



ONYX
PETROLEUM
EXPLORATION
COMPANY LTD.

Annual
Report

1982

LIBRARY
OF
1983
UNIVERSITY



Board of Directors

- D. G. Flanagan (Calgary, Alberta)
President of the Company
- J. M. Hallward (Montreal,
Quebec)
Self Employed
- H. S. Hartley (Calgary, Alberta)
President, Sea Hawk
Resources Ltd.
- D. C. Jones (Calgary, Alberta)
President, Carlton Resource
Management Ltd.
- A. J. Simus (Calgary, Alberta)
Executive Vice President of
the Company
- L. Waisberg (Toronto, Ontario)
Partner, Goodman & Goodman

Bankers

Bank of Montreal
Calgary, Alberta

Auditors

Thorne Riddell
Calgary, Alberta

Solicitors

MacKimmie Matthews
Calgary, Alberta

Share Listing

The Toronto Stock Exchange
The Alberta Stock Exchange

Corporate Registrar and Transfer Agents

The Canada Trust Company

Head Office

2000 Daon Building
444 - 5 Avenue S.W.
Calgary, Alberta
T2P 2T8

Officers and Senior Personnel

- D. G. Flanagan — President
A. J. Simus — Executive Vice
President
L. L. Hansen — Vice President —
Finance
A. R. Puzey — Exploration
Manager
O. G. J. Humeniuk — Land
Manager
K. R. MacLellan — Chief Engineer
P. H. Depper — Secretary

Corporate Profile

Onyx was incorporated in the Province of Alberta in 1976. The Company is active in oil and gas exploration and development and has established reserves in various areas of Alberta and British Columbia.

Onyx has a Canadian Control Status and a 100 per cent Canadian Ownership Rating.



Service rig completing Otter 12-9.

President's Report



Onyx enjoyed a very active and prosperous year in 1982. The Company participated in a record 27 wells during the year and has formulated plans for an even more active year in 1983. The Company has been able to maintain a strong financial position with manageable debt and therefore able to take advantage of opportunities created by the general down turn in the industry. With the completion of a \$7.4 million financing in early 1983, the Company will continue a very aggressive but selective level of activity in the future.

The exploration and development highlights for the year were the completion of 9 additional oil wells at Edson, bringing the total at the year end to 17. Subsequent to the year end 4 additional oil wells were drilled at Edson with 5 more expected to be drilled during the remainder of 1983. By the end of 1983 this field should be totally developed.

The Peace River Arch play in northwestern Alberta is one of the most active areas in Alberta at the present time and the area where Onyx is concentrating most of its efforts. During 1982 the Company participated in 14 wells and to date in 1983 has drilled an additional 14 wells. Within the Peace River Arch area, the Company's most active project has been the development of the Otter oil field. So far 14 wells have been drilled, all of which have been cased, and 8 are now on production. The remaining 6 wells are in various stages of evaluation at this time. Permanent production facilities and pipelines were installed this winter to enable year round production without interruption for road conditions. Additional development drilling will be carried out throughout 1983.

Financial

As a result of our successful exploration and development activity over the past two years, our financial statements show a dramatic increase compared to previous years. Gross revenue increased to \$3,518,708 from \$650,056 in 1981. Cash flow increased to \$1,366,280 compared to a deficit of (\$465,574) and net income after tax amounted to \$504,140 compared to a (\$656,074) loss last year.

The improvement in the financial results is attributable to a combination of increased production, higher royalty tax credits, and higher product prices. Oil production is up 217% over 1981 due principally to development of the Edson and Otter fields in north central Alberta. While the Company has concentrated its efforts in the search for new oil, increased gas production at both Suffield and Edson has resulted in a 41% increase in gas production over last year. In April 1982, the Government of Alberta, announced that the royalty tax credit to small producers was being increased from 50% of royalties,



maximum \$2,000,000, to 75% of royalties, maximum \$4,000,000, for the period September 1, 1981 to December 31, 1983. This amendment resulted in an additional \$186,600 in revenue for Onyx or a total of \$560,000 in royalty tax credits for the year. Onyx has been fortunate to be involved in the exploration and follow-up development of oil reserves that qualify for the world price. As a result of the Federal Provincial Energy Pricing Agreement negotiated in 1981, conventional new oil prices more than doubled effective January 1, 1982. At year end approximately 75% of the Company's oil production qualified for the New Oil Reference Price and this percentage will continue to increase as additional wells are brought on stream.

With continuing development planned in the Peace River area for 1983, and completion of the Edson project, revenues can be expected to show continued favourable growth throughout the coming year.

Corporate

In November 1982, Onyx issued 399,168 common shares to "flow through" share subscribers in consideration for approximately \$3.4 million in exploration and development drilling funds that were raised as part of a \$5 million private placement completed in December 1981. With the issuance of these shares, the total common shares outstanding at year end was 2,907,024.

Subsequent to the 1982 year end, the Company completed the private placement of \$7.4 million unsecured convertible subordinated debentures to a group of Canadian financial institutions. The debentures are for a term of 10 years, bear interest at a rate of 11% per annum and are convertible into common shares at a price of \$10.25 per share. The debentures are

redeemable by the Company after March 1, 1985 if for a period of 45 consecutive trading days, the weighted average price of the Company's common shares on the Toronto Stock Exchange, exceeds 131.7% of the conversion price in effect at that time. Proceeds from this issue were used to reduce the Company's bank debt which at year end was \$8.5 million.

1983 Activities to Date

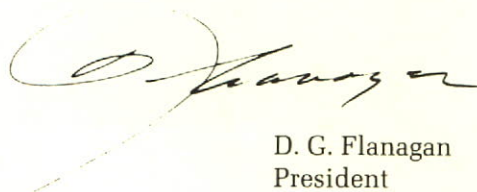
Most of the Company's drilling activity occurs during the winter months when the frost permits access to the more remote areas, particularly in the Peace River region. As at March 1, 1983, the Company already drilled 11 gross wells, resulting in 7 oil wells and 4 dry holes. One of the oil wells and all four of the dry holes were exploratory tests.

Onyx's most significant exploration well is an oil discovery at Ogston. This well located in Lsd. 4-33-88-11 W5M, has been completed as a flowing oil well with an expected allowable of approximately 100 BOPD. On February 23, 1983, the Company in association with others, acquired 4,000 gross acres adjacent to the discovery well for a total consideration paid to the Province of Alberta of \$5,583,062. Onyx's working interest in the new lands as well as the 2,560 gross acres on which the discovery was drilled is 21.25%. Additional wells will be drilled as soon as possible to determine the extent of the reservoir.

We wish to express appreciation to our employees, shareholders, friends and associates for their dedication and support throughout the year.

We also welcome Jeff Simus to the Board of Directors. Mr. Simus joined the Company as Executive Vice President in January, 1983.

On behalf of the
Board of Directors,



D. G. Flanagan
President

March 11, 1983

Reserves



Ken MacLellan — Chief Engineer

The Company's share of gross oil and gas reserves at December 31, 1982 as estimated to June 1, 1982, by independent consulting engineers and updated to December 31, 1982 by Onyx engineering staff, is as follows:

The increase in oil reserves reflects the results of the Company's active participation in the Peace River Arch area of Alberta where 11 wells qualify for the New Oil Reference Price.

		1982	1981
Proven	Oil	2,074,000 barrels	1,137,000 barrels
	Gas	17 billion cu. ft.	13.470 billion cu. ft.
Probable	Oil	629,000 barrels	414,000 barrels
	Gas	.736 billion cu. ft.	.736 billion cu. ft.

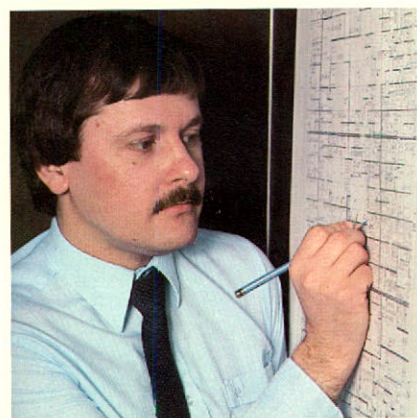
Production



Pumping facilities at Otter 3-4.

