Corrida Oils Ltd.
Annual Report 1984

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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 1984, Corrida had 33 employees operating from offices in Calgary, Medicine Hat, and Denver. The principal business of the Company is to explore for, discover, and produce oil and gas in North America.

- During 1984, Corrida reported a cash flow of $2,664,000 from the production of 500 barrels of oil and 4,013 Mcf of gas per day after royalties. Corrida's exploration and development programmes, which included the participation in 97 wells in 1984, are conducted on 180,000 net acres of leasehold rights that Corrida owns in several of North America's most promising basins.

- Corrida's proven reserves after royalties rose to 1,987,000 barrels of oil and 20,000 MMcf of gas as of December 31, 1984. These are record reserve volumes for the Company, whose production, by February 1985, had risen to 570 barrels of oil and 4,646 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 11, 1985. 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

	December 31	
	1984	1983
Financial		
Net revenue	**$10,583,000**	$ 9,290,000
Cash flow	**$ 2,664,000**	$ 2,151,000
Per share	**$ 0.20**	$ 0.34
Net income (loss)	**$ (3,835,000)**	$ (3,285,000)
Per share	**$ (0.44)**	$ (0.58)
Capital expenditures	**$ 7,281,000**	$ 7,123,000
Working capital (deficiency)	**$ (3,898,000)**	$ (2,020,000)
Long-term debt	**$38,711,000**	$33,495,000
Shareholders' equity	**$38,339,000**	$37,615,000
Total assets	**$86,198,000**	$78,472,000
Average shares outstanding	**13,174,000**	6,347,000
Total shares outstanding	**15,812,000**	7,235,000
Operating		
Undeveloped land, net acres	**180,000**	194,000
Drilling activity, gross wells		
Oil	**44**	28
Gas	**32**	12
Dry	**21**	19
	97	59
Successful, percent	**78**	68
Productive wells, net	**70**	37
Production, after royalties		
Oil, barrels per day	**500**	437
Gas, Mcf per day	**4,013**	2,813
Proved reserves, after royalties		
Oil, barrels	**1,987,000**	1,400,000
Gas, MMcf	**20,000**	17,000
Share Data		
High	**$ 0.65**	$ 1.80
Low	**$ 0.16**	$ 0.55
Close	**$ 0.23**	$ 0.55
Volume	**1,624,000**	2,117,000
Value	**$ 590,000**	$ 2,133,000

Report to Shareholders

Finance

In the 1984 fiscal year, Corrida's net revenues were $10,583,000 as compared to $9,290,000 in 1983. The increased revenues resulted from increased oil and gas sales. Expenses for the period rose to $14,418,000 from $12,575,000 incurred last year; higher depletion, depreciation and amortization associated with the acquisition of the assets of the Petro Can Oil & Gas Fund and its Unitholders in the second quarter of 1984 account for the majority of the increase in expenses. The loss for the year was $3,835,000; last year, the loss was $3,285,000.

Cash flow from operations during the fiscal year increased to $2,664,000 from $2,151,000 last year. The working capital deficiency, however, increased to $3,898,000 as compared to the deficiency of $2,020,000 at December 31, 1983. The increased deficiency in 1984 results from an increase in the current portion of Corrida's long-term debt and the costs incurred in the very active drilling programme that began in the third quarter of 1984.

Reserves & Production

Corrida's proved reserves of oil after royalties increased to 1,987,000 barrels at the end of 1984 as compared to 1,400,000 barrels at the end of 1983, and the proved reserves of gas after royalties increased to 20,000 MMcf from 17,000 MMcf. Oil and gas reserves increased because of the acquisition of the Alberta producing assets of Petro Can Oil & Gas Fund and its Unitholders and the extension wells drilled on Corrida's oil leases in the Bisti field of New Mexico.

During 1984, Corrida's production after royalties was 500 barrels of oil and 4,013 Mcf of gas per day as compared to 437 barrels and 2,813 Mcf per day during 1983.

Standing: Walter B. O'Donoghue, Frederic J. Wellhauser, Ralph A. McKenzie, Michael E. Hriskevich. Seated: Bruce M. McIntyre, J. Richard Harris, Donald E. August.

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 3,301,418 common shares, 1,320,568 warrants to purchase a further 1,320,568 common shares at $0.8625 per share for two years, and by the payment of $3,906,000 in cash, which Corrida has borrowed on a fixed-rate, limited-recourse, long-term basis from a Canadian financial institution.

The major properties acquired 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. In addition to the producing properties, the acquisition included 7,880 net acres of undeveloped leases in Alberta that are prospective for hydrocarbons. 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, through a public prospectus, 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 were used in Corrida's Canadian and U.S. exploration and development programmes.

Flow-Through Shares

On November 5, 1984, shareholders granted final approval for the sale of $5,000,000 in convertible preferred flow-through shares that were privately placed with individual Canadian investors. Assuming full conversion, Corrida would issue 12,500,000 common shares at $0.40 per share. The placement was completed as of March 22, 1985, and will provide $5,000,000 to finance the remainder of Corrida's 1985 Canadian drilling programme. Of this amount, in excess of $4,000,000 will be spent on exploration for new reserves.

Recent Developments

On March 18, 1985, the Governments of Canada, Alberta, Saskatchewan and British Columbia announced a new agreement ("The Western Accord") related to the pricing and taxation of crude oil and natural gas. The principal provisions of The Western Accord which affect Corrida are:

(a) the deregulation of Canadian crude oil prices, effective June 1, 1985, eliminating the distinction between crude oil discovered before and after January 1, 1974;

(b) the elimination, in respect to production from wells spudded on or after April 1, 1985, of the Petroleum and Gas Revenue Tax ("PGRT") levied by the Government of Canada on revenue from production of crude oil and natural gas;

(c) the phase-out by January 1, 1989, of PGRT on production from wells spudded prior to April 1, 1985, and

(d) the termination of federal Petroleum Incentive Payments ("PIPS") after March 28, 1986, subject to certain provisions.

In addition, the Governments have agreed to review the pricing of natural gas in Canada and negotiate an agreement on or before November 1, 1985. Further, the Province of Alberta has announced that it will review its royalty structure with the industry.

Approximately 62 percent of Corrida's Canadian crude oil production in 1984 was classified as old oil production and under deregulation is expected to increase in price. The balance of Canadian production is classified as new oil and under deregulation is expected to decline in price. Although Corrida is unable to predict at this time the net impact of crude oil price deregulation on its operations, Corrida believes that such deregulation will not result in a material change in the average price received for its crude oil. The phasing out of PGRT will have no significant effect on Corrida's operations. The elimination of federal PIPS will have no impact on Corrida's capital expenditure programme since, during 1984, all of the PIPS received were received under the Alberta Petroleum Incentives Program.

Outlook

Management is encouraged that Corrida has been able to report higher cash flow in 1984 than for 1983. Corrida has increased its reserve base, increased its production of oil and gas, and participated in several extensions that are not fully reflected in the 1984 reserve and production data but should contribute to increased cash flow in 1985. By the end of February 1985, oil production had risen to 570 barrels per day and gas production had risen to 4,646 Mcf per day after royalties, both setting new production records for the Company. This progress has been gratifying and Corrida intends to pursue prudent oil and gas exploration and development programmes. The 1985 fiscal year appears promising.

Corrida has suffered negative working capital since 1981, and a number of resolutions to this lingering problem are under review. Senior management is conducting extensive negotiations with investors concerning the refinancing of the working capital deficit by the issuance on a private placement basis of either a long-term, fixed-rate convertible debenture, a medium-term fixed-rate note, or the sale of equity.

The Board of Directors wishes to thank its shareholders for their support and its employees for their 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.

