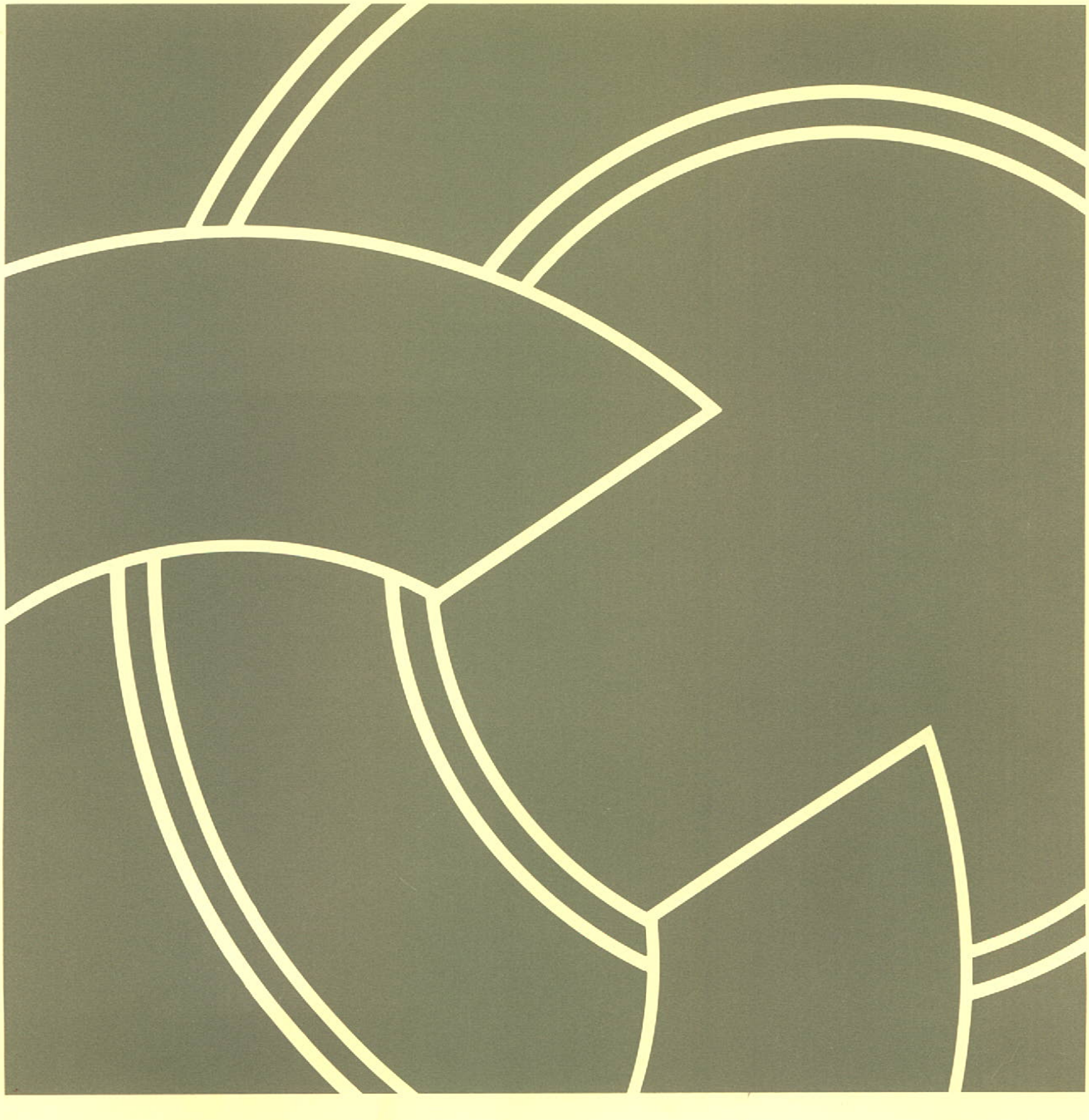
Corrida Oils Ltd.
Annual Report 1983



Company Profile

- Corrida Oils Ltd. is a Canadian oil and gas company continued under the laws of Alberta and listed on The Toronto Stock Exchange. At the end of 1983, Corrida had 28 employees operating from offices in Calgary and Denver. The principal business of the Company is to explore for, discover, and produce oil and gas in North America.

- During 1983, Corrida reported a cash flow of $2,151,000 from the production of 437 barrels of oil and 2,813 Mcf of gas per day after royalties. Corrida's exploration and development programmes, which included the participation in 59 wells in 1983, are conducted on 194,000 net acres of leasehold rights that Corrida owns in several of North America's most promising basins.

- In April 1984, Corrida completed the acquisition of a 25 percent interest in the Alberta oil and gas assets of Petro Can Oil & Gas Fund and its Unitholders. The net production acquired from this purchase, together with additional production from Corrida's other properties, has raised the Company's current production to approximately 550 barrels of oil and 4,700 Mcf of gas per day after royalties.

- Corrida has a Canadian Ownership Rate in excess of 96 percent and is certified to be a Canadian-controlled company by the Petroleum Incentives Administration of the Canadian Government.

Annual General Meeting

The Annual General Meeting of Corrida Oils Ltd. will be held in the Lake Louise Room of the Westin Hotel in Calgary, Alberta, at 2:30 p.m. on June 7, 1984. If you are a shareholder of Corrida and have not received your information circular and proxy for the Annual General Meeting, please contact:

Mr. Robert A. Maitland
Treasurer and Controller
Corrida Oils Ltd.
1700, 530 Eighth Avenue S.W.
Calgary, Alberta, Canada T2P 3S8
Telephone: (403) 234-7188

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Company Highlights

	1983	1982
Financial		
Net revenue	**$ 9,290,000**	$ 9,857,000
Net income (loss)	**$ (3,285,000)**	$ (4,446,000)
Per share	**$ (0.58)**	$ (0.73)
Cash flow	**$ 2,151,000**	$ 1,130,000
Per share	**$ 0.34**	$ 0.19
Capital expenditures	**$ 5,450,000**	$10,253,000
Working capital (deficiency)	**$ (2,020,000)**	$ (2,360,000)
Long-term debt	**$33,495,000**	$43,260,000
Total assets	**$78,472,000**	$77,465,000
Shareholders' equity	**$37,615,000**	$26,648,000
Average shares outstanding	**6,347,000**	6,080,000
Operating		
Undeveloped land, net acres	**193,751**	253,537
Drilling activity, gross wells		
Oil	**28**	11
Gas	**12**	11
Dry	**19**	26
Productive wells, net	**37**	39
Production, after royalties		
Oil, barrels per day	**437**	473
Gas, Mcf per day	**2,813**	2,983
Proved reserves, after royalties		
Oil, barrels	**1,400,047**	1,584,384
Gas, MMcf	**16,929**	16,603
Share Data		
High	**$ 1.80**	$ 5.73
Low	**$ 0.55**	$ 0.60
Close	**$ 0.55**	$ 1.25
Volume	**2,117,000**	2,760,000
Value	**$ 2,133,000**	$ 5,852,000

Report to Shareholders

Fred J. Wellhauser, Ralph A. McKenzie, J. Richard Harris

Finance

In the 1983 fiscal year, Corrida's net revenues were $9,290,000 as compared to $9,857,000 in 1982. Although Canadian gas sales and related Alberta royalty tax credits were below expectations, lower production taxes and interest costs raised the year's cash flow to $2,151,000 ($0.34 per share) from $1,130,000 ($0.19 per share) and reduced the net loss to $3,285,000 ($0.58 per share) from $4,446,000 ($0.73 per share).

Reserves

Corrida's proved reserves of oil after royalties decreased to 1,400,000 barrels at the end of 1983 as compared to 1,584,000 barrels at the end of 1982, and the proved reserves of gas after royalties increased to 16,929 MMcf from 16,603 MMcf. Oil reserves decreased because of the sale of one significant U.S. property; gas reserves increased because of continued development in the Peveto field in Texas.

Production

During 1983, Corrida's production after royalties was 437 barrels of oil and 2,813 Mcf of gas per day as compared to 473 barrels and 2,983 Mcf per day during 1982.

Restructuring

On October 14, 1983, Corrida completed a restructuring of $45 million in production and demand bank loans into $23 million of 10-year production loans (including approximately $2 million in new loans), a $1 million 2-year revolving operating loan, a $10 million 10-year debenture, and $13 million in 10-year preferred shares. Corrida has the right of paying interest on the debenture in cash or common shares and of paying dividends on the preferred shares in cash or additional preferred shares.

This important and new arrangement with Corrida's bank produces a stronger company with a debt:equity ratio of about 0.9:1 and an annual interest coverage on long-term debt, determined on a cash flow basis, of about 1.5:1.

Acquisition

On April 19, 1984, Corrida completed the acquisition of a 25 percent working interest in the Alberta oil and gas assets of Petro Can Oil & Gas Fund and its Unitholders by the issuance of 3,283,652 common shares, 1,313,461 warrants to purchase a further 1,313,461 common shares at $0.8625 per share for two years, and by the payment of $3,944,000 in cash, which Corrida has borrowed on a fixed-rate, non-recourse, long-term basis from a Canadian financial institution.

Corrida's share of production after royalties from these properties is 49 barrels of oil and 958 Mcf of gas per day. The major properties are the Crystal River field, a NORP oil pool in central Alberta, and the Seven Persons and Whitla gas fields in the Medicine Hat area of southeastern Alberta. Increases in both oil and gas production are expected in 1984. In addition to the producing properties, the acquisition included 7,880 net acres of undeveloped leases in Alberta that are prospective for hydrocarbons. The acquisition has been approved by Corrida's shareholders and the appropriate regulatory authorities. The Petro Can partnership included about 100 individuals whom we welcome as new shareholders of Corrida.