Onyx's 1982 share of production before royalty was 312,029 Mcf of gas and 72,332 barrels of oil compared to 220,620 Mcf of gas and 22,805 barrels of oil in 1981. Both oil and gas production are expected to show a significant increase in 1983.

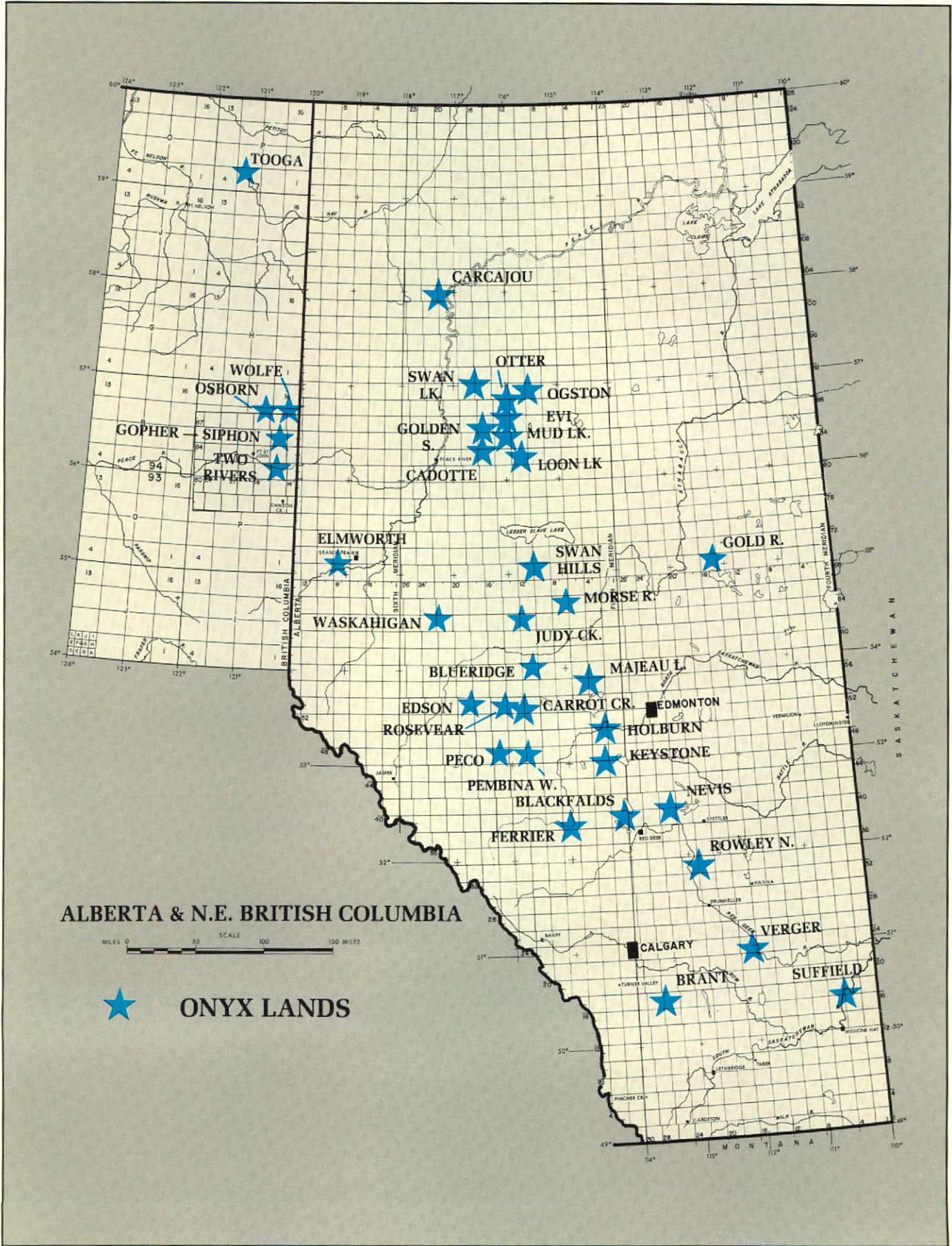
LAND



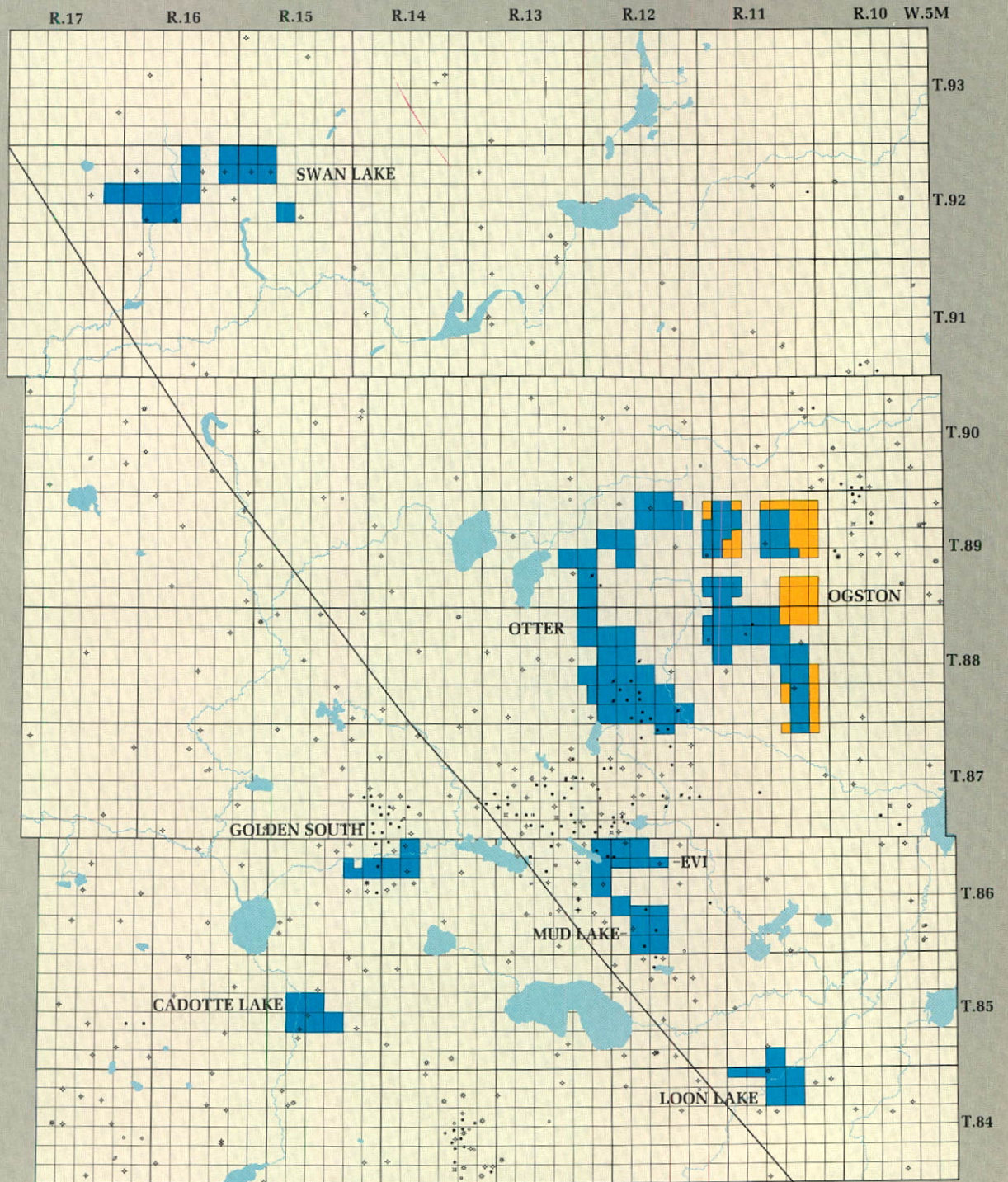
Following is a summary of the company's land holdings as of March 1, 1983.