May 17, 1985

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

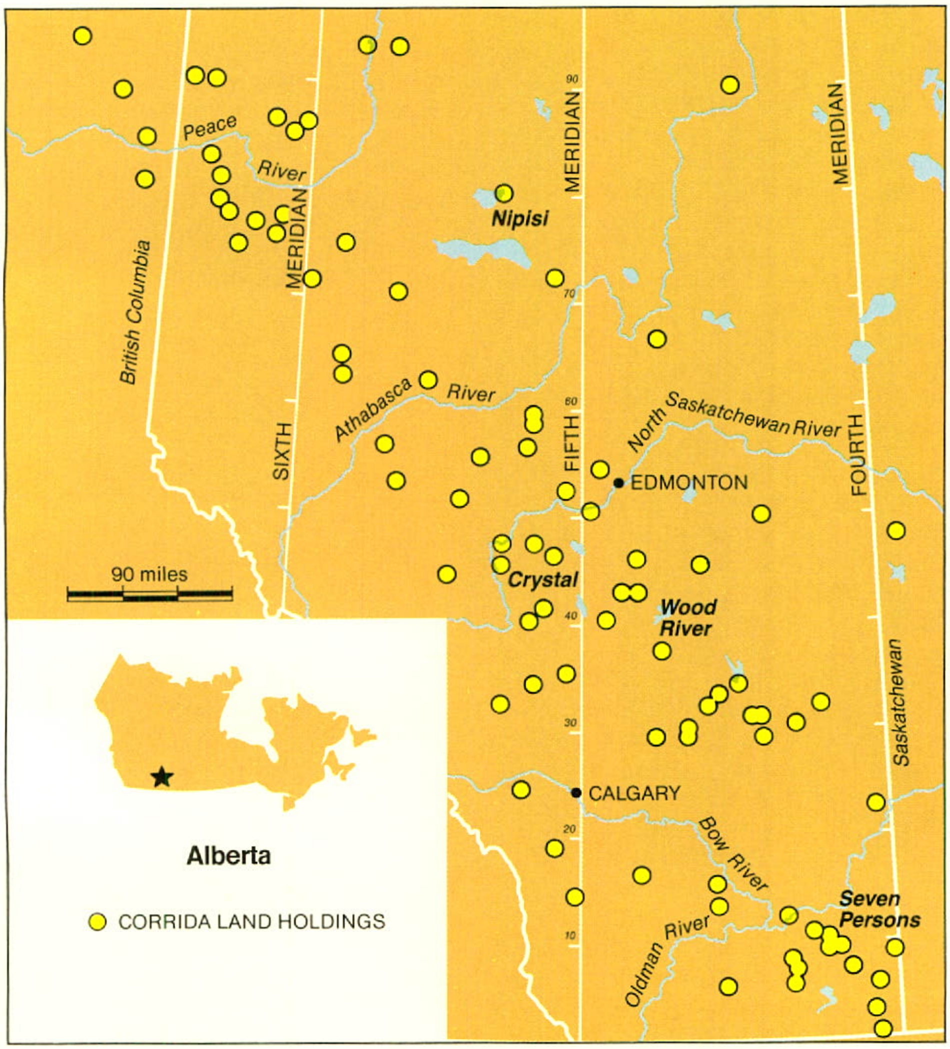
Canadian Operations

The signing of the Western Accord by the three western producing provinces and the Federal Government in March 1985 signalled the effective demise of the National Energy Program instigated in October 1980. Deregulation of oil and gas prices and elimination of onerous front-end production taxes and the Petroleum Incentive Program will provide a major stimulus for additional oil and gas development in Western Canada. The Petroleum and Gas Revenue Tax will not be applied to new production discovered after April 1, 1985 while PGRT on prior production will be phased-out by December 31, 1988. The deregulation of oil prices effective June 1, 1985, is not expected to effect Corrida's revenue flow as approximately one-half of its oil production receives NORP prices (which should decline to the market price) and the remaining 50 percent of production will receive a higher price to be determined by the market place. A market-oriented pricing mechanism for natural gas will be determined by a joint federal-provincial task force on or before November 1, 1985.

During 1985, Corrida invested about $2,500,000 in exploration and development activities or 2½ times the expenditures in 1983. Corrida participated in the drilling of 70 wells of which 64 were completed as producers, a success ratio of 91 percent. At the end of the year, Corrida had interests in 309 oil wells and 392 gas wells producing to Corrida's account an average after royalties of 318 barrels of oil and 2,447 Mcf of gas per day. Compared to 1983, the oil production increased 37 percent and the gas production increased 71 percent as the result of new discoveries, infill drilling, and acquisitions. During the first three months of 1985, this trend has continued with Corrida's production after royalties rising to about 400 barrels of oil and 3,000 Mcf of gas per day.

At December 31, 1984, proved reserves after royalties were 1,340,642 barrels of oil and 16,191 MMcf of gas, a 46 percent increase for oil and a 28 percent increase for gas compared to the previous year. At the end of 1984, Corrida owned 49,417 net acres of undeveloped land, a gain of 20 percent compared to the previous year.

An undivided 25 percent interest in the oil and gas assets of Petro Can Oil & Gas Fund and of its Unitholders was acquired by Corrida on April 19, 1984. The major producing properties are in the Crystal oil field in central Alberta and in the Seven Persons area, a shallow gas field located in southeastern Alberta.

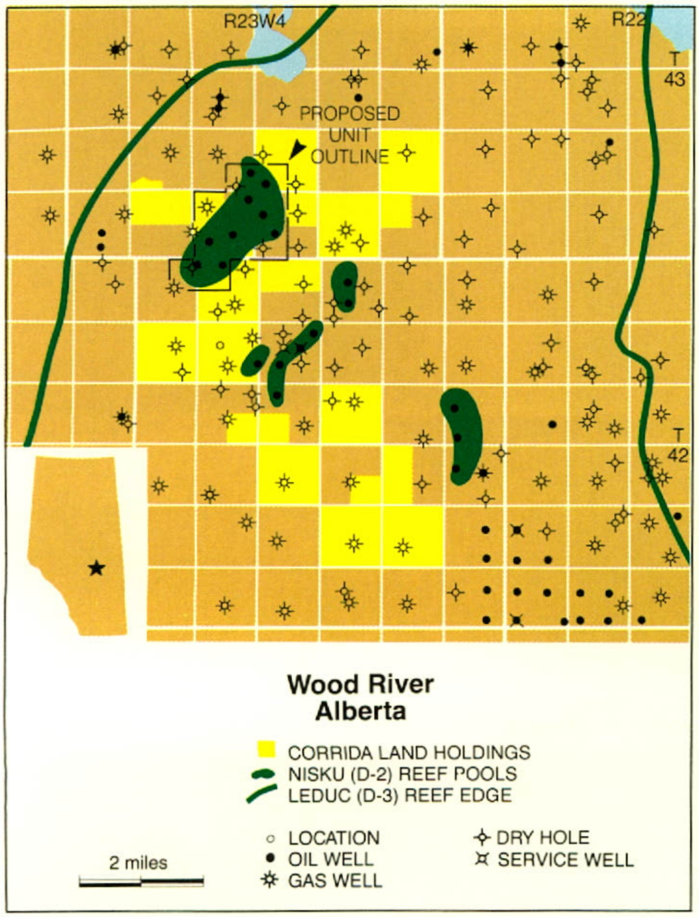


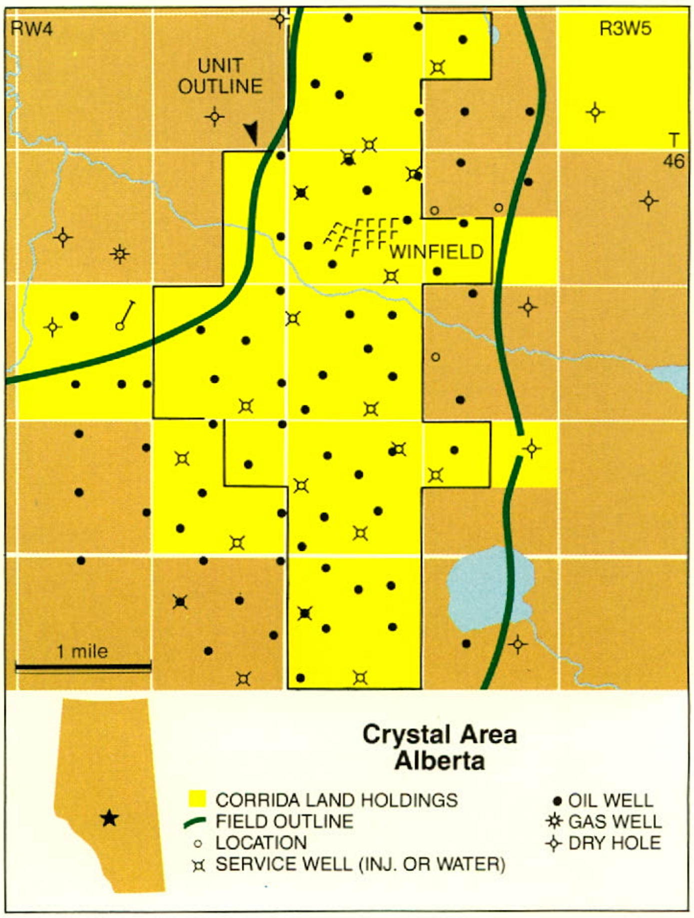
Wood River Area

Corrida has interests varying from 15 percent to 75 percent in extensive land holdings in the Wood River area of central Alberta where the major producing zone is porous reefal buildup in the Devonian Nisku formation. Corrida participated in the drilling of three wells in 1984 exploring for extensions of the porosity development and were successful with Corrida et al Wood in 4-10-43-23 W4M where 20 feet of oil pay was encountered which was capable of producing 140 barrels of oil per day. An application for water-flooding of the Wood River D-2 "A" pool has been submitted to the Energy Resources Conservation Board, and unitization of the pool should be completed by December 1985. Pressure maintenance by water injection will double the recoverable oil reserves from this pool and will significantly increase Corrida's share of production. Corrida intends to drill a Basal Quartz gas well during 1985 in the Wood River area, with the objective to commence sales to an industrial gas contract by November 1985.