Equity

On April 19, 1984, Corrida completed the sale of 322,700 units for $1,936,200. Each unit, priced at $6.00, contained 10 common shares and 5 warrants; each warrant entitles the holder to purchase an additional common share for $0.75 for three years. The units were sold to several Canadian institutions and private companies. The net proceeds of the equity offering will be used in Corrida's Canadian and U.S. exploration and development programmes.

Outlook

Management is encouraged that Corrida has been able to report higher cash flow in 1983 than for 1982. Although capital expenditures were reduced during 1983, Corrida was still able to preserve its principal reserve base, stabilize its production of oil and gas, and to participate in several discoveries and extensions that are not fully reflected in the 1983 reserve and production data but should contribute to increased cash flow in 1984. This progress, together with the bank restructuring, the Petro Can acquisition, and the injection of new equity, has produced a revitalized corporation that can actively pursue its oil and gas exploration and development programmes. The 1984 fiscal year appears promising.

Corrida expects to continue its efforts to raise additional equity on a private placement basis during the second half of 1984.

The Board of Directors wishes to thank its shareholders for their quiet patience and its employees for their dedicated efforts during the past year when a number of corporate problems were successfully resolved. Without this support, the progress achieved by Corrida in the past year would not have been possible.

April 30, 1984

On behalf of the Board:

J. Richard Harris,
Chairman of the Board
and Chief Executive Officer

Fred J. Wellhauser,
President
and Chief Operating Officer

Ralph A. McKenzie,
Senior Vice-President
and Chief Financial Officer

Canadian Operations

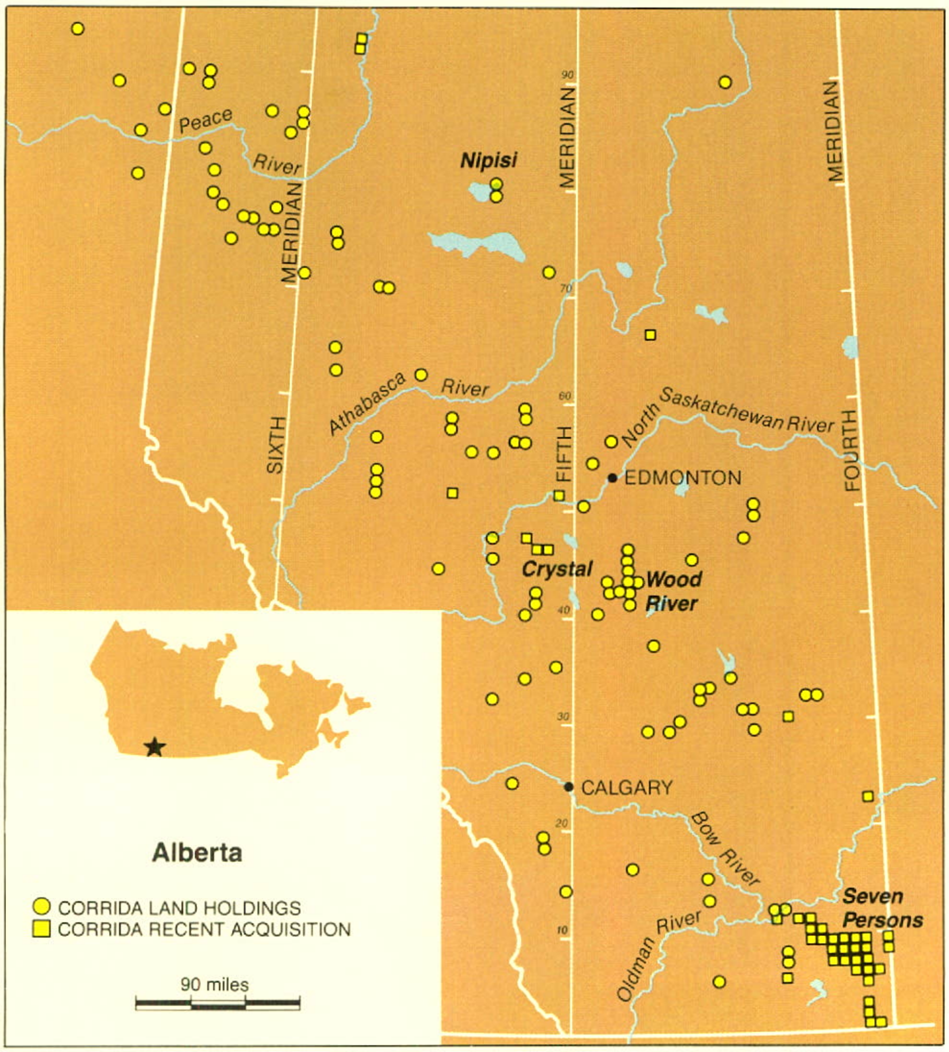
Weak markets for Canadian oil production and reduced export gas sales to the United States prevailed during 1983. However, continuing improvement of the U.S. economy should reverse this trend during 1984, and the long-term prospects for increased oil and gas sales are encouraging.

During 1983, Corrida invested about $1,000,000 in direct exploration and development activities, the same level as in 1982. At the end of 1983, Corrida held interests in 410,108 gross acres (41,010 net acres) in undeveloped land, a reduction of 21 percent compared to the previous year, due to certain lands reaching the end of their primary term.

Corrida participated in the drilling of 35 wells of which 28 were completed as producers, a success ratio of 80 percent; of these, 5 wells were farmed-out, drilled at no cost to Corrida, and abandoned. At the end of the year, Corrida had interests in 280 oil wells (6.67 net wells) and 160 gas wells (12.60 net wells) producing an average after royalties of 232 barrels of oil and 1,430 Mcf of gas per day. Compared to 1982, the oil production decreased 6 percent and the gas production 24 percent because of lesser demand. During the first three months of 1984, this trend has been reversed and Corrida's production after royalties averaged about 277 barrels of oil and 1,729 Mcf of gas per day.

At December 31, 1983, proved reserves after royalties were 915,058 barrels of oil and 12,644 MMcf of gas, a two percent decrease for oil and gas compared to the previous year.

On April 19, 1984, Corrida acquired an undivided 25 percent working interest in the Alberta oil and gas assets of Petro Can Oil & Gas Fund and of its Unitholders. The major producing properties are in Crystal River, a NORP oil field in central Alberta, and in Seven Persons area, a shallow gas field in southeastern Alberta. This acquisition has brought Corrida 71,920 gross acres (7,880 net acres) in undeveloped land, and an average production after royalties of about 49 barrels of oil and 958 Mcf of gas per day. This new production represents an increase of about 18 percent for oil and 55 percent for gas over Corrida's present production. Corrida's share of Petro Can's proved reserves after royalties are 213,722 barrels of oil and 3,569 MMcf of gas, an increase of 23 percent for oil and 28 percent for gas over Corrida's present reserves.