Area	Gross		Net	
	Acres	Hectares	Acres	Hectares
ALBERTA	165,198	66,080	32,759	13,105
BRITISH COLUMBIA	28,559	11,558	4,686	1,896
TOTAL LAND.....	<u>193,757</u>	<u>77,638</u>	<u>37,445</u>	<u>15,001</u>




Orest Humeniuk — Land Manager

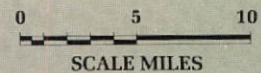


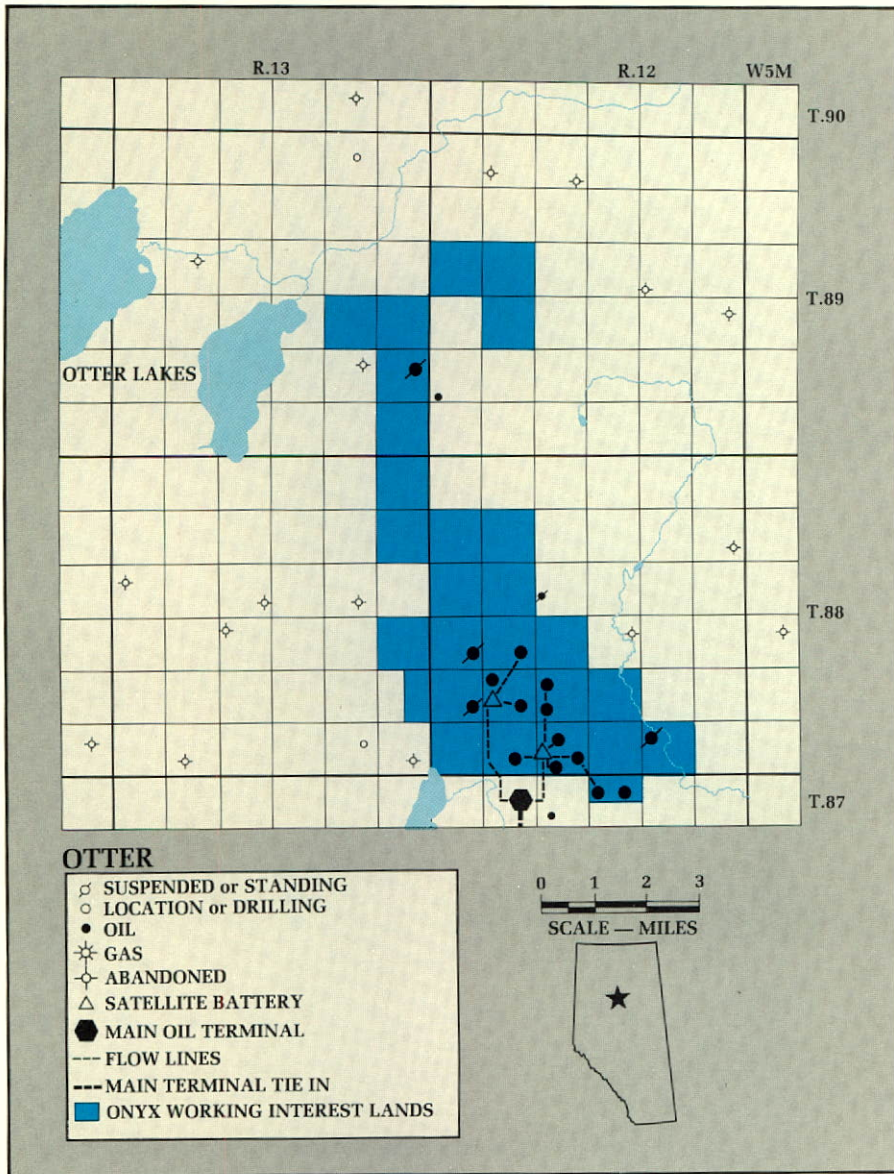
Exploration and Development



PEACE RIVER ARCH

-  ONYX WORKING INTEREST LANDS
-  ONYX FARMIN LANDS
-  PIPELINE





During the year the Company participated in 27 wells, resulting in 21 oil, 4 gas and 2 abandonments. Three of the gas wells were drilled on farmout lands at no cost to Onyx while the other gas well was drilled on lands where the Company holds a 25% working interest.

Peace River Area

The Peace River Arch area of northwest Alberta was and still is one of the most active areas in the province. Onyx is participating in 3 active projects as follows:

Otter

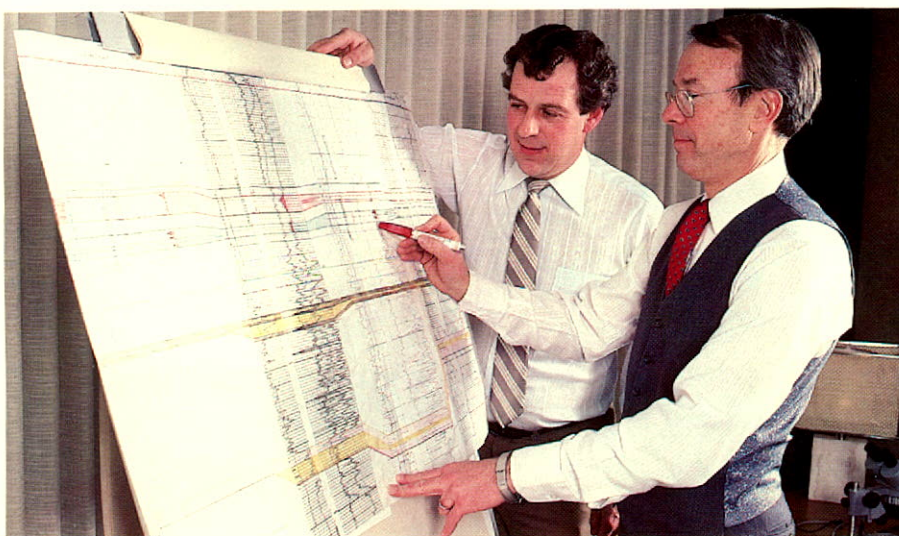
During the year 11 additional wells were drilled, bringing the total to 12 at year end. At December 31, 1982, 6 wells were on production and 6 wells were being evaluated. Two additional successful wells were drilled subsequent to the year end with further development planned throughout 1983.

The terminal and processing facilities at Otter were completed in February 1983 and the pipeline tie-in to the Rainbow Pipe Line should be completed in early March. Completion of these facilities will enable production to continue on a year round basis without having to shut down for weather or road bans. Operating costs should also reduce considerably on a per barrel basis due to the efficiency of the new facilities and the elimination of hauling charges to other terminals in the area.

Otter North

On April 7, 1982 the Company participated as to a 25% working interest in the acquisition of a 4,480 acre licence at the Alberta Crown Sale. The licence covers lands immediately north of the existing Otter project.

A well in 10-12-89-13 W5M is currently drilling and additional drilling is expected on this project throughout 1983.