Crystal Field

Corrida has a 2.79 percent working interest in the Crystal Viking Unit No. 1 in the Winfield area of Central Alberta. Gathering and injection lines, a water source pipeline, and intake facilities were installed during 1984 along with consolidation of batteries and construction of a water injection plant. During the year, 26 producing and injector wells were drilled and completed. Water injection commenced November 3, 1984 and unit production of over 5,500 barrels of oil per day became effective February 1, 1985. Additional water injection wells to be drilled in 1985 should allow production to increase to 7,000 barrels of oil per day later this year. Facilities for conservation and sale of solution gas are being installed with sales expected to commence in September 1985.





Seven Persons Area

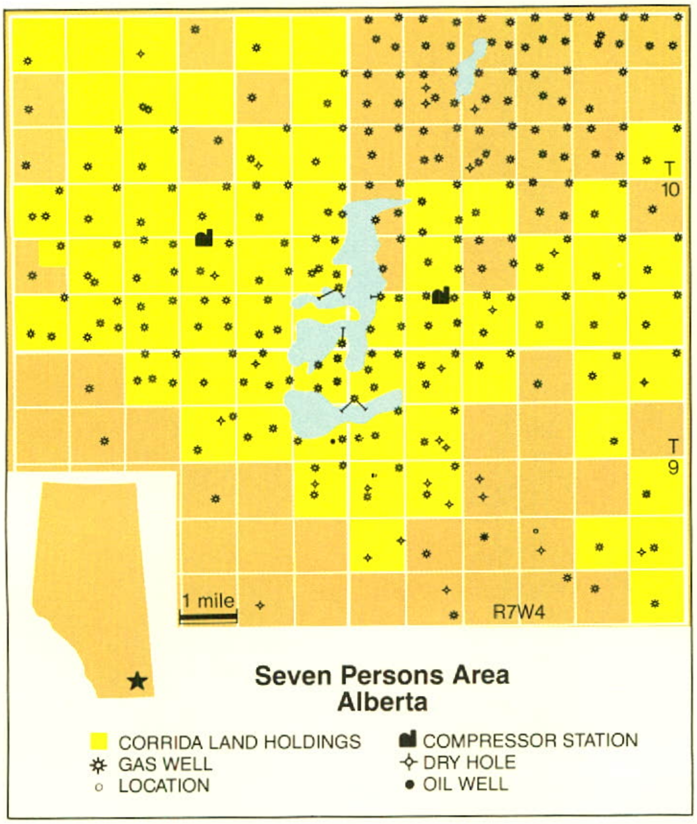
Corrida is the operator of 145 gas wells in the Seven Persons area in southeastern Alberta. Gas production from these shallow, low pressure wells is gathered and compressed by Consolidated Gathering Systems Limited and sold to Western Co-operative Fertilizers Limited in Calgary. A 26-well infill program was completed during 1984 to increase production and sales to this Gas Contract. Gross gas produced through the two compressor stations is 7.5 MMcf per day. Several additional infill wells may be drilled in 1985 to supplement any declining productivity.

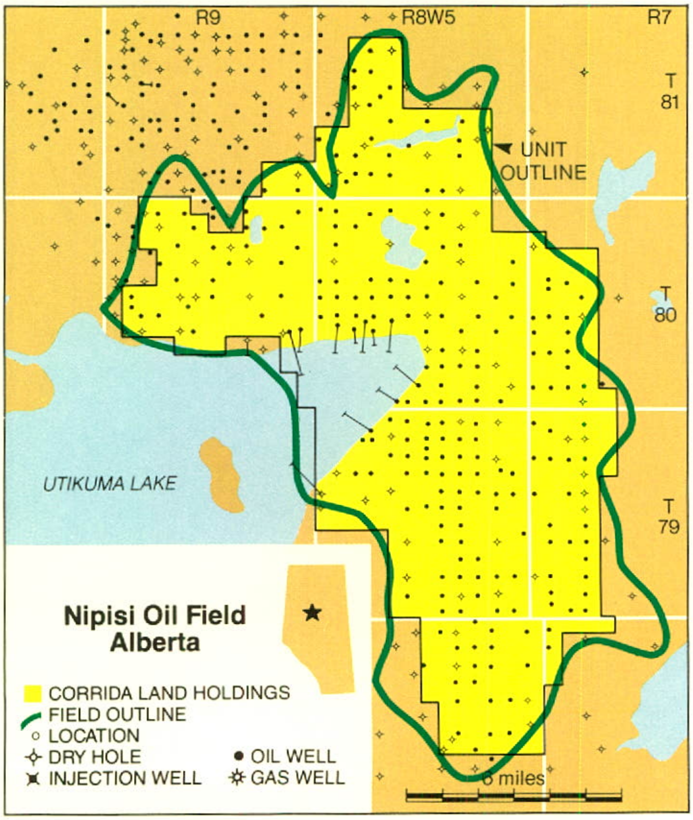
Nipisi Field

The Nipisi oil field is in north central Alberta and produces oil from the Middle Devonian Gilwood sandstone reservoir. During 1984, 22 additional producers, injectors, and service wells were drilled by the operator of Nipisi Gilwood Unit #1, in which Corrida holds a 0.91 percent working interest. The majority of these wells were infill producers which qualified for the NORP oil price. The pace of infill drilling will decline substantially in 1985 as a result of the decontrol of NORP oil prices and due to the fact most of the better locations have been drilled. Unit production increased 18 percent during 1984 as a result of the miscible flood initiated in 1983 and the infill drilling program. Nipisi Unit production accounted for 70 percent of Corrida's Canadian oil production in 1984. The unit participants are studying the economics of enlarging the area of the enhanced oil recovery scheme which would entail Phase Two of the miscible flood.

Outlook

In 1985, Corrida expects to spend $4,600,000 in exploration and development programs in Alberta and Saskatchewan and to participate in the drilling of about 60 wells. The majority of this drilling will be directed to discovering additional oil reserves but gas prospects with the potential for significant gas reserves and early sales will also be evaluated.





Canadian Statistics

Undeveloped Land as of December 31, 1984(1)

	Gross Acres	Net Acres	Appraised Value
Alberta	316,283	46,008	$4,129,811
British Columbia	8,523	424	36,660
Northwest Territories	33,128	1,796	61,048
Saskatchewan	15,880	1,189	74,315
	373,814	49,417	$4,301,834

Wells Drilled During 1984

	Oil Wells		Gas Wells		Dry Holes		Total Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory	2	0.18	1	0.19	1	0.22	4	0.59
Development	36	2.95	25	6.01	5	1.17	66	10.13
	38	3.13	26	6.20	6	1.39	70	10.72

Productive Wells Owned at December 31, 1984

	Oil Wells		Gas Wells	
	Gross	Net	Gross	Net
Alberta	306	7.48	390	42.94
British Columbia	2	0.06	2	0.29
Saskatchewan	1	0.17	—	—
	309	7.71	392	43.23

Production During 1984

	Annual		Daily	
	Gross	Net	Gross	Net
Oil, barrels	194,775	116,133	532	318
Gas, Mcf	1,362,305	895,609	3,723	2,447

Reserves Remaining at December 31, 1984(2)