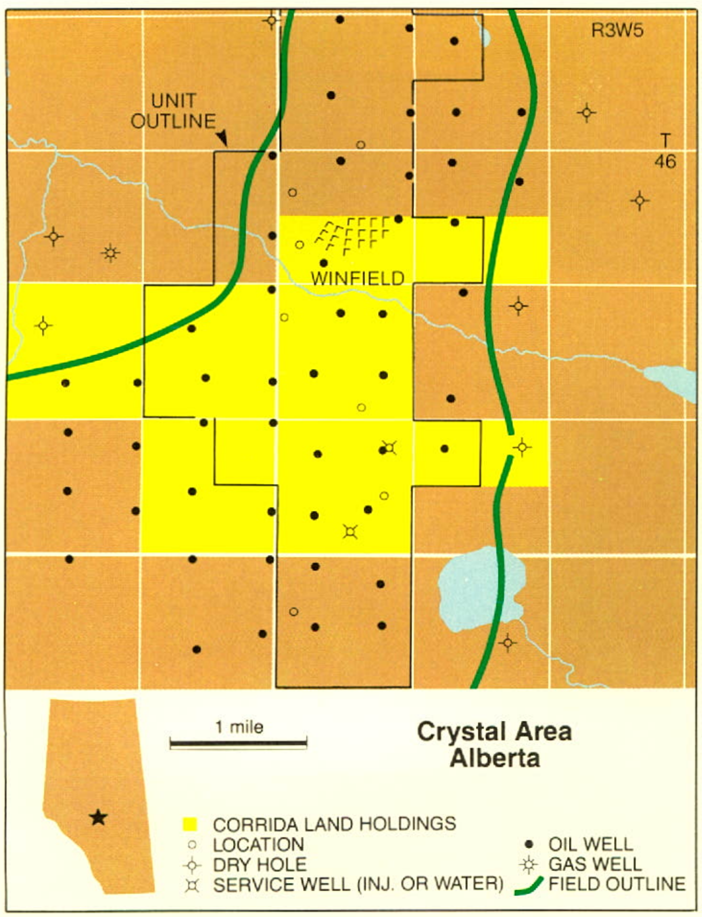


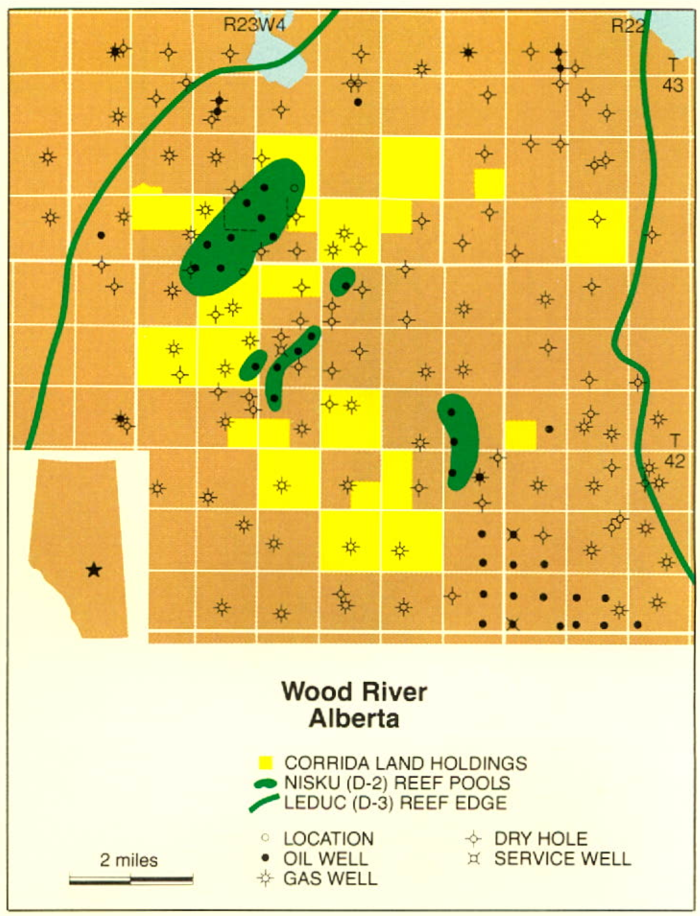
Crystal Field

Corrida has a 2.81 percent working interest in the Crystal Viking Unit No. 1 in the Winfield area of central Alberta. The unitization of the oil pool is proceeding with the installation of gathering and injection lines, a water source pipeline and intake facilities, and battery consolidation. Drilling of water injection and infill producing wells will start in June 1984, and the water injection is expected to commence in September 1984. Independent engineering studies indicate the water flood should increase the oil recovery factor by 12.5 percent to approximately 44 percent.

Wood River Area

Corrida has working interests varying from 15 percent to 75 percent in extensive land holdings in this area where the Devonian Nisku porosity zone can have as much as 170 feet of oil pay. During 1983 Corrida participated in the drilling of five wells, exploring for extensions or new porosity developments in the Nisku D-2 formation. Two oil wells were completed as extensions to the Wood River D-2 pool, and two gas wells were completed in the Ostracod and Basal Quartz zones, respectively. In April 1984, Corrida completed an additional Nisku oil well, in which Corrida has a 34.2 percent working interest; this well is currently producing 140 barrels of oil per day. Plans to unitize the Wood River D-2 pool are proceeding and water injection should start in late 1984. The gas reserves, which are presently shut-in for lack of markets, are expected to be producing by November 1985.





Nipisi Field

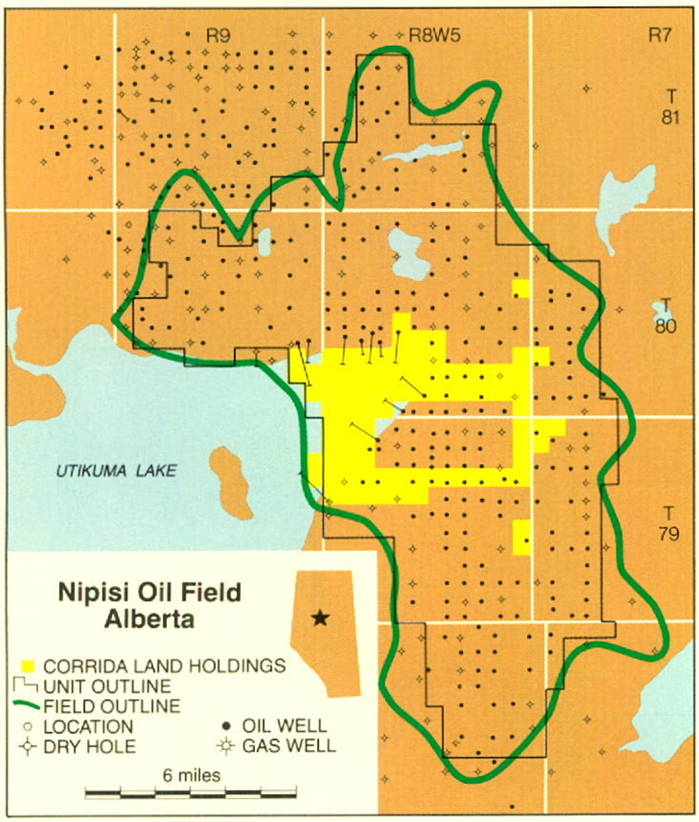
Corrida has a 0.91 percent working interest in the Nipisi Gilwood Unit No. 1 which produces oil from the Middle Devonian Gilwood sandstone reservoir; Corrida's interest in Nipisi, a major Alberta oil field, accounts for 66 percent of Corrida's Canadian oil production. In May 1983, the operator received regulatory approval for an enhanced oil recovery scheme by water, solvent, and gas injection in a six-section portion of the Nipisi Unit. Drilling of infill producers and injection wells was completed in late 1983, and the miscible flood is due to commence in July 1984; it will allow the recovery of an additional 15.7 million barrels of oil from that area. Incremental tertiary oil produced will qualify for NORP oil prices and reduced royalty rates. Outside the miscible flood area, 26 infill oil wells were drilled during 1983; the production from these wells qualifies for NORP oil price.

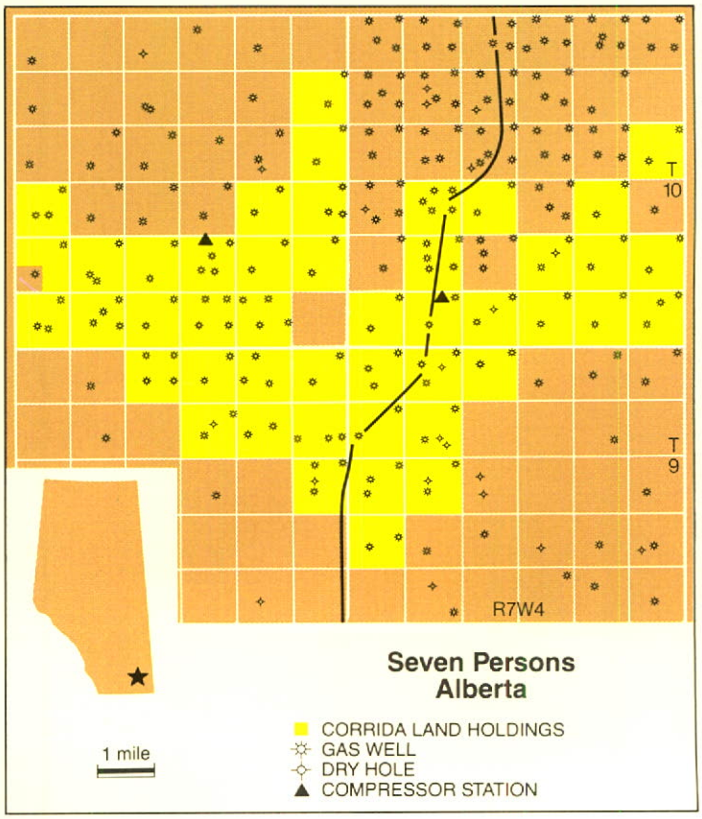
Seven Persons

Corrida has working interests varying from 12.5 percent to 25 percent in 190 wells in the Seven Persons area on the south edge of the Medicine Hat gas field in southern Alberta. The gas is gathered and compressed by Consolidated Gathering System Limited and sold to Western Co-operative Fertilizers Limited in Calgary. A 20-well infill program will start in June 1984 to increase the production. The wells, operated by Corrida, produce about 5,000 Mcf of gas per day.

Outlook

In 1984 Corrida expects to spend about $2,400,000 in exploration and development programmes in Alberta and Saskatchewan and to participate in the driling of 53 wells.





Canadian Statistics

Undeveloped Land as of December 31, 1983 (1)

	Gross Acres	Net Acres	Appraised Value
Alberta	352,254	38,669	$3,847,105
British Columbia	9,366	617	52,362
Saskatchewan	33,128	492	85,383
Northwest Territories	15,360	1,232	16,745
	410,108	41,010	$4,001,595

Wells Drilled During 1983

	Oil Wells		Gas Wells		Dry Holes		Total Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory	2	0.02	4	0.72	5	0.61	11	1.35
Development	21	1.27	1	0.50	2	0.46	24	2.23
	23	1.29	5	1.22	7	1.07	35	3.58

Productive Wells Owned at December 31, 1983

	Oil Wells		Gas Wells	
	Gross	Net	Gross	Net
Alberta	279	6.61	158	12.44
British Columbia	1	0.06	2	0.16
	280	6.67	160	12.60

Production in 1983

	Annual		Daily	
	Gross	Net	Gross	Net
Oil, barrels	146,951	84,554	402	232
Gas, Mcf	847,222	522,065	2,321	1,430

Reserves Remaining at December 31, 1983 (2)

	Proved		Probable		Total		Discounted Present Value at 15%
	Gross	Net	Gross	Net	Gross	Net	
Oil, barrels	1,554,210	915,058	498,671	332,575	2,052,881	1,247,633	$12,896,766
Gas, MMcf	19,006	12,644	6,752	4,428	25,758	17,072	15,527,560
							$28,424,326

(1) Appraised replacement costs by Seaton-Jordan & Associates Ltd., Calgary, independent mineral management consultants, as of June 30, 1983, adjusted to December 31, 1983 by Corrida.

(2) As appraised by McDaniel & Associates Consultants Ltd., Calgary, independent oil and gas reservoir engineers; value of probable reserves has been discounted for risk.

U.S. Operations

In 1983, crude oil prices stabilized and the natural gas markets improved. Evidence now points to an increase of exploratory activities in most of the petroleum basins, and it appears that the oil industry will continue to recover during 1984.

During 1983, Corrida invested U.S. $2,800,000 in direct exploration and development activities compared to U.S. $4,700,000 during 1982. At the end of 1983, Corrida's interests in undeveloped land were reduced 24 percent to 1,084,748 gross acres (152,741 net acres) from the previous year, through sales and selective releases.