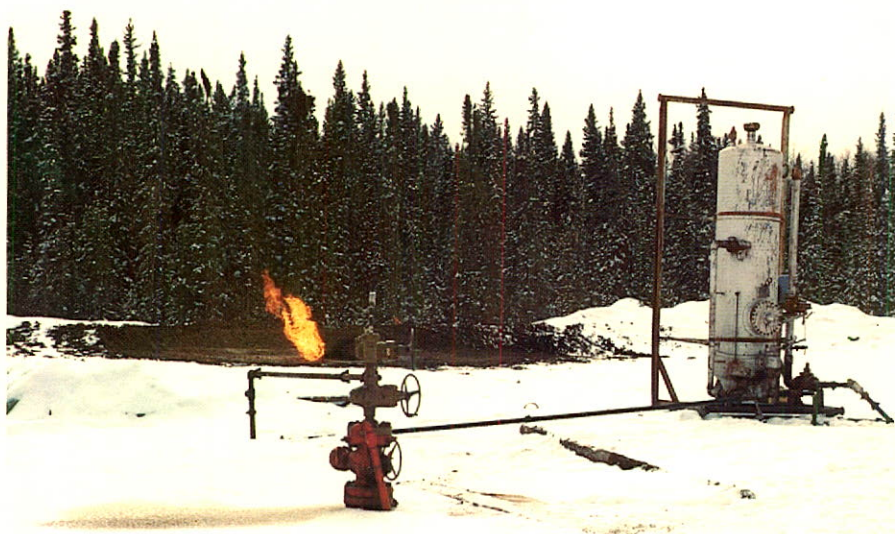
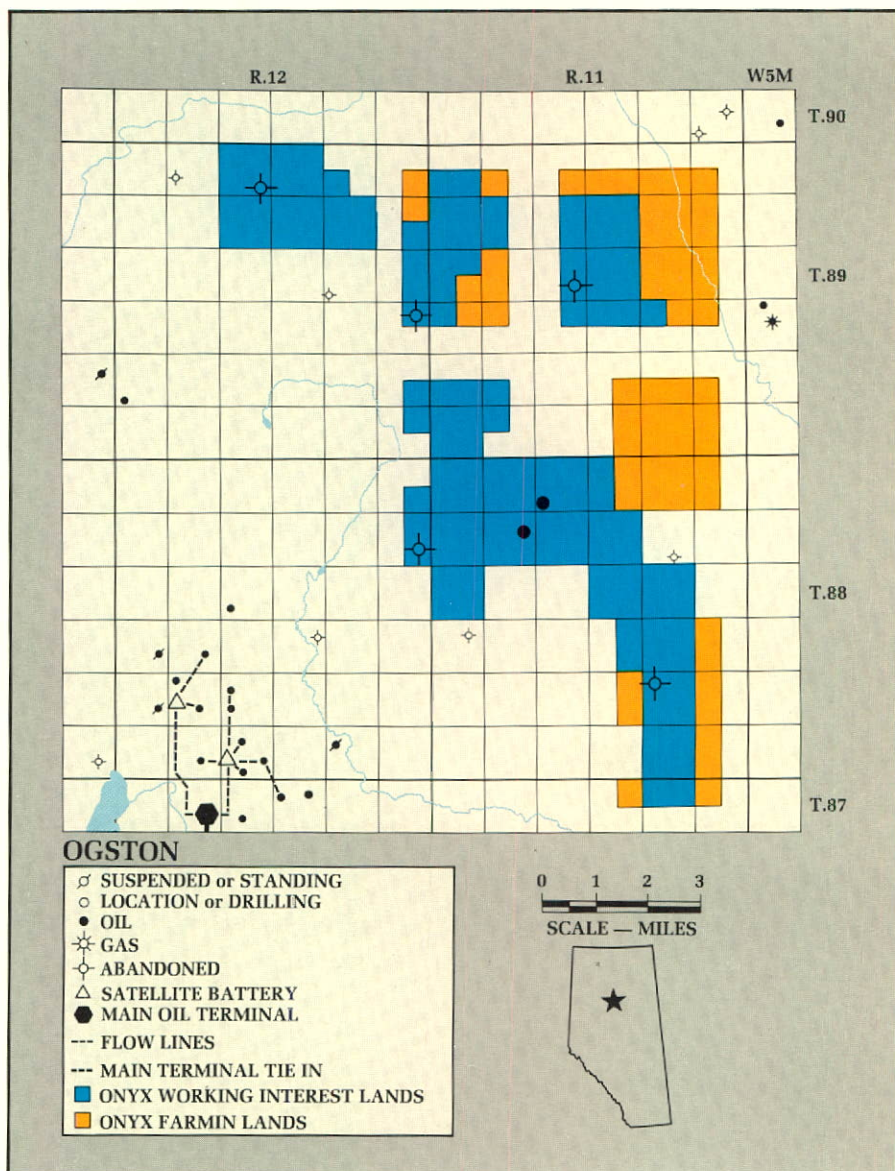


Foreground — Jeff Simus, Executive Vice President
Background — Allen Puzey, Exploration Manager

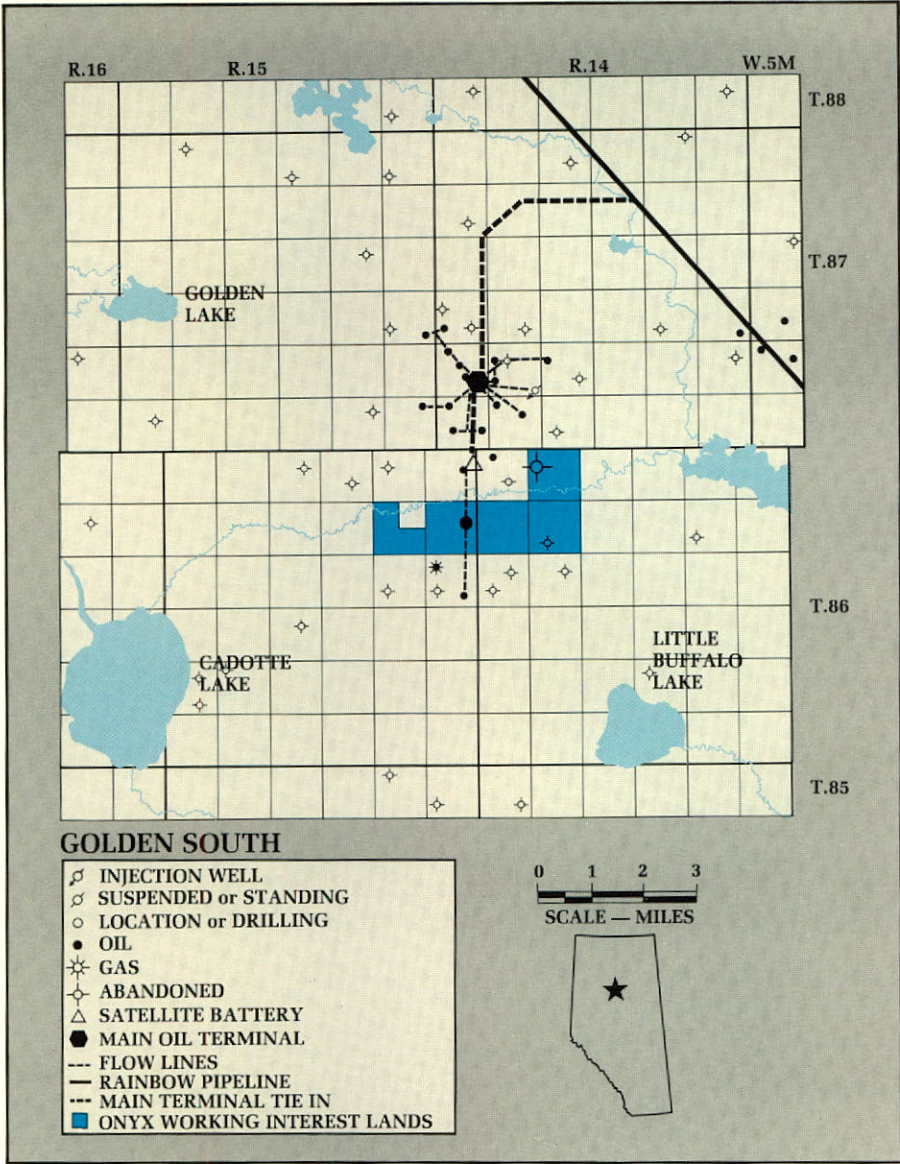
Ogston

In December 1981, Onyx negotiated a farmin on 22,400 acres of land in the Ogston area. The agreement provides for Onyx and partners to drill a minimum of 4 wells and conduct a detailed seismic program. All of the commitment wells have now been drilled and the first option well is currently drilling. Each well earns the group a 50% working interest in 2,560 acres. On the commitment and option wells Onyx pays 42.5% of the costs to earn a 21.25% interest after payout of the costs.