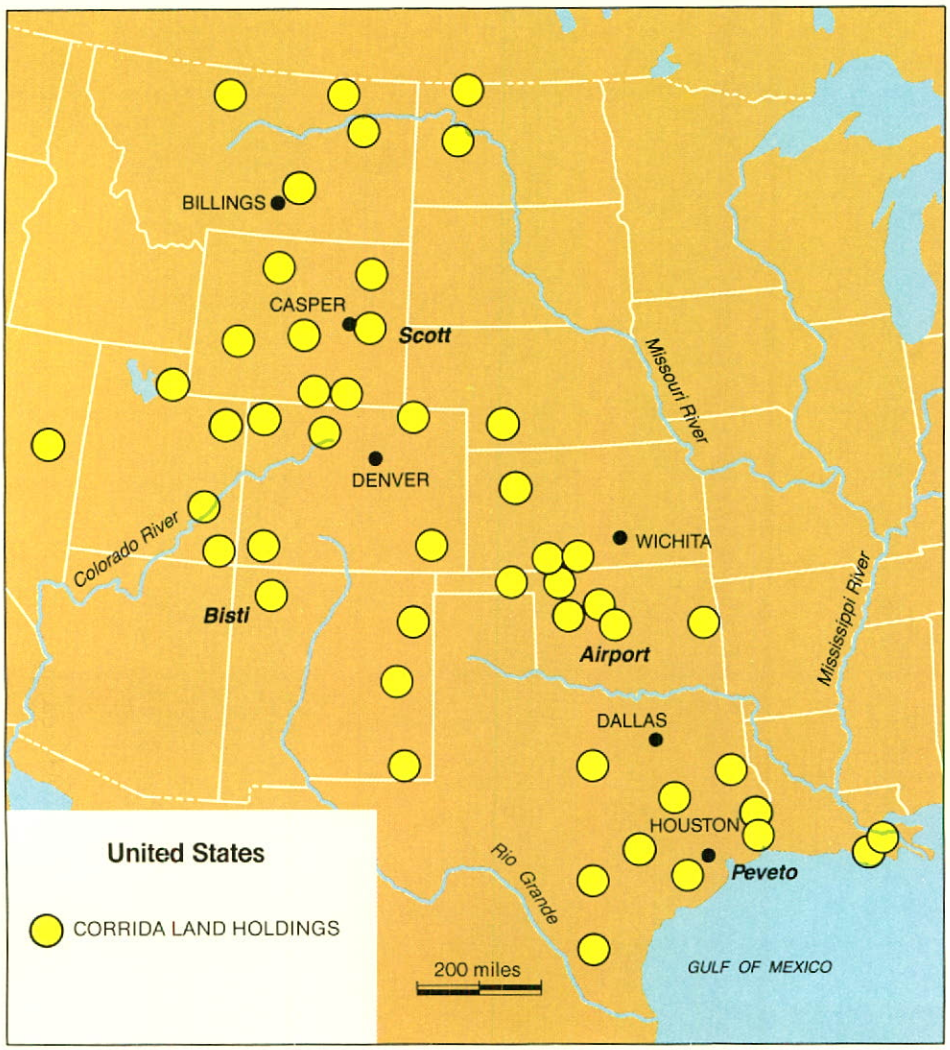
	Proved		Probable		Total		Discounted Present Value at 15%
	Gross	Net	Gross	Net	Gross	Net	
Oil, barrels	2,031,022	1,340,642	494,128	350,510	2,525,150	1,691,152	$17,611,785
Gas, MMcf	23,029	16,191	8,586	5,819	31,615	22,010	16,519,622
							$34,131,407

(1) Appraised replacement value by Seaton-Jordan & Associates Ltd., Calgary, independent mineral management consultants.

(2) As appraised by McDaniel & Associates Consultants Ltd., Calgary, independent oil and gas reservoir engineers; value of probable reserves has been discounted 4:1 for risk.

U.S. Operations

During 1984, Corrida invested U.S. $1,800,000 in exploration and development activities compared to U.S. $2,800,000 during 1983. This investment permitted Corrida to participate in the drilling of 27 wells of which 12 were completed as producers, a success ratio of 44 percent. At the end of the year, Corrida had interests in 69 oil wells and 69 gas wells producing to Corrida's account an average after royalties of 182 barrels of oil and 1,566 Mcf of gas per day; compared to 1983, oil production decreased 12 percent and gas production increased 13 percent after royalties.



At December 31, 1984, proved reserves after royalties were 645,884 barrels of oil and 4,030 MMcf of gas compared to 484,989 barrels of oil and 4,285 MMcf of gas at the end of 1983.

The recent extension wells completed in the 1984-85 drilling season on Corrida's leases in the Bisti field were responsible for the increase in oil reserves and are expected to contribute significantly to the Company's oil production in 1985.

During 1984, the average crude oil price received by Corrida decreased by about U.S. $5 per barrel from U.S. $30 per barrel while the average gas price dropped from U.S. $3.48 to U.S. $3.28 per Mcf.

At the end of 1984, Corrida's interests in undeveloped land were reduced 15 percent to 130,441 net acres from the previous year through sales and selective releases.

Bisti Field

During 1984, Corrida drilled its first well on a 50 percent owned 360-acre lease south of the Bisti field in the San Juan Basin, New Mexico. The Badlands-Federal #1, drilled to 5,100 feet, was completed in the Gallup formation (Cretaceous) with an initial production rate of 60 barrels of oil per day.

The #2 and #3 wells, drilled in December 1984, were completed during January 1985 with initial production rates of 50 and 35 barrels of oil per day, respectively. The Bisti property has become Corrida's second largest oil field in the U.S. and should make a substantial contribution to future production. The prospect of drilling an additional four wells on the remaining acreage is under review.

Peveto Field

Corrida has a 9.375 percent interest in the 800-acre Peveto block in Orange County, Texas. During 1984 additional drilling defined the boundaries of the field. The five wells in Peveto, Corrida's largest and most valuable U.S. property, produce gas and condensate from the Nodosaria sand in the Middle Frio formation (Oligocene). The wells are currently producing 6,720 Mcf of gas and 350 barrels of condensate per day, providing 40 percent and 18 percent of Corrida's U.S. production, respectively. The Peveto production is sold under long-term contract at competitive prices.

Airport and Scott Fields

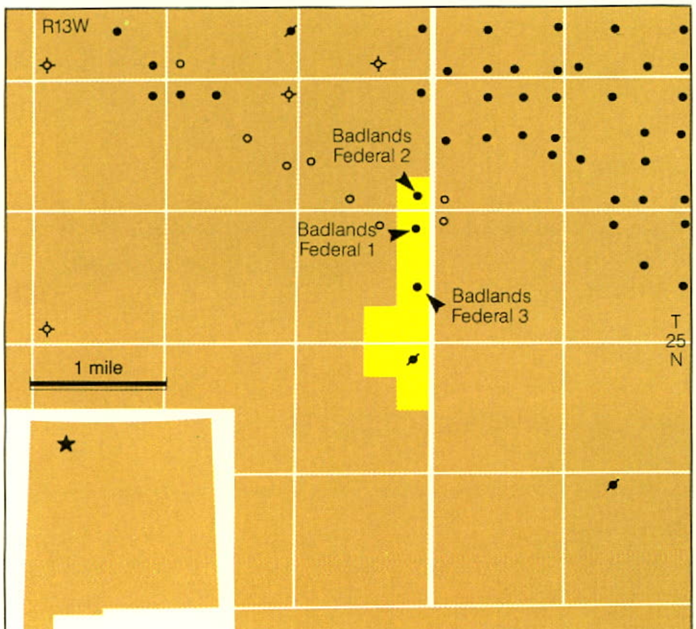
Corrida has interests varying from 3 percent to 50 percent in 25 wells in the Airport field in Canadian County, Oklahoma, producing from the Mississippian and the Hunton formations (Siluro-Devonian). Airport is Corrida's second largest gas field in the U.S. Limited drilling activity is expected during 1985 as full development of the field continues.

Corrida has an average 20 percent interest in 25 wells in the Scott field in Converse County, Wyoming, producing from the Parkman formation (Upper Cretaceous), the principal producing interval, and the shallower Teapot formation. Scott field is Corrida's largest U.S. oil field, and limited drilling and recompletion work will take place in 1985 to maintain current production levels.