Corrida participated in the drilling of 24 wells of which 12 were completed as producers, a success ratio of 50 percent; however, seven wells were farmed-out, drilled at no cost to Corrida, and abandoned. At the end of the year, Corrida had interests in 90 oil wells (14.0 net wells) and 45 gas wells (3.9 net wells) producing an average after royalties of 205 barrels of oil and 1,383 Mcf of gas per day; compared to 1982, the oil production decreased 9 percent while the gas production increased 25 percent. During the first three months of 1984, the oil production rose to 211 barrels and the gas production to 1,702 Mcf per day after royalties.

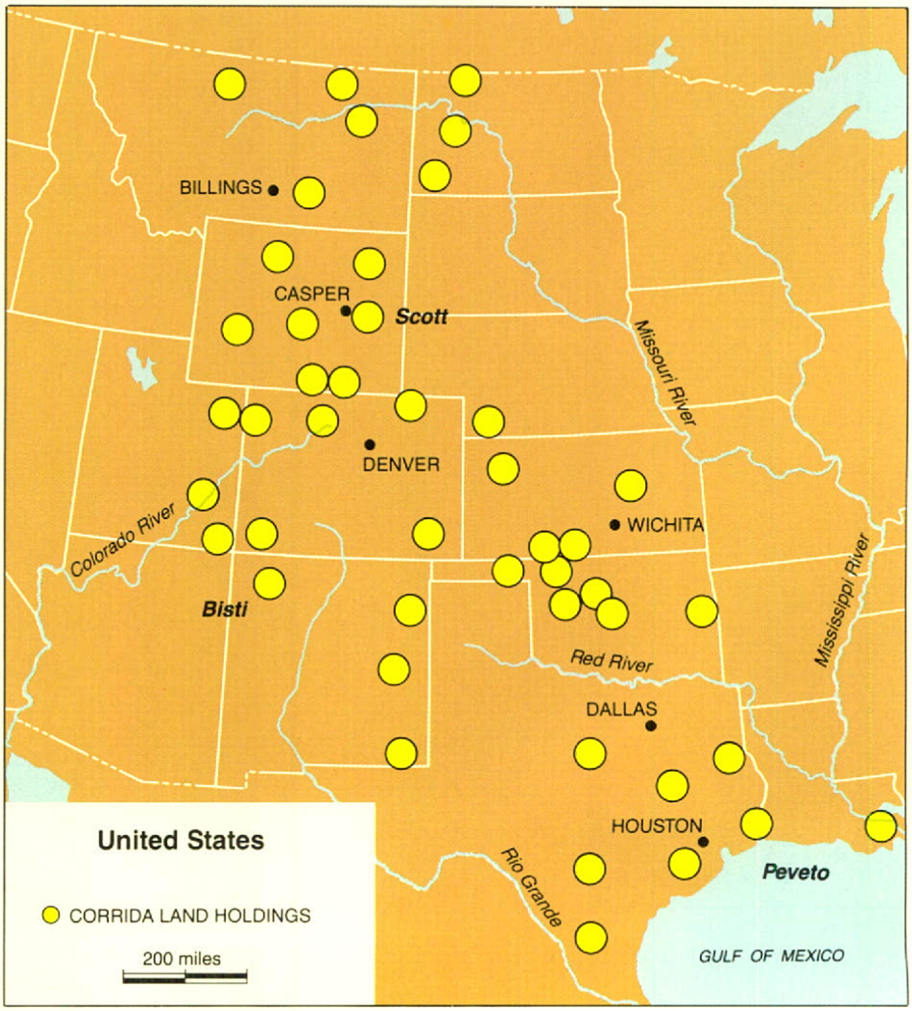
At December 31, 1983, proved reserves after royalties were 484,969 barrels of oil and 4,285 MMcf of gas compared to 651,706 barrels of oil and 3,758 MMcf of gas at the end of 1982. During 1983, Corrida sold an oil property in Wyoming containing reserves of about 104,000 barrels after royalties and discovered new gas reserves mostly in the Peveto field in Texas.

Bisti Prospect, San Juan Basin

Corrida has acquired, at a competitive bid sale, a 360-acre lease south of the Bisti field in the San Juan Basin, New Mexico. The lease lies on a trend parallel to the Bisti Trend where recoveries have averaged 100,000 barrels of oil per well from the Gallup formation (Cretaceous). Corrida owns 50 percent in the prospect and drilling of a 5,100-foot well is expected to start in June 1984. The Bisti prospect is Corrida's first venture in the San Juan Basin.

Peveto Field

Corrida has a 9.4 percent interest in the 3,700-acre Peveto block in Orange County, Texas. By April 1984, five wells had been completed as gas and condensate producers from the Nodosaria sand in the Middle Frio formation (Oligocene). The wells are producing to Corrida after royalties 661 Mcf of gas and 37 barrels of condensate per day, about 48 percent and 18 percent of Corrida's U.S. production, respectively. The reserves discovered to date are



2,043 MMcf after royalties, representing 48 percent of Corrida's U.S. gas reserves.

Additional delineation drilling is taking place, and it is expected that seven wells will be drilled during 1984. The Peveto production is being sold under long-term contracts at competitive prices.

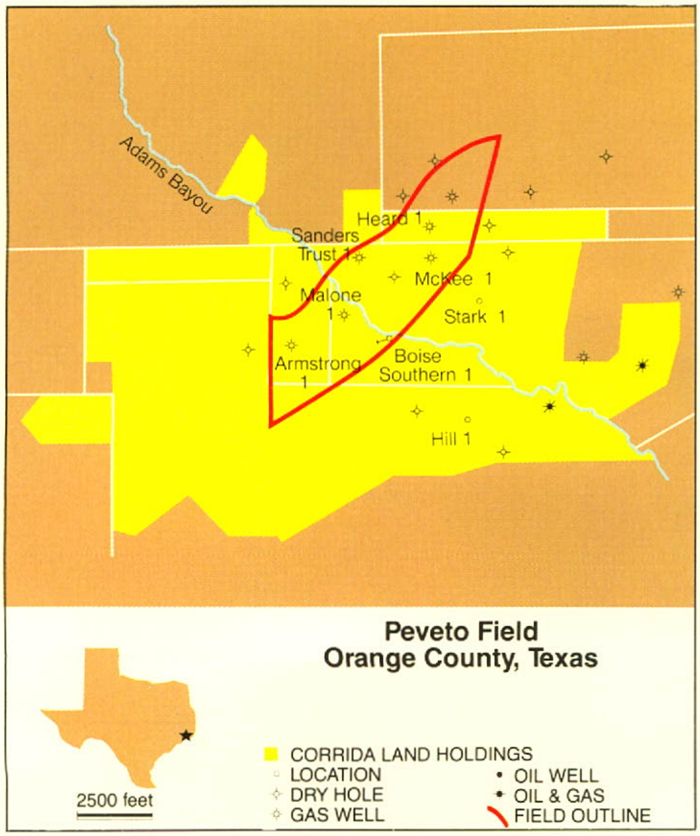
Scott Field

Corrida has an average 20 percent interest in 25 wells in the Scott Field in Converse County, Wyoming, with proved reserves after royalties of 183,498 barrels of oil, about 38 percent of Corrida's U.S. oil reserves.

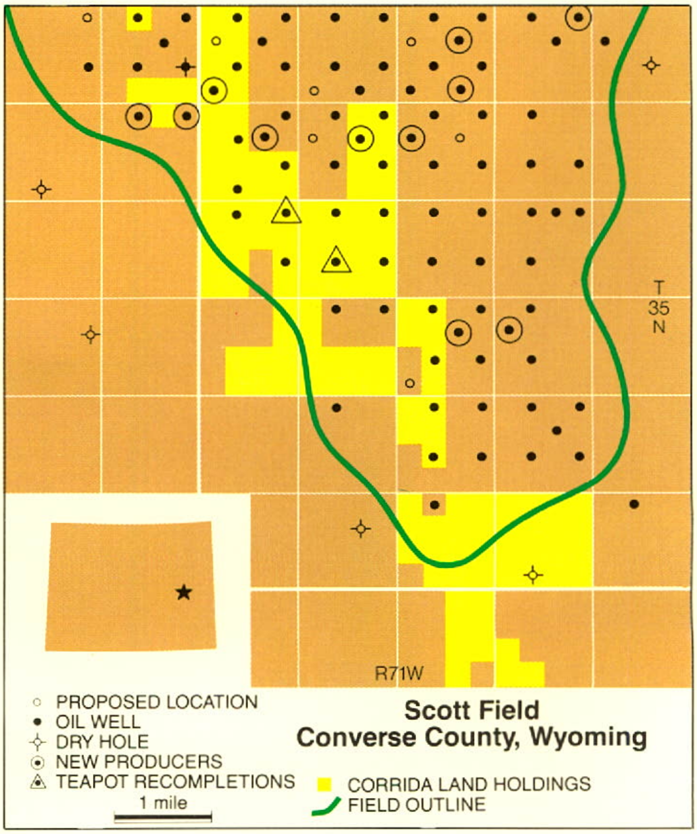
Eighty-acre spacing has been selectively approved for the Parkman formation (Upper Cretaceous), the principal producing interval. During 1983, Corrida participated in two infill wells and two additional wells are expected to be drilled in 1984. Recent completions of the shallower Teapot formation have developed significant reserves, and Corrida plans to participate in completing this interval in selected existing wells during 1984.

Outlook

In 1984, Corrida expects to spend about U.S. $2,000,000 in development programs in Texas and Wyoming and in exploration activities in the Williston, Powder River and San Juan Basins and in the Gulf Coast region.