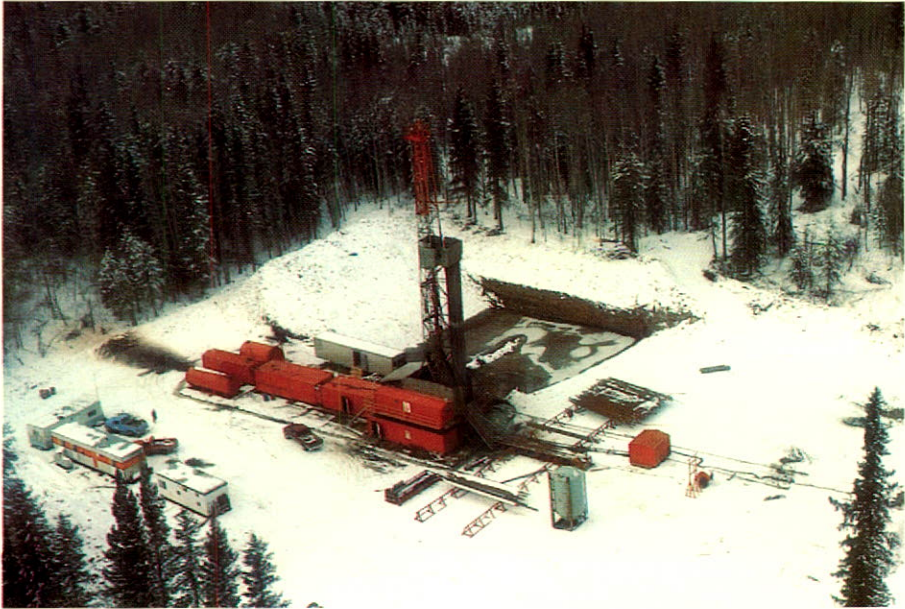
One of the exploration wells drilled this winter has resulted in a new oil discovery. The well Canterra Onyx et al Otter 4-33-88-11 W5M flowed oil on test and has now been placed on production. As a result of this success, the group, in which Onyx has a 21.25% interest, acquired at the February 23, 1983 Alberta Crown Land Sale an additional 4,000 gross acres to the north and east of the discovery, for a total consideration of \$5,583,062. The first two stepout wells to the discovery are currently drilling.



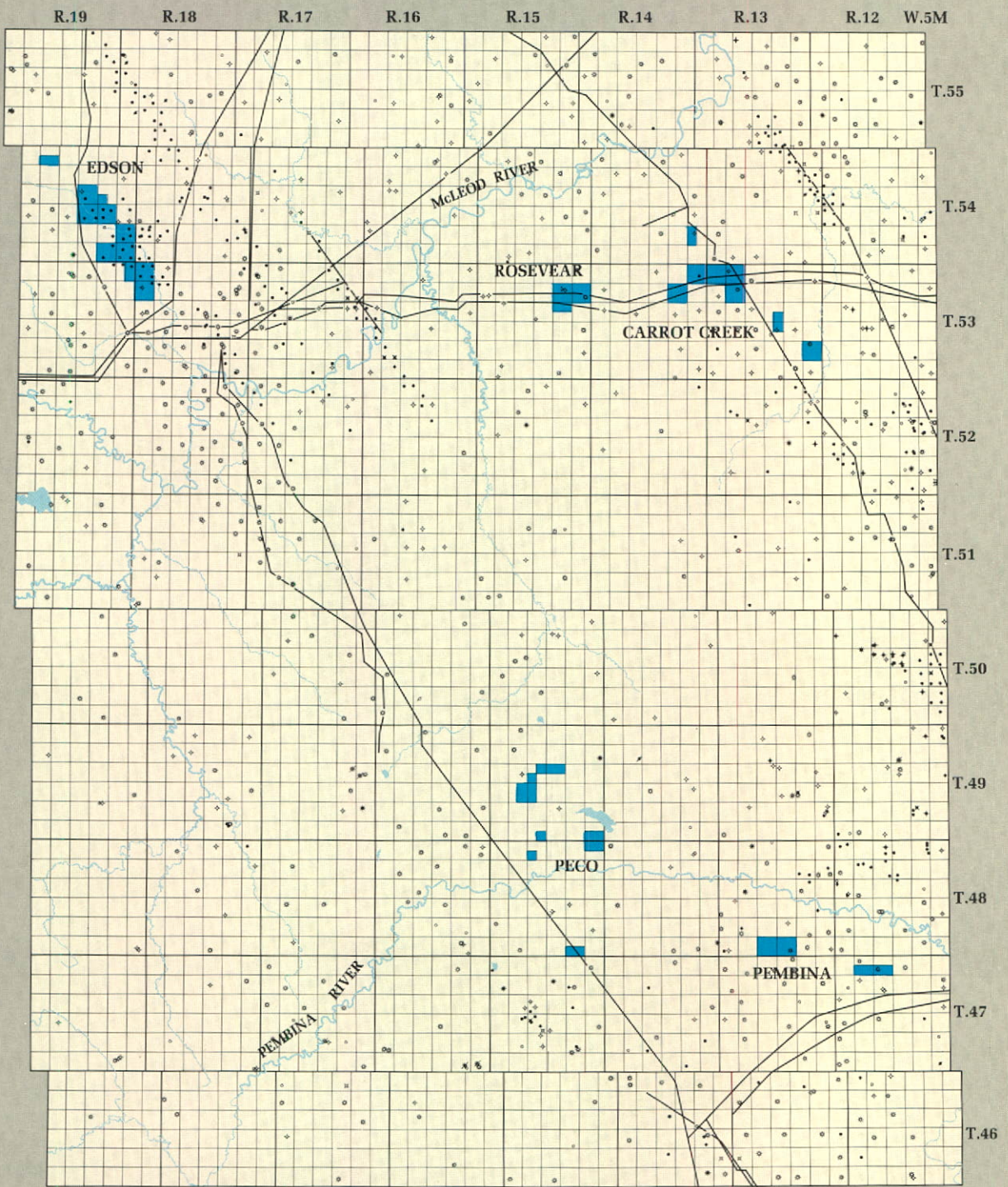
Production testing at Ogston 4-33-88-11 W5M discovery.



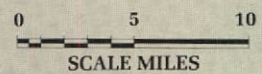
Drilling Ogston 9-29.



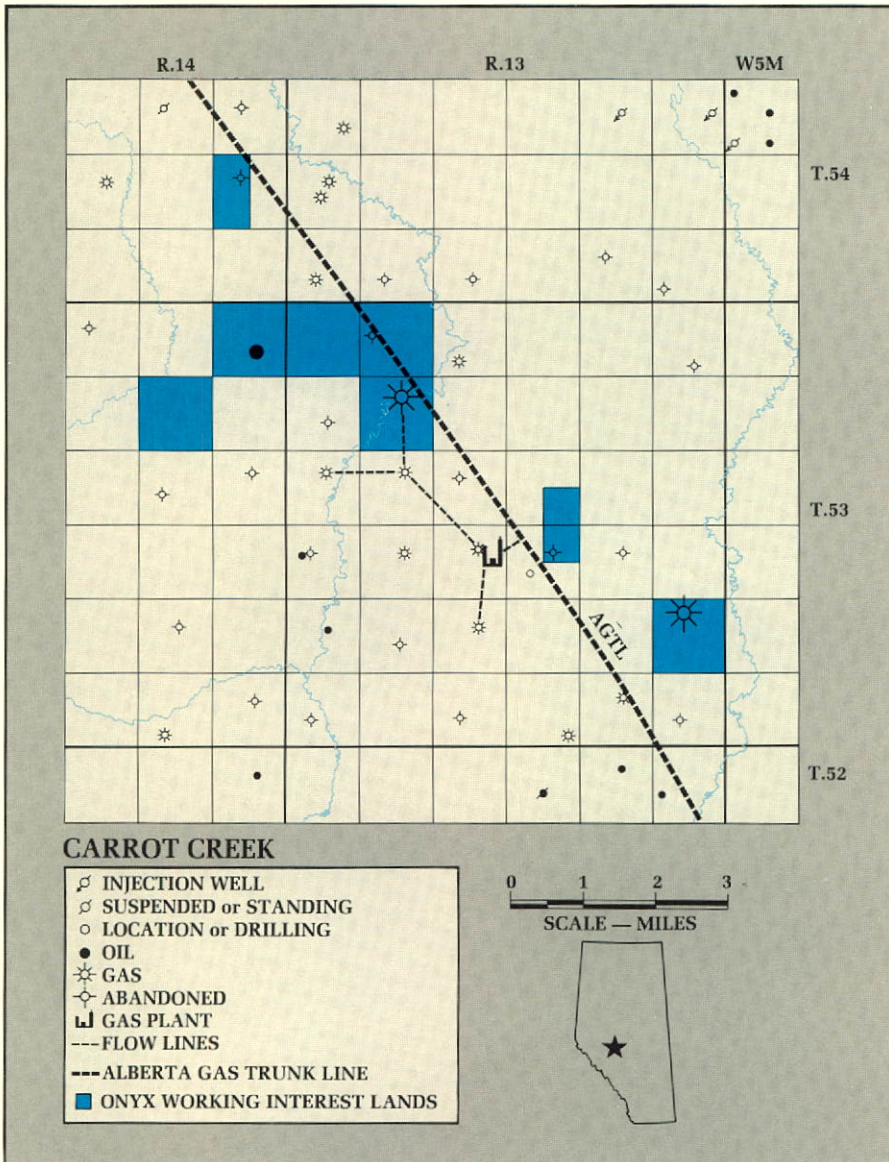
Drilling Ogston 9-13.