Outlook

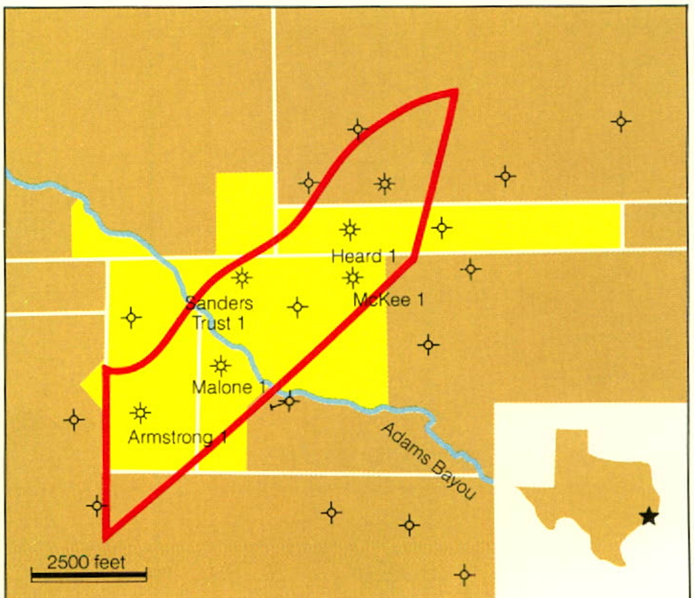
Corrida will confine its 1985 U.S. activity to its historic areas of interest — the Powder River Basin of Wyoming, the San Juan Basin in New Mexico, the Mid-Continent area of Oklahoma and the Texas Gulf Coast. A number of prospective exploration and development programmes in these areas are under consideration.

Efforts are underway to increase the U.S. operations' profitability by disposing of minority producing interests with high operating costs and by reducing the operations' administrative and overhead costs consistent with the smaller more efficient scale of activity.



Bisti Field
San Juan County, New Mexico

CORRIDA LAND HOLDINGS
LOCATION
DRY HOLE
OIL WELL
SUSPENDED



Peveto Field
Orange County, Texas

CORRIDA LAND HOLDINGS
DRY HOLE
GAS WELL
FIELD OUTLINE

U.S. Statistics

Undeveloped Land as of December 31, 1984(1)

	Gross Acres	Net Acres	Appraised Value
Montana	232,916	35,556	U.S.$ 391,116
Wyoming	130,951	27,744	1,664,640
Nebraska	24,447	19,510	390,200
Texas	46,200	7,572	799,128
Others	259,795	40,059	1,287,440
	694,309	130,441	U.S.$4,532,524

Wells Drilled During 1984

	Oil Wells		Gas Wells		Dry Holes		Total Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory	1	0.50	2	0.08	7	0.44	10	1.02
Development	5	1.16	4	0.21	8	0.22	17	1.59
	6	1.66	6	0.29	15	0.66	27	2.61

Productive Wells Owned at December 31, 1984

	Oil Wells		Gas Wells	
	Gross	Net	Gross	Net
Wyoming	45	8.03	4	0.38
Oklahoma	5	0.27	37	4.99
Texas	5	0.36	24	1.98
Others	14	3.25	4	0.21
	69	11.91	69	7.56

Production During 1984

	Annual		Daily	
	Gross	Net	Gross	Net
Oil, barrels	86,052	66,747	235	182
Gas, Mcf	775,652	573,083	2,119	1,566

Reserves Remaining at December 31, 1984(2)

	Proved Developed		Proved Undeveloped		Total		Discounted Present Value at 15%
	Gross	Net	Gross	Net	Gross	Net	
Oil, barrels	465,046	368,406	343,388	277,478	808,434	645,884	U.S.$ 7,288,068
Gas, MMcf	4,544	3,359	918	671	5,462	4,030	6,739,438
							U.S.$14,027,506

(1) Appraised realizable 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

1984 versus 1983

Revenues increased 14 percent in 1984 to $10,583,000, cash flow from operations increased 24 percent to $2,664,000, the loss for the year increased 17 percent to $3,835,000 and the working capital deficiency increased to $3,898,000 from $2,020,000 at the end of 1983.

The increase in revenues is due to an increase in oil and gas sales resulting mainly from the acquisition of producing properties in April 1984 from the Petro Can Oil & Gas Fund and its Unitholders and from the completion of an enhanced recovery system, including additional infill wells, in late 1983 at the Nipisi Unit.

The decrease in total overhead in 1984 (expensed and capitalized) of $437,000 or 13 percent is due to a further general trimming of all overhead expenses as part of a cost awareness program and to increased overhead recoveries in 1984 from operating over 140 wells included in the above-mentioned acquisition of producing properties. Further reductions in overhead are planned for 1985.

The increased loss for the year resulted from increased non-cash charges for depletion, depreciation and amortization (mainly attributable to the newly-acquired properties), net of increased oil and gas sales and decreased overhead.

Capital Resources and Liquidity

On April 19, 1984, Corrida completed the sale to several Canadian institutions and private companies of units of common stock and warrants for $1,936,000; the net proceeds of this sale were used in Corrida's Canadian and U.S. exploration and development programmes. Corrida also raised funds in December 1984 by the sale of its interest in a gas plant in Alberta at an advantageous price on a tax-shelter basis. Corrida applied the $2,000,000 proceeds of the sale, net of commission, to a $1,600,000 reduction of its working capital deficiency and a $400,000 reduction in its floating-rate long-term debt.

Direct oil and gas expenditures (excluding capitalized interest and overhead) increased 23 percent in 1984 to $4,961,000, of which 62 percent was spent on development, mainly on newly-acquired properties.

Projected direct oil and gas expenditures for 1985 of approximately $5,700,000, of which 70 percent is to be spent on exploration and 30 percent on development, are to be funded from proceeds of the flow-through shares and from increased cash flow from operations mainly attributable to the newly-acquired properties. Corrida completed a private placement of $5,000,000 in flow-through preferred shares as of March 22, 1985 to a group of Canadian investors. In consideration for the investors spending this amount on oil and gas expenditures on Corrida's Canadian lands during the remaining months in 1985, Corrida will issue the flow-through shares and will forego both the deduction of such expenditures for income tax purposes and the government incentives provided for under the petroleum incentives program acts. These shares are exchangeable for Corrida's common shares at $0.40 per common share (for details see Note 11 to the Consolidated Financial Statements).

The increased working capital deficiency is due in part to an increase in the current portion of deferred revenue and of long-term debt to Corrida's bank and, in part, to the temporary increase in accounts payable associated with the further development in the latter part of 1984 on the newly-acquired properties.

Extensive discussions have taken place with the bank and other financial institutions with the view to providing long-term financing to strengthen Corrida's working capital position.

Consolidated Balance Sheet

ASSETS

	December 31 1984	December 31 1983
CURRENT ASSETS		
Cash and term deposits	**$ 178,323**	$ 171,780
Accounts receivable		
Trade	**2,031,330**	2,020,590
Other	**477,261**	509,991
Notes receivable	**500,000**	78,084
Prepaid expenses and supplies	**331,065**	463,049
	3,517,979	3,243,494
PROPERTY AND EQUIPMENT, at cost (Notes 4 and 7)	**105,287,088**	93,635,042
Less accumulated depletion, depreciation and amortization	**26,301,316**	20,294,795
	78,985,772	73,340,247
DEFERRED CHARGES		
Foreign exchange translation adjustment, less accumulated amortization (Note 2)	**1,667,000**	—
Other, at cost less accumulated amortization	**2,027,416**	1,888,231
	3,694,416	1,888,231
	$86,198,167	$78,471,972

LIABILITIES AND SHAREHOLDERS' EQUITY

	1984	1983
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 5,941,434**	$ 4,647,817
Current portion of long-term debt	**1,194,051**	615,688
Current portion of deferred revenue	**280,000**	—
	7,415,485	5,263,505
DEFERRED REVENUE	**1,732,750**	2,097,999
LONG-TERM DEBT (Note 5)	**38,710,566**	33,495,120
SHAREHOLDERS' EQUITY		
Share capital (Note 6)		
Issued and outstanding		
15,811,649 common shares (1983 - 7,234,736)	**43,124,892**	38,595,293
15,778,871 Class A preferred shares, Series 1 (1983 - 13,754,844)	**15,778,871**	13,754,844
1,013 Class A preferred shares, Series 2 (1983 - 216)	**1,013,000**	216,000
Contributed surplus	**—**	1,627,093
Retained earnings (deficit)	**(21,577,397)**	(16,577,882)
	38,339,366	37,615,348
COMMITMENTS AND CONTINGENCIES (Notes 3 and 9)		
	$86,198,167	$78,471,972