Peveto Field
Orange County, Texas



Scott Field
Converse County, Wyoming

U.S. Statistics

Undeveloped Land as of December 31, 1983 (1)

	Gross Acres	Net Acres	Appraised Value
Montana	340,436	46,717	U.S.$ 565,935
Wyoming	215,461	36,260	1,740,918
Texas	183,081	21,458	2,760,780
Nebraska	47,165	15,220	266,798
Others	298,605	33,086	1,135,801
	1,084,748	152,741	U.S.$6,470,232

Wells Drilled During 1983

	Oil Wells		Gas Wells		Dry Holes		Total Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory	0	—	1	0.07	9	0.91	10	0.98
Development	5	0.78	6	0.44	3	0.17	14	1.39
	5	0.78	7	0.51	12	1.08	24	2.37

Productive Wells Owned at December 31, 1983

	Oil Wells		Gas Wells	
	Gross	Net	Gross	Net
Wyoming	50	8.78	2	0.24
Oklahoma	21	3.21	24	1.77
Texas	6	0.36	17	1.48
Others	13	1.69	2	0.42
	90	14.04	45	3.91

Production in 1983

	Annual		Daily	
	Gross	Net	Gross	Net
Oil, barrels	95,703	74,837	262	205
Gas, Mcf	674,764	504,791	1,849	1,383

Reserves Remaining at December 31, 1983 (2)

	Proved Developed		Proved Undeveloped		Total		Discounted Present Value at 15%
	Gross	Net	Gross	Net	Gross	Net	
Oil, barrels	359,250	280,081	266,804	204,908	626,054	484,989	U.S.$ 7,043,233
Gas, MMcf	4,082	3,015	1,749	1,270	5,831	4,285	8,058,680
							U.S.$15,101,913

(1) Appraised value by Meany & Johnson Energy Corp., Denver, independent oil and gas land services consultants.

(2) As appraised by Ralph E. Davis Associates, Inc., Houston, a member of the Keplinger group of companies, independent petroleum and natural gas consultants.

Financial Overview

1983 versus 1982

Although Corrida continued to experience a strain on its resources in 1983, it nevertheless succeeded in reducing its loss for 1983 to $3,285,000, a decrease of 26 percent; increasing its cash flow from operations to $2,151,000, a 90 percent increase; and decreasing its working capital deficiency at year-end to $2,020,000, representing an increase in working capital of $340,000.

The decrease in 1983 oil and gas sales and related Alberta royalty tax credits of $350,000 or 4 percent is due primarily to a reduction of gas sales in Canada from the Edson gas field resulting from reduced exports to the United States. The decline in 1983 of $806,000 or 55 percent in production taxes is due primarily to the continuing decline in the amount of U.S. sales subject to Windfall Profit Tax and to the adjustment in 1983 of an overaccrual of Windfall Profit Tax and other U.S. production taxes amounting to $301,000 applicable to 1982. The decrease in total overhead in 1983 (expensed and capitalized) of $480,000 or 12 percent is due to a reduction in personnel and to a general trimming of all overhead expenses as part of a cost awareness programme. Overhead expensed in 1983 increased marginally due to a reduction in the percentage of overhead capitalized under the full cost method of accounting for oil and gas property costs. The decrease in total interest in 1983 (expensed and capitalized) of $1,558,000 or 24 percent is due primarily to the decreased level of interest rates in 1983 on Corrida's variable-rate, long-term debt (averaging 11.2 percent in 1983 compared with 15.8 percent in 1982) and partly to the restructuring, referred to below, of $13,000,000 of bank debt into preferred shares of the Company.

Capital Resources and Liquidity

The 39 percent reduction in direct oil and gas expenditures in 1983 to $4,020,000 reflects Corrida's programme to conserve working capital by the elimination from its budget of all discretionary capital items until it raised new equity. These expenditures were funded by proceeds from disposition of certain assets and by additional long-term bank debt. Projected oil and gas expenditures for 1984 of $4,899,000 are expected to be funded from cash flow from operations, including cash flow from the properties acquired from Petro Can (see Note 9 to the consolidated financial statements), and proceeds from Corrida's equity issue which closed on April 19, 1984.

On October 14, 1983, Corrida completed an agreement with its bank to restructure $45,057,000 of production, revolving and demand loans into the following:

Description	Term in Years	Amount at October 14, 1983 Authorized	Outstanding
		(millions)	
Loans			
Production	10	$23.6	$22.3
Revolving	2	1.0	.2
Debenture	10	10.0	10.0
		34.6	32.5
Preferred shares	10	13.0	13.0
		$47.6	$45.5

Authorized production loans include additional funding of $2,113,000 and a translation difference of $448,000 on restatement of U.S. $17,662,000 of loans into Canadian dollar loans. The production loans provide for monthly principal repayments to commence April 30, 1984. Interest on the debenture can be paid in cash or common shares or a combination thereof and dividends on the preferred shares can be paid in cash or additional preferred shares or a combination thereof (see Notes 3 and 4 to the consolidated financial statements). During 1983 Corrida paid in shares interest and dividends to the maximum extent possible pursuant to the restructuring. It also intends to exercise this right during 1984 on which basis principal and interest payments in 1984 are expected to amount to approximately $4,000,000, compared to approximately $8,500,000 had the loans not been restructured, assuming a prime rate throughout 1984 of 13 percent.

Uncertainties over future petroleum prices in early 1983 and other matters led to the withdrawal of the proposed private placement with certain Canadian financial institutions of $15,000,000 in convertible preferred shares of the Company. Efforts to increase Corrida's equity base continued in the second half of 1983, aided significantly by the restructuring of Corrida's debt. These efforts resulted in the completion on April 19, 1984, of the sale to Canadian investors by prospectus of common shares and warrants for $1,936,000 to be used in Corrida's Canadian and U.S. exploration and development programmes in 1984. Since Corrida intended to raise more funds, it plans to sell additional equity on a private placement basis in the second half of 1984.

Current Cost Information

Information on the effects of changing prices has not been included in this annual report because such disclosure involves numerous assumptions, approximations and estimates which could produce materially misleading results.

Consolidated Balance Sheet

	December 31 1983	December 31 1982
ASSETS		
CURRENT ASSETS		
Cash and term deposits	**$ 171,780**	$ 212,146
Accounts receivable		
Trade	**2,020,590**	1,706,129
Other	**509,991**	1,009,767
Prepaid expenses and supplies	**463,049**	241,102
Current portion of notes receivable	**78,084**	78,084
	3,243,494	3,247,228
NOTES RECEIVABLE	**—**	310,709
PROPERTY AND EQUIPMENT, at cost (Notes 2 and 5)	**93,635,042**	88,427,233
Less accumulated depletion, depreciation and amortization	**20,294,795**	15,117,789
	73,340,247	73,309,444
DEFERRED CHARGES, at cost less accumulated amortization (Note 9)	**1,888,231**	597,857
	$ 78,471,972	$ 77,465,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Account payable and accrued liabilities	**$ 4,647,817**	$ 5,607,177
Current portion of long-term debt	**615,688**	—
	5,263,505	5,607,177
DEFERRED REVENUE	**2,097,999**	1,949,296
LONG-TERM DEBT (Note 3)	**33,495,120**	43,260,442
SHAREHOLDERS' EQUITY		
Share capital (Note 4)		
Issued and outstanding		
7,234,736 common shares (1982 - 6,181,939)	**38,595,293**	37,941,597
13,754,844 Class A preferred shares, Series 1	**13,754,844**	—
216 Class A preferred shares, Series 2	**216,000**	—
Contributed surplus	**1,627,093**	2,000,000
Retained earnings (deficit)	**(16,577,882)**	(13,293,274)
	37,615,348	26,648,323
COMMITMENTS AND CONTINGENCIES (Note 7)		
	$ 78,471,972	$ 77,465,238

APPROVED BY THE BOARD

J. Richard Harris, Director

Ralph A. McKenzie, Director

Consolidated Statement of Operations and Retained Earnings (Deficit)

	Year Ended December 31	
	1983	1982
REVENUE		
Oil and gas sales less royalties	**$ 7,416,655**	$ 7,353,737
Alberta royalty tax credits	**1,872,267**	2,285,182
Other	**1,063**	218,120
	9,289,985	9,857,039
EXPENSES		
Production taxes (Note 5)	**657,225**	1,463,635
Operating	**1,199,455**	1,290,449
General and administrative (Note 2)	**972,408**	808,828
Interest on long-term debt (Note 2)	**4,298,560**	5,399,297
Depletion	**4,688,051**	4,601,902
Depreciation and amortization	**666,350**	545,472
Foreign exchange loss	**11,200**	168,200
Loss on disposal of capital assets	**81,344**	—
	12,574,593	14,277,783
Income (loss) before minority interest	**(3,284,608)**	(4,420,744)
Minority's interest in subsidiary's income	**—**	(25,000)
NET INCOME (LOSS) FOR THE YEAR	**(3,284,608)**	(4,445,744)
Retained earnings (deficit) at beginning of year	**(13,293,274)**	(8,847,530)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	**$(16,577,882)**	$(13,293,274)
Net income (loss) per share	**$ (.58)**	$ (.73)

Consolidated Statement of Contributed Surplus

	Year Ended December 31	
	1983	1982
CONTRIBUTED SURPLUS AT BEGINNING OF YEAR	**$ 2,000,000**	$ —
Addition during the year	**—**	2,000,000
Deduct dividends on Class A preferred shares, Series 1	**372,907**	—
CONTRIBUTED SURPLUS AT END OF YEAR	**$ 1,627,093**	$ 2,000,000