WEST CENTRAL ALBERTA

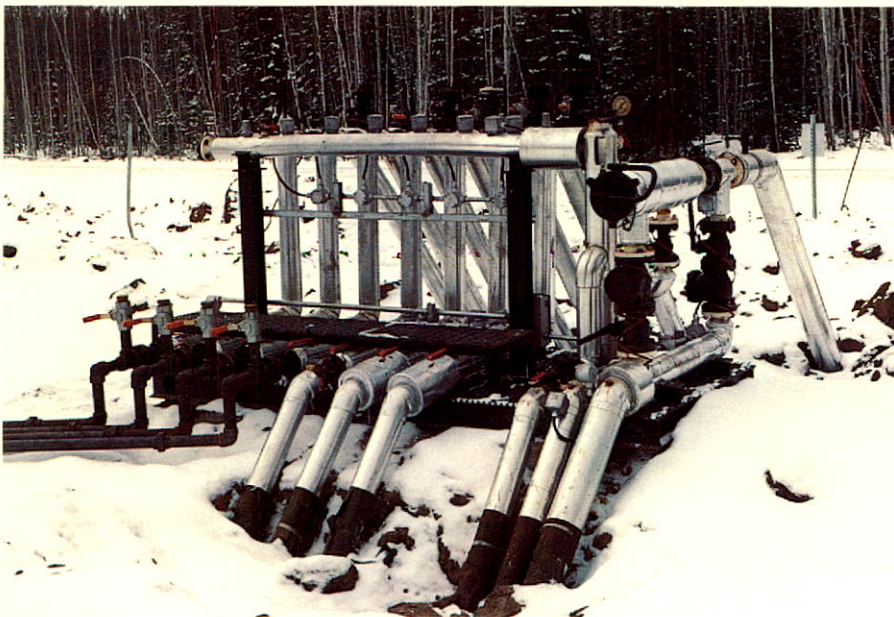


- ONYX WORKING INTEREST LANDS
- PIPELINE



Carrot Creek

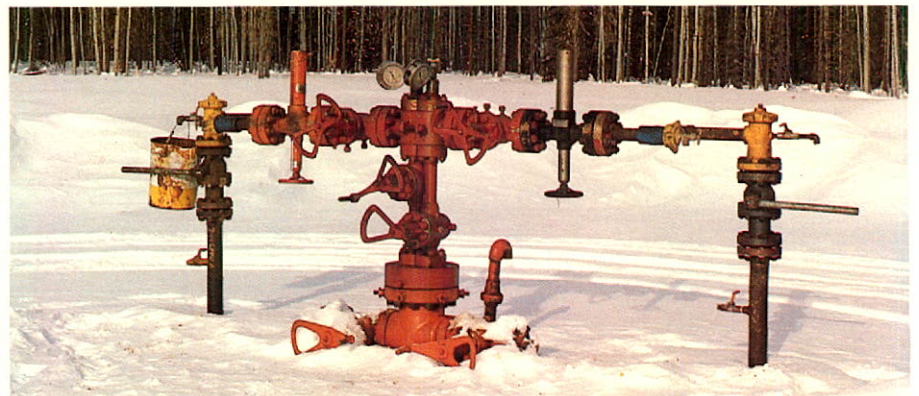
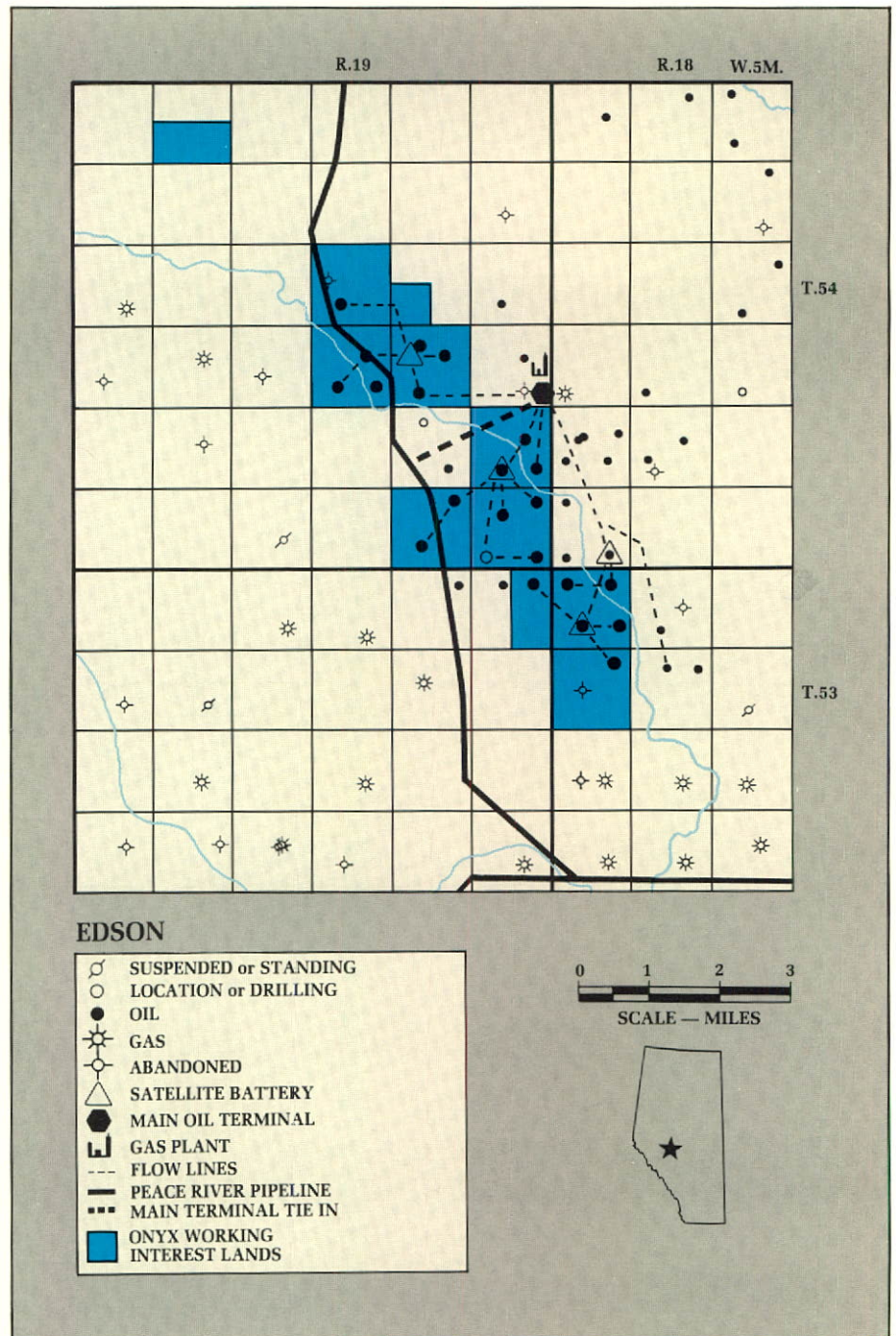
During the year, Onyx participated in drilling an excellent gas well at Carrot Creek. The well Sabine Onyx Carrot Creek 8-29 is currently flowing gas at rates of approximately 3 million cubic feet per day on a test basis into a nearby gas plant for marketing. Application has been made to have this well included in a gas contract which covers offsetting lands to the south. Depending on the marketability of the gas an additional 2 more wells could be drilled in 1983. The Company has a 25% interest in the well and 4,480 acres in the area.