Approved by the Board

J. Richard Harris, Director

Ralph A. McKenzie, Director

Consolidated Statement of Operations and Retained Earnings (Deficit)

	Year Ended December 31 1984	1983
REVENUE		
Oil and gas sales less royalties	**$ 8,830,685**	$ 7,416,655
Alberta royalty tax credits	**1,706,984**	1,872,267
Other	**45,675**	1,063
	10,583,344	9,289,985
EXPENSES		
Production taxes (Note 7)	**542,802**	657,225
Operating	**1,661,439**	1,199,455
General and administrative (Note 4)	**1,114,611**	972,408
Interest on long-term debt (Note 4)	**4,369,407**	4,298,560
Depletion	**5,466,042**	4,688,051
Depreciation and amortization	**1,032,641**	666,350
Unrealized foreign exchange loss	**36,718**	11,200
Loss on disposal of capital assets	**—**	81,344
Unrealized inventory valuation adjustment	**194,265**	—
	14,417,925	12,574,593
NET INCOME (LOSS) FOR THE YEAR	**(3,834,581)**	(3,284,608)
Retained earnings (deficit) at beginning of year	**(16,577,882)**	(13,293,274)
Add		
Warrants purchased for cancellation (Note 6)	**(768,000)**	—
Additional dividends paid in Class A preferred shares, Series 1	**(396,934)**	—
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	**$(21,577,397)**	$(16,577,882)
Net income (loss) per share	**$ (.44)**	$ (.58)

Consolidated Statement of Contributed Surplus

	Year Ended December 31 1984	1983
CONTRIBUTED SURPLUS AT BEGINNING OF YEAR	**$ 1,627,093**	$ 2,000,000
Deduct dividends paid in Class A preferred shares, Series 1	**1,627,093**	372,907
CONTRIBUTED SURPLUS AT END OF YEAR	**$ —**	$ 1,627,093

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1984	1983
SOURCE OF WORKING CAPITAL		
From operations		
Net income (loss) for the year	**$(3,834,581)**	$(3,284,608)
Add		
Charges not requiring an outlay of working capital being depletion, depreciation, amortization and loss on disposal of capital assets	**6,498,683**	5,435,745
Compensation and debenture interest paid or payable in the form of shares and unrealized foreign exchange loss and inventory valuation adjustment	**1,229,458**	954,273
Funds from operations before undernoted items	**3,893,560**	3,105,410
Deduct compensation and debenture interest paid or payable in the form of shares and unrealized foreign exchange loss and inventory valuation adjustment	**1,229,458**	954,273
	2,664,102	2,151,137
Current portion of notes receivable	**—**	78,084
Proceeds on disposition of capital assets	**—**	329,009
Prepayment for future gas production	**51,123**	148,703
Limited-recourse production loan (Notes 4 and 5)	**3,900,000**	—
Debenture interest payable (Note 5)	**750,732**	—
Bank loans issued	**482,611**	4,716,236
Convertible debenture issued	**—**	10,000,000
Common shares issued, net of issue expenses	**4,529,599**	653,696
Class A preferred shares, Series 1 issued	**2,024,027**	13,754,844
Class A preferred shares, Series 2 issued	**797,000**	216,000
	15,199,194	32,047,709
APPLICATION OF WORKING CAPITAL		
Additions to property and equipment	**7,281,124**	7,122,657
Deduct proceeds on disposition of property and equipment	**2,207,313**	1,672,703
	5,073,811	5,449,954
Acquisition of property and equipment (Note 4)	**6,578,235**	—
Loans to senior management (Note 8)	**163,569**	—
Increase in current portion of long-term debt	**411,696**	615,688
Repayment of long-term debt	**782,355**	865,870
Restructuring of long-term debt	**—**	23,000,000
Repayment of deferred revenue	**136,372**	—
Current portion of deferred revenue	**280,000**	—
Purchase of Series "C" warrants (Note 6)	**768,000**	—
Dividends paid in Class A preferred shares, Series 1	**2,024,027**	372,907
Deferred charges	**858,624**	1,403,352
	17,076,689	31,707,771
INCREASE (DECREASE) IN WORKING CAPITAL	**(1,877,495)**	339,938
Working capital (deficiency) at beginning of year	**(2,020,011)**	(2,359,949)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR (Note 3)	**$ (3,897,506)**	$ (2,020,011)

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

The Company and its subsidiaries are engaged in the exploration for, development of, 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 that current cost information is not provided herein. 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 disposition of property and equipment 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, based on reports from independent petroleum engineers, after recognition of Alberta royalty tax credits but before deduction of overhead, interest, and income taxes, (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

The Company follows the temporal method of translation of foreign currencies. Under this method current assets, current liabilities and long-term monetary assets and liabilities are translated at the applicable rates of exchange prevailing on the date of the financial statements. Other balance sheet items are translated at historical rates. Results of operations are translated at average rates except for depletion, depreciation and amortization which are translated at historical rates. Translation gains and losses are included in operations except for unrealized gains and losses resulting from the translation of long-term monetary assets and liabilities which are deferred and amortized over the remaining term of the related item.

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. Change in Accounting

In conformity with recent recommendations of the Canadian Institute of Chartered Accountants, the Company during 1984 changed prospectively its method of translation of foreign currencies to that described in Note 1. This change in accounting policy had no material effect on the results of operations of the Company in 1984.

3. Corporate Financing and Working Capital Deficiency

The Company incurred a loss of $3,834,581 for the year ended December 31, 1984 and had a working capital deficiency of $3,897,506 as at that date. These consolidated financial statements have been prepared on the basis that the Company will be able to meet its commitments and realize the carrying value of its assets in the normal course of business, which ability is dependent upon future events. Based on current negotiations and planned transactions, the Company's management is of the opinion that sufficient working capital, to enable the Company to continue operations and meet its commitments as they become due, will be obtained from operations, external financing and/or the sale of certain assets.

4. Property and Equipment

	December 31			
	1984		1983	
	Cost	**Net Book Value**	Cost	Net Book Value
Oil and gas properties				
Canada	**$ 35,792,527**	**$24,932,739**	$27,602,192	$19,500,163
United States	**69,030,858**	**53,842,751**	65,651,550	53,623,620
Other capital assets	**463,703**	**210,282**	381,300	216,464
	$105,287,088	**$78,985,772**	$93,635,042	$73,340,247

Overhead capitalized during 1984, related to exploration and development activities, amounted to $1,882,533 (1983 - $2,461,677). Interest capitalized during 1984, related to the acquisition of individually significant non-producing oil and gas properties and equipment, amounted to $437,722 (1983 - $640,766). Costs of individually significant undeveloped properties, not subject to depletion, amounted to approximately $10,000,000 as at December 31, 1984 (1983 - $12,000,000).

Pursuant to an 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) the Company purchased effective April 1, 1984 25 percent of the vendors' interest in certain oil and gas properties. The remaining 75 percent interest in these properties was purchased for cash by a Canadian financial institution. The purchase consideration for the 25 percent interest in the acquired assets was equivalent to $6,382,433, excluding costs of the acquisition, and is comprised of 3,301,418 common shares of the Company, Series "F" warrants to purchase an additional 1,320,568 common shares at a price of $0.8625 per share until March 22, 1986 and $3,906,370 in cash. The cash portion of the purchase consideration was financed mainly with the Canadian financial institution by a limited-recourse production loan of $3,900,000, secured only by the Company's 25 percent interest in the acquired properties. The Company granted a three percent gross overriding royalty on the acquired properties to the Canadian financial institution in connection with this financing. Subsequent to December 31, 1984, the Company reached agreement, subject to documentation, with the Canadian financial institution to cancel a portion of its obligations in respect of 1984, and all of its obligations thereafter, to purchase from the institution additional interests in the properties at the values thereof determined as of the end of each year.

The aggregate estimated realizable value of the Company's oil and gas properties, determined on the basis described in Note 1, exceeded the net book value thereof by approximately $1,700,000 as at December 31, 1984.

5. Long-Term Debt

	December 31	
	1984	1983
Bank production loan U.S. 12,662,826 (1983 - U.S. 13,000,000) repayable in monthly instalments until May 31, 1993	**$16,732,658**	$15,696,942
Bank production loan repayable in monthly instalments until May 31, 1993	**7,546,227**	7,607,866
10 year secured debenture repayable in equal quarterly instalments commencing December 31, 1988 until September 30, 1993	**10,000,000**	10,000,000
Bank loan revolving to $1,000,000 until October 14, 1986	**975,000**	806,000
Limited-recourse production loan repayable in monthly instalments commencing April 30, 1985 until March 31, 1991	**3,900,000**	—
Debenture interest payable	**750,732**	—
	39,904,617	34,110,808
Less amount due within one year	**1,194,051**	615,688
	$38,710,566	$33,495,120

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 (the "Debt Restructuring").