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1983	1982
SOURCE OF WORKING CAPITAL		
From operations		
Net income (loss) for the period	**$ (3,284,608)**	$ (4,445,744)
Add —		
Charges not requiring an outlay of working capital being depletion, depreciation, amortization, imputed interest and loss on disposal of capital assets	**5,435,745**	5,575,734
Compensation and debenture interest paid in the form of shares and unrealized foreign exchange losses	**954,273**	111,481
Funds from operations before undernoted items	**3,105,410**	1,241,471
Deduct compensation and debenture interest paid in the form of shares and unrealized foreign exchange losses	**954,273**	111,481
	2,151,137	1,129,990
Current portion of notes receivable	**78,084**	78,084
Proceeds on disposition of capital assets	**329,009**	—
Prepayment for future gas production	**148,703**	695,291
Bank loans issued	**4,716,236**	9,583,973
Convertible debenture issued	**10,000,000**	—
Common shares issued, net of issue expenses	**653,696**	2,038,072
Class A preferred shares, Series 1 issued	**13,754,844**	—
Class A preferred shares, Series 2 issued	**216,000**	—
Contributed surplus	**—**	2,000,000
	32,047,709	15,525,410
APPLICATION OF WORKING CAPITAL		
Additions to property and equipment	**7,122,657**	10,745,661
Deduct proceeds on dispositions	**1,672,703**	492,772
	5,449,954	10,252,889
Acquisition of minority interest	**—**	2,186,763
Current portion of long-term debt	**615,688**	—
Repayment of long-term debt	**865,870**	1,943,282
Restructuring of long-term debt (Note 3)	**23,000,000**	—
Dividends paid in Class A preferred shares, Series 1	**372,907**	—
Deferred charges	**1,403,352**	597,857
	31,707,771	14,980,791
INCREASE IN WORKING CAPITAL	**339,938**	544,619
Working capital (deficiency) at beginning of year	**(2,359,949)**	(2,904,568)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	**$ (2,020,011)**	$ (2,359,949)

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

The Company and its subsidiaries are engaged in the exploration for, development and production of crude oil and natural gas reserves. Its consolidated financial statements are prepared by management in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards, except for current cost information. The significant accounting policies are summarized below:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Oil and Gas Operations

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, rentals on undeveloped properties, costs of drilling both productive and non-productive wells, interest and foreign exchange losses or gains related to the acquisition and development of individually significant, non-producing oil and gas properties and equipment, and overhead related to exploration and development activities. Government grants for exploration and development activities are applied as a reduction of the related capital expenditures. Proceeds on property sales are generally credited to such costs. Costs are capitalized on the basis of one North American cost centre and, except for individually significant undeveloped properties, are being depleted using the composite unit-of-production method based on estimated proved oil and gas reserves as determined by independent petroleum engineers. Additional depletion is provided if resulting net book values exceed the aggregate estimated realizable value of: (i) unescalated, undiscounted future income from proved oil and gas reserves after recognition of Alberta royalty tax credits but before deduction of income taxes, interest and overhead based on reports from independent petroleum engineers, (ii) undeveloped acreage to which probable reserves have been attributed, as estimated by management having regard to reports from independent petroleum engineers as to such values, and (iii) undeveloped acreage to which no reserves have been attributed, as estimated by management having regard to available independent reports as to such values.

Oil and gas equipment is depreciated using the composite unit-of-production method. Other capital assets are depreciated at rates estimated to amortize their costs over the useful lives of the assets.

Translation of Foreign Currencies

Current assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and noncurrent assets and liabilities are translated at historical rates. Operations are translated at average rates except for depletion, depreciation, and amortization, which are translated at historical rates. Resulting gains or losses are included in operations.

Earnings (Loss) per Share

Earnings (loss) per share, after taking into account dividends on preferred shares, are calculated using the weighted average number of common shares outstanding during the period.

Joint venture accounting

Substantially all exploration and development activities are conducted jointly with others and the consolidated financial statements reflect the Company's proportionate interest in such activities.

2. Property and Equipment

	December 31			
	1983		1982	
	Cost	**Net Book Value**	Cost	Net Book Value
Oil and gas properties				
Canada	$27,602,192	$19,500,163	$25,452,884	$19,371,523
United States	65,651,550	53,623,620	62,519,396	53,632,146
Other capital assets	381,300	216,464	454,953	305,775
	$93,635,042	$73,340,247	$88,427,233	$73,309,444

Overhead capitalized during 1983, related to exploration and development activities, amounted to $2,461,677 (1982 — $3,105,248). Interest capitalized during 1983, related to the acquisition of individually significant non-producing oil and gas properties and equipment, amounted to $640,766 (1982 — $1,097,748). Costs of individually significant undeveloped properties, not subject to depletion, amounted to approximately $12,000,000 as at December 31, 1983 (1982 — $18,000,000).

3. Long-Term Debt

	December 31 1983	1982
Bank production loan U.S. $5,000,000 repayable over 7 years in quarterly instalments of U.S. $178,571 commencing September 30, 1984	$ —	$ 6,012,500
Bank production loans U.S. $15,500,000 repayable over 10 years in quarterly instalments of U.S. $387,500 commencing July 31, 1984	—	18,684,580
Bank production loans repayable over 10 years in quarterly instalments of $112,500 commencing July 31, 1984	—	4,500,000
Bank production loan revolving to $2,000,000 until August 1, 1983, thereafter repayable over 10 years in equal quarterly instalments commencing July 31, 1984	—	872,000
Bank loans U.S. $10,161,609 evidenced by demand notes	—	12,325,492
Estimated second deferred payment U.S. $704,303 due to Masek	—	865,870
Bank production loan U.S. $13,000,000 repayable over approximately 10 years in monthly instalments commencing April 30, 1984 until May 31, 1993	15,696,942	—
Bank production loan (authorized $7,921,477) repayable over approximately 10 years in monthly instalments commencing April 30, 1984 until May 31, 1993	7,607,866	—
10 year secured debenture repayable in equal quarterly instalments commencing December 31, 1988 until September 30, 1993	10,000,000	—
Bank loan revolving to $1,000,000 until October 14, 1985	806,000	—
	34,110,808	43,260,442
Less amount due within one year	615,688	—
	$33,495,120	$43,260,442

Effective October 14, 1983 the Company entered into an agreement with its bank, to restructure its then existing bank production and demand loans into a combination of new production loans, a revolving operating loan, a debenture and Class A preferred shares, Series 1 (see Note 4). The bank production loans and the debenture are secured by the Company's Canadian and U.S. proved oil and gas properties, assignments of production revenues, and a general assignment of book debts. The loans bear interest at a spread of one percent over the prevailing bank prime rate and the aggregate repayments on the production loans are approximately $616,000 in 1984, are based on estimated cash flow from the Company's oil and gas properties in years 1985 through 1989, and are increased to the amounts required to fully amortize the loans in years 1990 through 1993.

The debenture bears interest at a fixed rate of 10 percent and is redeemable by the Company after October 15, 1984 in whole or in part by payment in cash of the face value and is repayable in 20 equal quarterly instalments commencing December 31, 1988 until September 30, 1993, except that repayments may be deferred if the Company determines and the bank agrees that there is insufficient cash to make such repayments. The Company has the option to pay the debenture interest either in cash or in common shares, at the market price prevailing at the time of payment less five percent, or a combination thereof. The bank has the right to convert up to $1,000,000 of the debenture into common shares at such price prevailing at the time of conversion.

As consideration for the restructuring, the Company is to issue to the bank Class A preferred shares, Series 2 pursuant to the terms of the debenture. These shares are to be issued quarterly over a period of five years commencing October 14, 1983 as follows: $1,000,000 in year one; $200,000 in year two; $280,000 in year three; $320,000 in year four; and $400,000 in year five, providing the debenture is not redeemed in whole or in part during the five year period.

Before the restructuring, the Company's U.S. dollar loans amounted to U.S. $30,661,609. Of this amount, U.S. $17,661,609 was restated under the debt restructuring into loans, a debenture, and preferred shares denominated in Canadian dollars. This resulted in a translation difference of $447,600 which has been recorded as a deferred charge to be amortized over the ten year term of the restructuring. As part of the restructuring, a portion of the interest due at October 14, 1983 was paid in common and Class A preferred shares, Series 1.

The aggregate repayments required on long term debt in each of the next five years are: 1984 — $616,000, 1985 — $2,518,000, 1986 — $2,736,000, 1987 — $2,304,000 and 1988 — $1,818,000.

4. Share Capital

The authorized share capital of the Company consists of:

50,000,000 common shares without nominal or par value

50,000,000 Class A preferred shares without nominal or par value, issuable in series, comprising 49,997,000 Class A preferred shares, Series 1, having a stated value of $1.00 each ("the Class A Series 1 shares") and 3,000 Class A preferred shares, Series 2, having a stated value of $1,000 each ("the Class A Series 2 shares")

50,000,000 Class B preferred shares without nominal or par value, issuable in series

The preferred shares have preferred class rights as to dividends and return of capital over the common shares of the Company and the Class A preferred shares rank senior as to dividends and return of capital over the Class B preferred shares. The directors of the Company are authorized to issue the preferred shares from time to time in one or more series and to fix, by way of resolution, the designation, rights, restrictions, conditions, and limitations attaching to the Class A and Class B preferred shares of each series.

The Class A Series 1 shares have been issued to the bank under the debt restructuring (Note 3) and are the senior class of preferred shares of the Company, bearing cumulative preferential quarterly dividends varying at the rate of 1⅞ percent over the bank's prime rate. They are unsecured and non-voting, except in the case of default. The Company has the option to pay Class A Series 1 share dividends in cash or in additional Class A Series 1 shares at their stated value, or a combination thereof. They are redeemable quarterly by the Company in whole or in part at their stated value and are retractable by the bank in whole or in part at their stated value on or after October 14, 1988, until Septmber 30, 1993. Such retractions are payable in equal quarterly instalments over the remaining term of the issue.