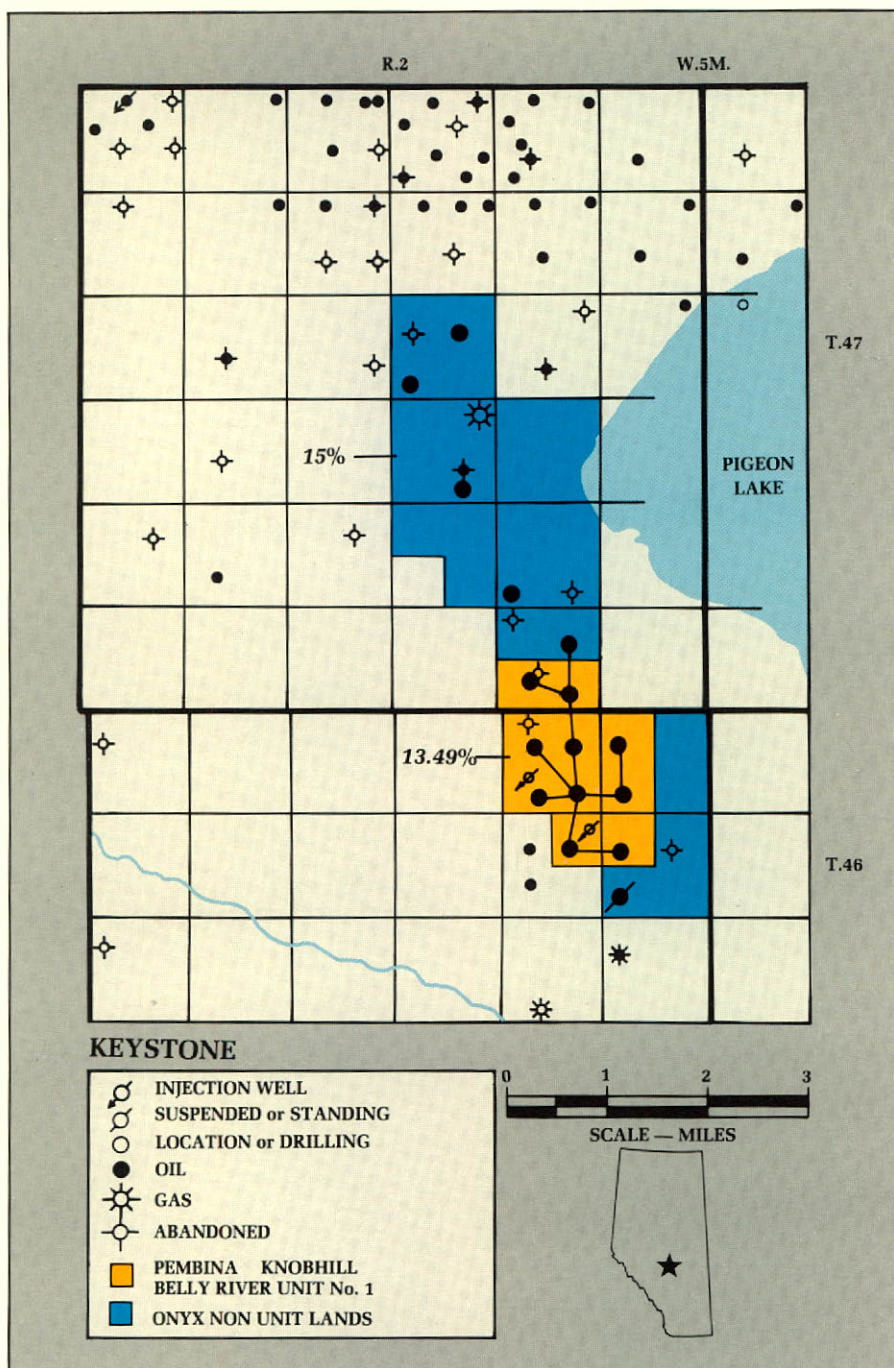
Otter manifold system connecting satellite battery to central line.

Edson

During the year an additional 9 development wells were drilled and completed, bringing the total to 17 at the end of the year. Since the year end we have drilled an additional 4 wells with at least 5 more expected to be drilled during the remainder of the year. Construction of the oil terminal, pipelines and gas plant are all completed and the system is in operation. Onyx has a 20% working interest in the Edson project.



Wellhead for a flowing, dual zone oil well at Edson.



Keystone

Onyx has an interest in 11 oil wells which were unitized during the year, resulting in the Company having a 13.49% interest in the unit. Waterflood facilities were installed during the summer with injection commencing in November 1982. Production from Keystone is categorized as "Special Old Oil" and therefore, under the Federal Provincial Pricing Agreement, will receive up to 75% of the world price.



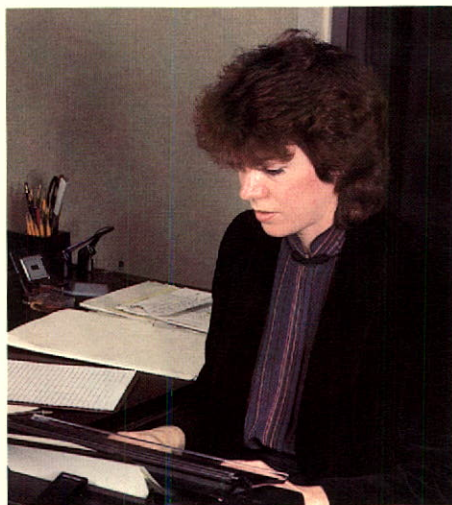
Otter central terminal and housing facilities.



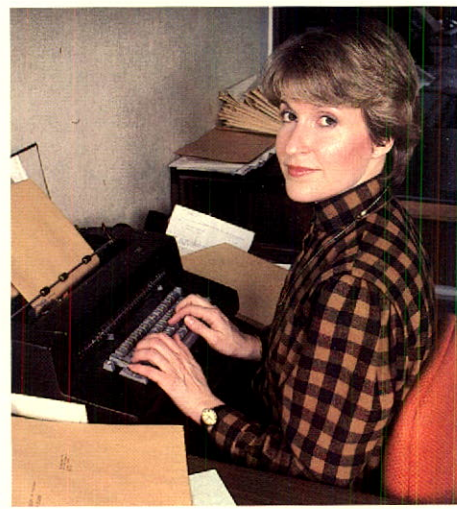
(left to right)
Les Vye — Consulting Geophysicist
Jeff Simus — Executive Vice President
Gary Buchanan — Geologist
Allen Puzey — Exploration Manager



Allen Puzey — Exploration Manager



Patricia Depper — Secretary



Kathy Smith — Secretary

Financial



Financial Comment

Onyx enjoyed a banner year in 1982 with revenues, cash flow and earnings all showing a substantial improvement over the corresponding 1981 period. New record highs were established for capital spending, asset growth and profitability despite the unfavourable economic conditions that prevailed throughout the year.

Being a small Canadian company operating in Canada, Onyx was

able to take maximum advantage of government incentives and other opportunities that existed within the industry. Increased sales combined with higher prices, higher royalty tax credits and a manageable debt all contributed to the favourable results that were achieved. The Company's year end bank debt of \$8.5 million was substantially reduced from proceeds of the \$7.4 million private placement financing completed early in 1983.



Lloyd Hansen — Vice President Finance

Financial Highlights

	1982	1981
Revenues	\$3,518,708	\$ 650,056
Cash flow (loss)	\$1,366,280	\$ (465,574)
Net earnings (loss)	\$ 504,140	\$ (656,074)
Capital expenditures	\$9,017,705	\$3,828,435
Common shares outstanding at December 31	2,907,024	2,507,856

Common Share Trading Range

	1982		1981	
	High	Low	High	Low
First Quarter	\$ 9	\$5½	\$11⅞	\$7¾
Second Quarter	9⅞	5½	10⅞	9¼
Third Quarter	11	5½	9⅞	6
Fourth Quarter	10⅞	8¼	9½	6⅞



Dawn Rutherford
— Chief Accountant



Cathy Scott — Accounting

ONYX PETROLEUM EXPLORATION COMPANY LTD.