The bank production loans are secured by the Company's proved oil and gas properties (except for those Canadian properties pledged to a Canadian financial institution as security for the limited-recourse production loan over which the bank has a second charge), assignments of production revenues, a floating charge over other Company asets, and a general assignment of book debts. They bear interest at a spread of one percent over the prevailing bank prime rates and the aggregate repayments on the loans are based on estimated cash flows 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 is secured by the Company's proved oil and gas properties (except for those Canadian properties pledged to a Canadian financial institution as security for the limited-recourse production loan over which the bank has a second charge), assignments of production revenues, a floating charge over other Company assets, and a general assignment of book debts. It bears interest at a fixed rate of 10 percent per annum, is redeemable by the Company 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 initiated discussions with the Company during the second quarter of 1984 relating to the possible issuance of convertible junior preferred shares in lieu of common shares. Interest payable on the debenture for the three calendar quarters ended December 31, 1984 amounting to $750,732 is classified as other long-term debt payable, pending finalization of the discussions with the bank, as it will be paid either in common shares or in junior preferred shares. At a special general meeting of shareholders held on October 1, 1984 the creation of the class of junior preferred shares was approved. As consideration for the Debt Restructuring the Company is issuing to the bank Class A preferred shares, Series 2 pursuant to the terms of the debenture as additional interest thereon. To December 31, 1984 1,013 Series 2 shares were issued and a further 1,150 shares are to be issued over the next four years, providing the debenture is not redeemed in whole or in part during such period. The bank has the right to convert up to $1,000,000 of the debenture into common shares at the market price prevailing at the time of conversion less five percent.

The limited-recourse production loan from the Canadian financial institution is secured only by the Company's interest in the Canadian oil and gas properties whose acquisition was financed in major part by this loan. It bears interest at a fixed rate of 11 percent per annum until April 18, 1989 when the interest rate will be fixed at the then prevailing, specified average rate for conventional real estate mortgages with five year terms. The principal, interest and any related charges on this loan are payable out of 70 percent (escalating to 100 percent, if required minimum principal repayments are not met) of operating income from the acquired properties, after deduction of the three percent gross overriding royalty granted to the Canadian financial institution.

The aggregate repayments required on long-term debt, excluding the revolving bank loan, in each of the next five years are: 1985 - $1,194,000; 1986 - $2,054,000; 1987 - $3,125,000; 1988 - $3,266,000 and 1989 - $4,612,000.

6. 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

An unlimited number of junior preferred shares without nominal or par value

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 and junior 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 each series of such shares.

The Class A Series 1 shares have been issued to the Company's bank 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 September 30, 1993. Such retractions are payable in equal quarterly instalments over the then 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 approximately $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 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 when there is insufficient cash to meet the retraction obligation, up to 100 percent thereof, at a price for each common share of $2.00 for the period ending September 30, 1985, and $1.67 thereafter. 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 1984:

	Number of Shares	Amount
Public issue, for cash	3,227,000	$1,936,200
As compensation to employees under the Employee Share Benefit Plan	239,478	79,775
As interest on the debenture	529,008	248,634
For assets purchased (Note 4)	3,301,418	2,476,063
For purchase of Series "C" warrants	1,280,000	768,000
Adjustment for fractional shares on share consolidation	9	—
	8,576,913	$5,508,672

Share issue expenses during 1984 of $979,073 are not reflected above.

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.

On April 19, 1984 the Company exchanged 1,280,000 common shares and 640,000 Series "E" warrants for all of the outstanding Series "C" warrants in settlement of a difference of opinion with the holder thereof concerning the anti-dilution provisions of the Series "C" warrants.

During the year, the Company issued to the bank 2,024,027 Class A Series 1 shares as payment of dividends on the outstanding Class A Series 1 shares. Pursuant to the terms of the debenture, 797 Class A Series 2 shares were issued during the year.

The Company has reserved for issuance, as at December 31, 1984, the following common shares:

			Amount	
	Expiry Date	Number of Shares	Per Share	Total
For Series "E" warrants	January 30, 1987	2,253,500	$0.75	$1,690,125
For Series "F" warrants	March 22, 1986	1,320,568	0.8625	1,138,990
For employees' stock options	1985 - 1991	960,500	0.20 to 1.08	397,130
For Employee Share Benefit Plan	Not applicable	230,732	0.17 to 0.25*	53,976
		4,765,300	$0.69	$3,280,221

*Estimated

In addition, an aggregate of 8,623,345 common shares are reserved as at December 31, 1984 for issuance to the Company's bank pursuant to the Debt Restructuring, 1,376,655 common shares of the 10,000,000 authorized by the Company's shareholders having been issued to that date in payment of interest. These are issuable upon conversion of Class A preferred shares, Series 2 at prices per common share before and after September 30, 1985 of $2.00 and $1.67, respectively, upon conversion of $1,000,000 of the debenture at 95 percent of the quoted market price at the time of conversion and upon payment of debenture interest, assuming the Company continues to exercise its right to pay such interest in common shares. The bank initiated discussions with the Company during 1984 with the view to substituting junior preferred shares in lieu of common shares in the payment of interest on the debenture. Consequently, debenture interest payable for the three calendar quarters ended December 31, 1984, amounting to $750,732, has not been paid pending finalization of these discussions. If this interest is eventually paid in common shares or in junior preferred shares, and if such preferred shares were converted as of December 31, 1984 into the same number of common shares, an additional 2,884,844 common shares would be issued to the bank and the total common shares then held by the bank and the total shares outstanding would be 4,261,499 and 18,696,493, respectively.

During 1984 nine employees were granted options expiring in 1990 to purchase 62,000 common shares of the Company at prices ranging from $0.31 to $0.42 per share pursuant to the 1982 Incentive Stock Option Plan, and senior management were granted, with the approval of the Company's shareholders, options expiring April 26, 1989 to purchase 625,000 common shares of the Company at $0.38 per share, pursuant to separate option agreements made with senior management. No options were exercised by employees during 1984 and options to purchase 57,000 common shares expired as employees left the Company, leaving options to purchase 335,500 shares outstanding under the 1982 Incentive Stock Option Plan as at December 31, 1984. Of this number, options to purchase 137,000 common shares granted to employees in 1983 and 1984 at prices ranging from $0.31 to $0.52 per share were cancelled and options for the same number of shares were granted on January 16, 1985 at a price of $0.20 per share, with the approval of the regulatory authorities.

For additional common shares issued and reserved for issuance subsequent to December 31, 1984, see Note 11.

7. Income Taxes

As at December 31, 1984, the Company had accumulated losses for accounting purposes of approximately $14,000,000 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 $7,000,000 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 $45,275,000 resulting primarily from the expensing of intangible drilling costs incurred in the United States; these accumulated losses expire as follows:

1986	$ 945,000
1987	2,235,000
1990	1,826,000
1991	990,000
1994 (United States)	111,000
1995 (United States)	2,454,000
1996 (United States)	6,784,000
1997 (United States)	14,390,000
1998 (United States)	10,342,000
1999 (Unitd States)	5,198,000
	$45,275,000

In addition, as at December 31, 1984, the Company had estimated unclaimed costs for income tax purposes as follows:

Canada	
Capital Cost Allowance	$ 1,628,000
Canadian Oil and Gas Property Expense	$12,785,000
Canadian Development Expense	$ 3,555,000
Canadian Exploration Expense	$ 4,415,000
Earned Depletion	$ 2,175,000
Investment Tax Credits	$ 106,000
United States	
Undepreciated Tangible Equipment	$ 2,302,000
Undepleted Land Costs	$14,339,000
Investment Tax Credits	$ 317,000

Included in property and equipment are undepleted costs of acquisition amounting to approximately $9,500,000 as at December 31, 1984, 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 had the net assets been acquired directly.

Canadian Petroleum and Gas Revenue Tax and United States Windfall Profit Tax are considered to be taxes on production.

8. Related Party Transactions

As at December 31, 1984, personal bank loans of senior management totalling $1,116,667 and interest thereon were guaranteed by the Company, as required by the bank 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 bank loans were obtained, the Company has made loans to senior management to help them service the personal bank loans; these loans are included in deferred charges and, together with interest thereon, aggregated $163,569 as at December 31, 1984.