The Class A Series 2 shares have a term of six years until September 30, 1989, are dividend-free, unsecured, non-voting except in the case of default, and are issuable in a minimum amount of $1,000,000 and a maximum amount of $2,200,000, if no redemptions are made of the debenture before October 1, 1988. The Class A Series 2 shares are redeemable by the Company in whole or in part at any time after October 1, 1984 at their stated value. They are retractable by the bank, once and in whole only, at their stated value at any time, after which no additional Class A Series 2 shares would be issued. The Class A Series 2 shares are convertible as to 25 percent thereof and, in the event of retraction by the bank, if there is insufficient cash to meet the retraction obligation, up to 100 percent thereof, at a price for each common share of $2.50 for the twelve months ending September 30, 1984, $2.00 for the twelve months ending September 30, 1985, and $1.67 for each of the twelve months ending September 30, 1986, 1987, and 1988. If any Class A Series 2 shares are outstanding on September 30, 1989, they are automatically converted into common shares at $1.67 per share.

The Company issued the following common shares during 1983:

	Number of Shares	Amount
On exercise of employees' stock options, for cash	24,000	$ 14,620
As compensation to employees under the Employee Share Benefit Plan	183,046	137,115
As interest on long-term debt (Note 3)	847,647	520,797
Returned to treasury in satisfaction of employees' loans	(1,920)	(16,000)
Adjustment for fractional shares on share consolidation	24	—
	1,052,797	$656,532

Share issue expenses during 1983 of $2,836 are not reflected above.

In connection with the debt restructuring, the Company issued to the bank on October 14, 1983, 13,000,000 Class A Series 1 shares. In addition, as part of the restructuring, 381,937 Class A Series 1 shares were issued as partial payment of interest due on October 14, 1983, and 372,907 Class A Series 1 shares were issued on December 31, 1983, in payment of dividends on the Class A Series 1 shares. As consideration for the debt restructuring, 216 Class A Series 2 shares were issued on December 31, 1983, pursuant to the terms of the debenture. On September 30, 1983, the Company's shareholders approved the issuance of up to an aggregate maximum of 10,000,000 common shares to the bank pursuant to the debt restructuring.

In addition to shares which may be issued pursuant to the debt restructuring in payment of interest on the debenture, on conversion of the debenture and the Class A Series 2 shares, and in payment of dividends on the Class A Series 1 shares, the Company has reserved for issuance, as at December 31, 1983, the following common shares:

	Expiry Date	Number of Shares	Amount: Per Share	Amount: Total
For series "C" warrants (see below)	October 1, 1984	333,334	$10.80	$3,600,000
For series "D" warrants owned by senior management	June 30, 1984	116,667	8.94	1,043,000
For employees' stock options	1988 and 1989	330,500	0.52 to 1.08	203,480
		780,501	$ 6.21	$4,846,480

In addition, the Company has reserved, as at December 31, 1983, a further 96,049 common shares for issuance to employees under the Company's Employee Share Benefit Plan as compensation for salary reductions and benefits cancelled as of April 1983. These shares are to be issued at the market price on the date of issue.

On December 20, 1983, the Company and T.R.L. Investments Limited ("T.R.L.") entered into an agreement to settle a difference of opinion relating to the anti-dilution provisions of the Series "C" Warrants, whereby T.R.L. agreed to sell to the Company and the Company agreed to purchase the Series "C" Warrants in consideration of the issue to T.R.L. pursuant to the prospectus (Note 9) of 1,280,000 common shares and 640,000 Series "E" Warrants. The agreement was subject to a minimum subscription under the prospectus, which was surpassed on April 19, 1984. In consideration of the financial advice rendered by the Company's agent under the prospectus in respect of this difference of opinion, the Company has paid the agent $35,000.

For additional common shares issued and reserved for issuance subsequent to December 31, 1983, see Note 9.

On August 25, 1983, two employees of the Company's U.S. subsidiary were granted options to purchase an aggregate of 11,000 common shares at $1.08 per share. On October 20, 1983, the Company, under its 1982 Incentive Stock Option Plan and with the approval of the regulatory authorities, cancelled options granted to its employees to purchase 143,000 common shares at prices ranging from $2.53 to $2.98 per share and granted to its employees and employees of the U.S. subsidiary options to purchase an aggregate of 194,000 common shares of the Company at $0.52 and $0.65 per share, respectively; none of these options had been exercised to December 31, 1983. Of options granted in 1982, 24,000 were exercised and 41,500 expired during 1983 and 133,500 were outstanding as at December 31, 1983.

5. Income Taxes

As at December 31, 1983, the Company had accumulated losses for accounting purposes of approximately $13,000,000 which are available for offset against future accounting income when determining provisions for income taxes. Assuming an effective income tax rate of approximately 50 percent, this represents unrecorded potential tax benefits of approximately $6,500,000 which, when recognized, would be reflected in the consolidated financial statements as extraordinary items. The Company has accumulated losses for income tax purposes of approximately $35,185,000 resulting primarily from the expensing of intangible drilling costs incurred in the United States; these accumulated losses expire as follows:

1984	$ 32,000
1986	945,000
1987	1,328,000
1990	1,302,000
1994 (United States)	111,000
1995 (United States)	2,450,000
1996 (United States)	6,775,000
1997 (United States)	14,319,000
1998 (United States)	7,923,000
	$35,185,000

In addition, at December 31, 1983, the Company had unclaimed costs for income tax purposes of approximately $14,880,000 and $30,312,000 in respect of Canadian and United States operations, respectively.

Included in property and equipment are undepleted costs of acquisition amounting to approximately $12,000,000 as at December 31, 1983, represented by the excess of cost of acquisitions over the historical book value of the underlying net assets at the dates of acquisition of shares in subsidiaries. This excess and the related annual depletion charges for accounting purposes are not deductible for income tax purposes. Accordingly, effective income tax rates in periods subsequent to the acquisitions will reflect higher tax provisions than otherwise would be required if the net assets had been acquired directly.

Canadian Petroleum and Gas Revenue Tax and United States Windfall Profit Tax are considered to be taxes on production. The decline in 1983 of production taxes relates primarily to the continuing reduction in the amount of United States sales subject to Windfall Profit Tax and to the downward adjustment of United States production taxes accrued in 1982.

6. Related Party Transactions

As at December 31, 1983, personal bank loans of senior management totalling $1,116,667 and interest thereon were guaranteed by the Company, as required by the bank (pending alternative funding arrangements being made by senior management) in May 1982 when the loans were arranged to purchase shares of the Company from its former principal shareholder. Each member of senior management has executed promissory notes secured by all of their shares in the Company and have agreed to repay to it any principal or interest costs that it may incur pursuant to the guarantees. As contemplated by the Company, the Bank, and senior management at the time the personal loans were obtained, the Company has made loans to senior management, which together with interest thereon aggregated $87,731 as at December 31, 1983, to assist them to service these personal bank loans. During 1983, certain automobiles were sold to, and office fixtures purchased from, employees at prices considered equal to fair market value.

7. Commitments and Contingencies

The Company has annual base rental commitments (before reductions for anticipated sub-leases) for office space in Calgary and Denver of approximately $591,000, $570,000, $527,000, $388,000, and $388,000 for each of the five years ending December 31, 1988.

The Provincial Treasurer of Alberta and the Minister of National Revenue of Canada (the "Crown") have commenced a lawsuit against a subsidiary of the Company and 23 other defendants, claiming recovery of alleged excess Alberta royalty tax credits relating to fiscal periods prior to the Company's acquisition of the subsidiary. The claim is for $10,000,000, jointly and severally with the other defendants, or alternatively, for $680,736 solely against the subsidiary plus interest and costs. It is the opinion of counsel to the Company and the subsidiary that (i) if the Crown can establish a wrongful conspiracy, it would be a conspiracy as between the subsidiary and one and/or two defendants only and the damages would be $680,736 and (ii) while it can be argued that the pleadings raise an allegation of conspiracy that could result in joint and several liability, it is extremely remote that such an allegation will succeed. As the facts upon which the Crown has based its claim have not been provided to the Company or its subsidiary, counsel is unable to express an opinion at this time with respect to the possible outcome of the litigation. Based on the information presently available to it, the Company has no reason to believe that any amounts will become payable pursuant to the claim and intends to defend against it.

In December 1983 a royalty owner advised a subsidiary of the Company and its partners of its belief that the overriding royalty paid to it since June 1982 had been incorrectly calculated because the subsidiary's and the partners' Petroleum and Gas Revenue Tax exemption of $250,000 each per year was not taken into account in the calculation. The court has ordered that this dispute be litigated, rather than arbitrated, by the parties, which order is being appealed by the royalty owner. The maximum adverse effect on the subsidiary as at December 31, 1983, if this dispute were resolved in favour of the royalty owner, would be an increase of approximately $285,000 in the overriding royalty payable for the period of 19 months then ended. The Company is unable to assess the amount, if any, that will become payable on resolution of this dispute.

In March 1984 a notice of assessment in the amount of $228,234 plus interest was received from Revenue Canada regarding the 1981 taxation year of a now-liquidated subsidiary of the Company. Revenue Canada has disallowed for income tax purposes the deduction of $1,250,000 of oil and gas property acquisition costs. A notice of objection to the reassessment has been filed. The Company believes there is a good argument that such amount is a tax-deductible cost of property and intends to defend against the reassessment.

Due to the continued uncertainty following the release by the federal government of the summer 1982 budget concerning the deductibility for income tax purposes, of imputed interest on interest-free loans granted to employees to purchase shares of a company, the Company's directors terminated, effective June 30, 1982, the proposed employee share purchase plan announced on August 25, 1981. No interest-free loans were made and no shares were issued to employees of the Company under the proposed plan. Since the Company agreed in the summer of 1981, as a condition of the employment of its senior management, to grant interest-free loans to enable them to purchase 625,000 shares of the Company, it is continuing its efforts to find a method of providing a substitute plan which would provide them with substantially the same benefits. In September 1982 a shareholder of the Company commenced an action claiming damages of $1,000,000 against each of the shareholder's broker, a regulatory authority, and senior management of the Company. The shareholder has claimed that senior management was negligent in that information provided to shareholders failed to properly disclose that the above shares to be issued to senior management were not in fact issued to them for cash. Although the Company is not named as a party defendant in the action, senior management may be entitled to be indemnified by the Company. Legal counsel has stated in a preliminary opinion that the action would be successfully defended by senior management and has advised that arrangements are being made for examinations for discovery.

