplinger Companies, Inc. and its successor company K & A Energy Consultants, Inc. in various capacities including controller, vice-president, treasurer, executive vice-president and director.

Urick Ho - Vice-President and a director of the Company and Sino-American. Mr. Ho is the Company's senior executive in its Beijing office. He has worked for more than 15 years in the energy business in China working with a variety of western companies such as Input-Output, Kerr-McGee, Valero Energy and Landmark Graphics.

Robert W. Martin - Director of the Company. Mr. Martin was the President and Chief Executive Officer of Consumers Gas Company Ltd. prior to 1992. Since 1992, Mr. Martin has been Chairman of Silcorp Limited and a director of various other companies.

James C. Roe - Director of the Company and Sino-American. Mr. Roe was a Vice-President/Owner of Delta-X Corporation prior to the sale of that corporation in February 1997. Mr. Roe has spent his entire career in various sales and management positions in the oil services industry prior to joining Delta-X Corporation in 1973 which designs, manufactures, and sells high technology automation systems used in oil producing operations.

Guy B. Snowden - Director of the Company. Mr. Snowden was a co-founder in 1980 of GTECH Corporation, and until February 1998, was the chief executive officer of such corporation and of GTECH Holdings Corporation, the parent company. GTECH's principal business is to provide on-line lottery services to governmental authorities and their licensees worldwide.

Marvin Yontef - Vice-Chairman and a director of the Company and Sino-American. Mr. Yontef is a senior partner of Stikeman, Elliott in Toronto, Ontario and a director of various other companies.

The principal respective occupations for the past five years of the officers of the Company who are not directors of the Company are as follows:

Frederic Tietz - President of the Company and Sino-American. Mr. Tietz is a Certified Petroleum Geologist and has over thirty-five years of oil and gas exploration and production experience. He has gained worldwide business experience serving as President of Monsanto Oil Company, President of BHP Petroleum (Americas) Inc., General Manager of New Ventures BHP Petroleum Melbourne, Australia, General Manager of Europe, Africa, Middle East, BHP Petroleum, London. During the last five years, Mr. Tietz has worked as an independent consultant to McDermott International and Axem Resources and has served as a director of various other companies.

Philip R. Henry - Vice-President of the Company and Sino-American. Mr. Henry was a partner with Klenda Financial Services, Inc., a financial services company based in Denver, Colorado, from 1988 until 1996.

Charles R. Erickson - Secretary and Legal Counsel to the Company and Sino-American. Prior to his joining the Company in 1998, Mr. Erickson served Triton Engineering Services Company and its subsidiaries for 12 years in various capacities including Director, Executive Vice President, General Counsel and Corporate Secretary.

Kevin O’Connor - Vice President, Investor Relations of the Company. Prior to joining the Company in 1996, Mr. O’Connor was employed with the real estate consulting firm of Goldstein & Associates, specializing in financial and marketing consulting and acquisition for local, national and international companies.

As of the date hereof, the directors and officers of the Company and Sino-American, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 495,354 Common Shares and 851,739 Sino-American Class A Shares representing approximately 15.4% of the aggregate outstanding Common Shares and Sino-American Class A Shares held by shareholders other than the Company. Pursuant to the Exchange Rights Agreement, each Sino-American Class A Share is exchangeable for one Common Share.

Committees of the Board of Directors

The board of directors of the Company has established an audit committee, compensation committee, finance committee and corporate governance committee. The audit committee consists of Paul H. Farrar, Val G. Bennett and James C. Roe, and is responsible for reviewing the Company’s financial statements and its internal controls, reviewing the work of the Company’s independent auditors and reporting thereon to the board of directors. The compensation committee consists of Robert E. Rigney, John T. Evans, and Robert W. Martin and is responsible for reviewing the level and form of compensation payable to the executive officers of the Company and making recommendations with respect thereto. The compensation committee is also responsible for making recommendations to the board of directors with respect to the granting of stock options pursuant to the Company’s stock option plan. The finance committee consists of Marvin Yontef, Paul H. Farrar, Bobby J. Fogle and James Roe and is responsible for making recommendations to the board on financing alternatives. The corporate governance committee consists of Marvin Yontef, John T. Evans, and James C. Roe and is responsible for reviewing and determining corporate governance duties and procedures and, where necessary, making recommendations to the board of directors on changes to corporate governance policies and procedures.

ITEM 8 - ADDITIONAL INFORMATION

The Company shall provide to any person, upon request to the Secretary of the Company at the address of the Company's headquarters shown in Item 1 above:

(a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

(i) one copy of the annual information form ("AIF") of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF,

(ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company subsequent to the financial statements for its most recently completed financial year,

(iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate, and,

(iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions is contained in the Management Information Circular. Additional financial information is provided in the Company's financial statements for the year ended December 31, 1997 contained in the Company's 1997 Annual Report. A copy of such documents may be obtained from the Secretary of the Company upon request.