9. Commitments and Contingencies

The Company has annual base rental commitments (before reductions for sub-leases) for office space in Calgary and Denver of approximately $640,000, $590,000, $388,000, $388,000 and $388,000 for the five years ending December 31, 1989.

The Provincial Treasurer of Alberta and the Minister of National Revenue of Canada (the "Crown") commenced a lawsuit on December 8, 1983 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 $250,000, 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' then Petroleum and Gas Revenue Tax exemption of $250,000 each per year was not taken into account in the calculation. In July 1984 the royalty owner comenced legal action against the Company's subsidiary and examinations for discovery are scheduled for May 1985. The maximum adverse effect on the subsidiary as at December 31, 1984, if this dispute were resolved in favour of the royalty owner, would be an increase of approximately $460,000 in the overriding royalty payable for the period of 31 months then ended. The Company is unable to assess the amount, if any, that will become payable on resolution of the dispute. The PGRT exemption legislation was passed in December 1984 together with an increase therein to $500,000 per year.

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.

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 certain 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 would be entitled to be indemnified by the Company unless it transpired that their actions were negligent or fraudulent. Legal counsel has stated in a preliminary opinion that the action would be successfully defended by senior management. Although the shareholders' counsel was to arrange for examinations for discovery in early 1984, no such action was taken.

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.

10. Segmented Information

	Revenue Year Ended December 31		Net Income (Loss) Year Ended December 31		Assets As at December 31	
	1984	1983	**1984**	1983	**1984**	1983
Geographic Areas:						
Canada	**$ 5,332,761**	$4,269,342	**$(1,746,502)**	$(1,023,834)	**$29,130,704**	$22,389,161
United States	**5,250,583**	5,020,643	**(2,088,079)**	(2,260,774)	**57,067,463**	56,082,811
	$10,583,344	$9,289,985	**$(3,834,581)**	$(3,284,608)	**$86,198,167**	$78,471,972

	Capital Additions Year Ended December 31		Depletion, Depreciation and Amortization Year Ended December 31	
	1984	1983	**1984**	1983
Geographic Areas:				
Canada	**$3,683,403**	$2,348,306	**$ 3,095,622**	$ 2,157,055
United States	**3,597,721**	4,774,351	**3,403,061**	3,197,346
	$7,281,124	$7,122,657	**$ 6,498,683**	$ 5,354,401

11. Subsequent Event

As of March 22, 1985 the Company closed the private placement of $5,000,000 of "flow-through" preferred shares. The Company, as agent for the investors, is to expend, by December 31, 1985, the $5,000,000 on oil and gas expenditures in Canada. Such expenditures are deductible for income tax purposes and government incentives under petroleum incentive program acts are receivable, by the investors; however, the investors do not earn any interest in the Company's lands. The flow-through shares bear cumulative, 5.25 percent dividends payable quarterly commencing September 30, 1985, are non-voting, are redeemable after April 1, 1989 and before April 1, 1991 at their issue price plus any accrued and unpaid dividends providing the then market price of the Company's common shares is not less than 150 percent of the conversion price, and are convertible into the Company's common shares at a price for each common share of $0.40 subject to adjustment pursuant to anti-dilution provisions. Two-thirds or $3,333,334 of the flow-through shares are retractable in cash on April 1, 1991, at the option of the investors, at the issue price and one-third, plus any accrued and unpaid dividends, either in the Company's common shares on the basis of the then market price or in cash, at the Company's option. To provide for payment of the $3,333,334, the Company has obtained a bank loan of approximately $1,650,000 and purchased with the proceeds thereof bearer coupons issued by the Government of Canada having an aggregate face value on maturity before April 1, 1991 of $3,333,334. The draw of funds under the investors' letters of credit is subject to Corrida meeting certain conditions each time it makes application therefore. On November 5, 1984 the Company's shareholders approved the reservation of 12,500,000 common shares of the Company, plus any additional common shares required pursuant to anti-dilution provisions, for issuance upon conversion of the flow-through shares and, also, approved the reservation of 500,000 common shares for issuance pursuant to the provisions of the Series "G" warrants issued to the agent in part payment of its commission in respect of the private placement.

Auditors' Report

To the Shareholders of Corrida Oils Ltd.

We have examined the consolidated balance sheet of Corrida Oils Ltd. as at December 31, 1984, and the consolidated statements of operations and retained earnings (deficit), contributed surplus 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, 1984, 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, except for the change, with which we concur, in the method of translation of foreign currencies as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
March 8, 1985
except as to Note 11
as to which the date
is March 22, 1985

Price Waterhouse

Chartered Accountants

Four-Year Statistical Summary

	1984	1983	1982	1981
Financial				
Net revenues	**$10,583,344**	$ 9,289,985	$ 9,857,039	$ 3,184,480
Cash flow from operations — total	**$ 2,664,102**	$ 2,151,137	$ 1,129,990	$ 298,870
— per share	**$ 0.20**	$ 0.34	$ 0.19	$ 0.08
Net income (loss) — total	**$ (3,834,581)**	$ (3,284,608)	$ (4,445,744)	$ (5,542,681)
— per share	**$ (0.44)**	$ (0.58)	$ (0.73)	$ (1.54)
Working capital (deficiency)	**$ (3,897,506)**	$ (2,020,011)	$ (2,359,949)	$ (2,904,568)
Long-term debt	**$38,710,566**	$33,495,120	$43,260,442	$35,146,591
Shareholders' equity	**$38,339,366**	$37,615,348	$26,648,323	$27,055,995
Common shares outstanding	**15,811,649**	7,234,736	6,181,939	5,923,906
Preferred shares outstanding — Series 1	**15,778,871**	13,754,844	—	—
— Series 2	**1,013**	216	—	—
Total assets	**$86,198,167**	$78,471,972	$77,465,238	$72,836,392
Operating				
Undeveloped land, net acres	**179,858**	193,751	253,537	258,683
Appraised value of land	**$10,420,741**	$12,089,385	$19,331,300	$23,896,422
Drilling activity, gross wells				
— Oil	**44**	28	11	23
— Gas	**32**	12	11	15
— Dry	**21**	19	26	55
	97	59	48	93
— Successful, percent	**78**	68	46	41
Productive wells, net	**70**	37	39	35
Production, daily after royalties				
— Oil, bbls	**500**	437	473	179
— Gas, MMcf	**4,013**	2,813	2,983	855
Proved reserves, after royalties				
— Oil, bbls	**1,986,526**	1,400,047	1,584,384	1,572,440
— Gas, MMcf	**20,221**	16,929	16,603	14,971
Probable reserves, after royalties				
— Oil, bbls	**350,510**	332,575	328,663	306,362
— Gas, MMcf	**5,819**	4,428	3,819	3,669
Proved and probable reserves, after royalties				
— Oil, bbls	**2,337,036**	1,732,622	1,913,047	1,878,302
— Gas, MMcf	**26,040**	21,357	20,422	18,640
— Value at 15%	**$53,068,540**	$47,301,717	$45,816,764	$45,593,292
Employees	**33**	28	32	27

Corporate Information

Directors

Donald E. August(3)
Senior Vice-President,
Capital Frontier Management Co.

J. Richard Harris(1)
Chairman of the Board, Corrida Oils Ltd.

Michael E. Hriskevich(3)
President, Banaqu Exploration Ltd.

Bruce M. McIntyre(2)
President, Bruce M. McIntyre & Co.

Ralph A. McKenzie(1,2)
Senior Vice-President, Corrida Oils Ltd.

Walter B. O'Donoghue, Q.C.(2)
Partner, Bennett Jones

Frederic J. Wellhauser(1,3)
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

R. Byron Henderson
Secretary

Margaret G. Lemay
Assistant Secretary

(1)Members of the Executive Committee
(2)Members of the Audit Committee
(3)Members of the Compensation Committee

Senior Personnel

Canada

David D. Cronkhite
Manager of Engineering

James C. Mawdsley
Manager of Exploration

Gerald Tattersall
Land Manager

United States

James C. Brothers
Chief Geologist

Rudolph M. Elvera
Manager of Engineering

Patricia M. Gamroth,
Landman

Banker

The Royal Bank of Canada
Calgary

Auditors

Price Waterhouse
Calgary

Legal Counsel

Bennett Jones
Calgary

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Toronto, Vancouver

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