Pursuant to an agreement dated July 1981 for the purchase of oil and gas properties, U.S. $1,706,000 may be due to the vendor, if a secondary recovery project is commenced on a certain oil producing property by July 1, 1989, and, results in a specified increase in oil recoverable from the property.

8. Segmented Information

	Revenue		Net Income (Loss)		Assets	
	Year ended December 31		Year ended December 31		As at December 31	
	1983	1982	**1983**	1982	**1983**	1982
Geographic Areas:						
Canada	$4,269,342	$4,951,706	$(1,023,834)	$ (771,429)	$22,389,161	$22,042,113
United States	5,020,643	4,905,333	(2,260,774)	(3,674,315)	56,082,811	55,423,125
	$9,289,985	$9,857,039	$(3,284,608)	$ (4,445,744)	$78,471,972	$77,465,238

	Capital Additions		Depletion, Depreciation and Amortization	
	Year ended December 31		Year ended December 31	
	1983	1982	**1983**	1982
Geographic Areas:				
Canada	$ 2,182,489	$ 1,872,215	$ 2,157,055	$ 2,278,528
United States	3,267,465	8,380,674	3,197,346	2,868,846
	$ 5,449,954	$10,252,889	$ 5,354,401	$ 5,147,374

9. Subsequent Events

The agreement made August 29 and December 20, 1983 with certain vendors (Petro Can Oil & Gas Fund and its Unitholders, Abacus Cities Ltd., as represented by Thorne Riddell, Inc., Receiver and Manager of the assets of and Trustee of the estate of Abacus Cities Ltd., a Bankrupt, and Petro Can Oil & Gas Corporation Limited) to acquire 25 percent of the vendors' interests in certain petroleum and natural gas properties closed in April 1984, having received the required shareholder, regulatory and bank approvals. The remaining 75 percent interest in these properties was purchased for cash by a Canadian financial institution. The Company's initial right to acquire a further 25 percent interest from the financial institution was subsequently changed to an obligation to acquire 6¼ percent. This obligation is in effect until April 1, 1986 and it is anticipated that Corrida will expend $214,000 under this commitment in 1984. The purchase consideration for the 25 percent interest in the acquired assets is equivalent to $6,659,488 including estimated costs of the acquisition and is comprised of 3,283,652 common shares of the Company, Series "F" warrants to purchase an additional 1,313,461 common shares at a price of $0.8625 per share until March 22, 1986 and $4,196,749 cash. The cash portion of the purchase consideration was financed by agreement with the Canadian financial institution dated as of March 29, 1984 in the form of a non-recourse production loan in the amount of $3,900,000 secured only by the Company's 25 percent interest in the properties. This loan bears interest at a fixed rate of 11 percent for the first five years and thereafter at a fixed rate based upon the average of the mortgage rates of three Canadian financial institutions. The Company granted a 3 percent gross overriding royalty to the financial institution in connection with this financing.

On April 19, 1984, the Company completed the sale to Canadian investors, by prospectus, of 3,227,000 common shares and 1,613,500 Series "E" warrants entitling the holders thereof to purchase an additional 1,613,500 common shares for $0.75 per share on or before January 30, 1987. The net proceeds of the equity offering are to be used in the Company's Canadian and U.S. exploration and development programmes.

The following condensed pro forma consolidated balance sheet gives effect to the undernoted transactions as if they had taken place as of December 31, 1983.

i) The above acquisition of the Petro Can properties
ii) The above equity offering
iii) The issue of 1,280,000 common shares referred to in Note 4 and the related charge to deficit
iv) Accrual of estimated common share issue costs since January 1, 1984 and charging those costs, together with costs incurred prior to December 31, 1983, to common share capital. (Remaining deferred charges represent debt restructuring costs which are being amortized over the remaining loan terms of approximately 10 years.)

	Pro-forma	As reported
Current Assets	$ 3,225,752	$ 3,243,494
Cash from Equity Offering	1,839,390	—
	5,065,142	3,243,494
Property and Equipment — net	79,999,735	73,340,247
Deferred Charges	1,266,870	1,888,231
	$86,331,747	$78,471,972

	Pro-forma	As reported
Current Liabilities	$ 5,805,032	$ 5,263,505
Deferred Revenue	2,097,999	2,097,999
Long-Term Debt	37,395,120	33,495,120
Shareholders' Equity		
Common Shares	42,781,541	38,595,293
Preferred Shares	13,970,844	13,970,844
Contributed Surplus	1,627,093	1,627,093
Retained Earnings (Deficit)	(17,345,882)	(16,577,882)
	41,033,596	37,615,348
	$86,331,747	$78,471,972

The following condensed pro forma consolidated statement of operations gives effect to the above acquisition of the Petro Can properties based on unaudited financial statements for these properties for 1983 as if this acquisition had taken place as of January 1, 1983:

	Pro-forma	As reported
Revenue	$10,434,515	$ 9,289,985
Costs and expenses before those noted below	6,995,455	6,184,575
Funds from operations before undernoted	3,439,060	3,105,410
Compensation and debenture interest paid in shares and unrealized exchange losses	954,273	954,273
Funds from operations	2,484,787	2,151,137
Depletion, depreciation and amortization	6,045,634	5,435,745
NET INCOME (LOSS) FOR THE YEAR	$ (3,560,847)	$ (3,284,608)
Net Income (Loss) per Share	$ (0.41)	$ (0.58)

Auditors' Report

To the Shareholders of Corrida Oils Ltd.

We have examined the consolidated balance sheet of Corrida Oils Ltd. as at December 31, 1983, and the consolidated statements of operations and retained earnings (deficit), and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1983, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 9, 1984
except as to Note 9 as to which
the date is April 19, 1984

Price Waterhouse
Chartered Accountants

Three-Year Statistical Summary

		1983	1982	1981
Financial				
Net revenues		**$ 9,289,985**	$ 9,857,039	$ 3,184,480
Cash flow from operations	— total	**$ 2,151,137**	$ 1,129,990	$ 298,870
	— per share	**$ 0.34**	$ 0.19	$ 0.08
Net income (loss)	— total	**$ (3,284,608)**	$ (4,445,744)	$ (5,542,681)
	— per share	**$ (0.58)**	$ (0.73)	$ (1.54)
Working capital (deficiency)		**$ (2,020,011)**	$ (2,359,949)	$ (2,904,568)
Long-term debt		**$33,495,120**	$43,260,442	$35,146,591
Shareholders' equity		**$37,615,348**	$26,648,323	$27,055,995
Common shares outstanding		**7,234,736**	6,181,939	5,923,906
Preferred shares outstanding	— Series 1	**13,754,844**	—	—
	— Series 2	**216**	—	—
Total assets		**$78,471,972**	$77,465,238	$72,836,392
Operating				
Undeveloped land, net acres		**193,751**	253,537	258,683
Appraised value of land		**$12,089,385**	$19,331,300	$23,896,422
Drilling activity, gross wells				
	— Oil	**28**	11	23
	— Gas	**12**	11	15
	— Dry	**19**	26	55
	— Successful	**68%**	46%	41%
Production, daily after royalties				
	— Oil, bbls	**437**	473	179
	— Gas, MMcf	**2,813**	2,983	855
Proved reserves, after royalties				
	— Oil, bbls	**1,400,047**	1,584,384	1,572,440
	— Gas, MMcf	**16,929**	16,603	14,971
Probable reserves, after royalties				
	— Oil, bbls	**332,575**	328,663	306,362
	— Gas, MMcf	**4,428**	3,819	3,669
Proved and probable reserves, after royalties				
	— Oil, bbls	**1,732,622**	1,913,047	1,878,302
	— Gas, MMcf	**21,357**	20,422	18,640
	— Value at 15%	**$47,301,717**	$45,816,764	$45,593,292
Employees		**28**	32	27

Corporate Information

Directors

J. Richard Harris*
Chairman of the Board, Corrida Oils Ltd.

R. Byron Henderson‡
Associate, Bennett Jones

Ralph A. McKenzie*‡
Senior Vice-President, Corrida Oils Ltd.

Walter B. O'Donoghue, Q.C.‡
Partner, Bennett Jones

Frederic J. Wellhauser*
President, Corrida Oils Ltd.

Officers

J. Richard Harris
Chairman of the Board and
Chief Executive Officer

Frederic J. Wellhauser
President and Chief Operating Officer

Ralph A. McKenzie
Senior Vice-President and
Chief Financial Officer

Raymond G. Gould
Vice-President, Exploration - Canada

John W. Shepardson
Vice-President, Exploration - United States

Robert A. Maitland
Treasurer and Controller

Margaret G. Lemay
Secretary

*Members of the Executive Committee
‡Members of the Audit Committee

Senior Personnel

Canada

Delmer A. Crawford
Manager of Engineering

Michael A. Geldert
Manager of Lands

Jim C. Mawdsley
Manager of Exploration

United States

James C. Brothers
Chief Geologist

Rudolph M. Elvera
Manager of Engineering

Patricia M. Gamroth
Landman

Executive Offices

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Stock Exchange Listing

The Toronto Stock Exchange

Transfer Agent and Registrar

The Canada Trust Company
Calgary, Montreal, Regina,
Toronto, Vancouver

Banker

The Royal Bank of Canada

Auditors

Price Waterhouse

Legal Counsel

Bennett Jones

Printed in Canada
Cal/Oka Printing Ltd.

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