Balance Sheet

as at December 31, 1982

Assets

Current Assets

Cash

Accounts receivable

Share Subscription Funds

Fixed Assets

Petroleum and natural gas properties,
including exploration, development
and equipment thereon, at cost

Accumulated depletion and depreciation

Liabilities

Current Liabilities

Accounts payable

Bank Production Loan (note 3)

Deferred Income Taxes

Shareholders' Equity

Capital Stock (note 4)

Issued

5,558 (1981 - 6,190) Restricted
return shares

2,907,024 Common shares

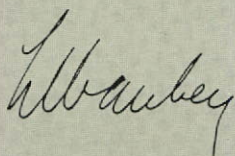
Accumulated reduction in carrying value of
exploration and development costs


Contributed Surplus (note 4)

Deficit

	<u>1982</u>	<u>1981</u>
	\$ 83,446	\$ 130,793
	<u>1,360,051</u>	<u>1,111,116</u>
	<u>1,443,497</u>	<u>1,241,909</u>
	—	3,392,928
	<u>23,491,319</u>	14,477,228
	<u>1,174,831</u>	536,705
	<u>22,316,488</u>	<u>13,940,523</u>
	<u>\$23,759,985</u>	<u>\$18,575,360</u>
	<u>\$ 1,425,769</u>	<u>\$ 1,946,724</u>
	<u>8,500,000</u>	<u>3,500,000</u>
	<u>220,400</u>	—
	555,800	619,000
	<u>16,926,452</u>	<u>16,926,452</u>
	17,482,252	17,545,452
	<u>(4,374,293)</u>	<u>(4,374,293)</u>
	13,107,959	13,171,159
	655,984	611,744
	<u>(150,127)</u>	<u>(654,267)</u>
	<u>13,613,816</u>	<u>13,128,636</u>
	<u>\$23,759,985</u>	<u>\$18,575,360</u>

Approved by the Board

 Director

 Director



Statement of Earnings

Year Ended December 31, 1982

	<u>1982</u>	<u>1981</u>
Revenue		
Oil and gas sales, net of royalties	\$2,937,302	\$ 646,642
Alberta Royalty Tax Credit	559,953	27,774
Petroleum Gas Revenue Tax	(156,726)	(40,559)
	<u>3,340,529</u>	<u>633,857</u>
Interest and other income	178,179	16,199
	<u>3,518,708</u>	<u>650,056</u>
Expenses		
Operating	587,116	210,571
General and administrative	471,724	337,131
Interest	1,093,588	567,928
Depletion and depreciation	641,740	237,100
	<u>2,794,168</u>	<u>1,352,730</u>
Earnings (loss) before income taxes	724,540	(702,674)
Deferred Income Taxes (reduction)	220,400	(46,600)
Net Earnings (loss)	<u>\$ 504,140</u>	<u>\$ (656,074)</u>
Net Earnings (loss) per common share (note 5)	<u>\$ —</u>	<u>\$(.37)</u>

Statement of Retained Earnings (Deficit)

Year Ended December 31, 1982

	<u>1982</u>	<u>1981</u>
Retained Earnings (Deficit) at beginning of year	\$ (654,267)	\$ 1,807
Net earnings (loss)	504,140	(656,074)
Deficit at end of year	<u>\$ (150,127)</u>	<u>\$ (654,267)</u>

ONYX PETROLEUM EXPLORATION COMPANY LTD.

Statement of Changes in Financial Position

Year Ended December 31, 1982

	<u>1982</u>	<u>1981</u>
Working Capital Derived From		
Operations	\$1,366,280	\$ —
Bank production loan	5,000,000	2,200,000
Issue of common shares (note 4)	3,392,928	5,903,449
	<u>9,759,208</u>	<u>8,103,449</u>
Working Capital Applied To		
Operations	—	465,574
Fixed assets	9,017,705	3,828,435
Acquisition of subsidiaries	—	4,357,636
Purchase of restricted return shares (note 4)	18,960	10,860
	<u>9,036,665</u>	<u>8,662,505</u>
Increase (decrease) in working capital position	722,543	(559,056)
Working capital deficiency at beginning of year	<u>(704,815)</u>	<u>(145,759)</u>
Working capital (deficiency) at end of year	<u>\$ 17,728</u>	<u>\$ (704,815)</u>

Auditors' Report

To the Shareholders of
Onyx Petroleum Exploration Company Ltd.

We have examined the balance sheet of Onyx Petroleum Exploration Company Ltd. as at December 31, 1982 and the statements of earnings, 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 financial statements present fairly the financial position of the company as at December 31, 1982 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, Canada
March 1, 1983

Thorne Riddell
Chartered Accountants



Notes to Financial Statements

Year Ended December 31, 1982

1. Accounting Policies

(a) Oil and Gas Operations

The Company follows the "full-cost" method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves, including the costs of production equipment, are capitalized and depleted using the unit of production method based on estimated recoverable oil and gas reserves.

Petroleum and natural gas properties include properties acquired in prior years on behalf of share subscribers at a cost of approximately \$7 million, and which have been assigned to the Company at no cost. Accordingly, they are carried in the accounts of the Company at a nominal value of \$1.

(b) Joint Ventures

Substantially all the Company's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

2. Income Taxes

Petroleum and natural gas property costs at December 31, 1982 include approximately \$10 million of costs which are not deductible for income tax purposes by the Company.

3. Bank Production Loan

The bank production loan is evidenced by a demand promissory note, bears interest at the bank's prime lending rate plus ½% and is secured by the Company's interest in certain oil and gas properties. The loan is repayable out of future production proceeds and, accordingly, is not expected to require the use of existing working capital; therefore, no portion of the loan has been reclassified to current liabilities.

4. Capital Stock

(a) Authorized Capital

The authorized capital of the Company is comprised of:

6,552 Restricted return shares of \$100 par value;
10,000,000 Preferred shares of \$10 par value;
10,000,000 Common shares of no par value.

(b) Common Shares

During 1982, the Company issued, by way of private placement, 399,168 common shares in consideration of the share subscribers incurring \$3,392,928 of expenditures in the Company's oil and gas exploration and development program, the cash for which had been received as at December 31, 1981 and is included in the share capital account in the 1981 comparative figures.

No dividends may be paid on common shares until dividends aggregating \$100 per restricted return share have been paid. Thereafter, dividends may be paid on common shares provided that an amount equal to any such dividends is applied to the redemption of restricted return shares.

(c) Key Employee Incentive Share Option Plan

As of December 31, 1982, 290,000 common shares of the Company were reserved for issue under the Company's key employee incentive share option plan, of which options to purchase 179,000 shares are outstanding, exercisable from time to time to September 1988 at prices ranging from \$5.85 to \$8.10 per share.

(d) Restricted Return Shares

During 1982, the Company purchased and cancelled 632 restricted return shares for \$18,960 cash. The difference (\$44,240) between the par value amount of the shares and the purchase price has been credited to contributed surplus.

The holders of restricted return shares have voting rights, limited dividend entitlements, and priority over common shareholders in case of liquidation, dissolution or winding-up. The shares are redeemable under certain circumstances at the option of the Company at a redemption price of \$100 per share.

5. Earnings Per Share

For purposes of earnings per share computation, net earnings for the year ended December 31, 1982 have been allocated to the restricted return shares in accordance with the dividend priorities attaching to each class of shares of the Company. No earnings will be allocated to the common shares until cumulative earnings amount to \$100 per restricted return share.

6. Statutory Information

Remuneration paid during 1982 to directors and senior officers of the Company amounted to \$418,200.

7. Subsequent Event — Issue of Convertible Debentures

On March 1, 1983 the Company issued, by way of private placement, \$7,400,000 principal amount of 11% convertible, subordinated debentures. The debentures are convertible into common shares of the Company at a price of \$10.25 per share to March 1, 1993, at which time any unconverted debentures become due and payable.

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