C

1983 Annual Report

ONYX Petroleum Exploration Company Ltd.

CORPORATE PROFILE

Onyx is an active oil and gas exploration company with production from established reserves in various areas of Alberta and British Columbia.

The Company was incorporated as a public company under The Companies Act of Alberta on November 10, 1976, as Rangeco Oil & Gas Ltd. The name was changed to Onyx Petroleum Exploration Company Ltd. on November 30, 1979, and on May 26, 1983, the Company was continued under the Business Corporations Act (Alberta). Onyx is a Canadian controlled company with a 100% Canadian Ownership Rating.

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

R. J. Engbloom
Secretary

HEAD OFFICE

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

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

H. G. MacNeill
(Toronto, Ontario)
President and Chief Executive Officer, Jannock Limited

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

Highlights

FINANCIAL

	1983	1982
Revenue	**$5,166,107**	$3,518,708
Cash Flow	**$2,311,914**	$1,366,280
Net Earnings	**$ 890,201**	$ 504,140
Capital Expenditures	**$7,616,340**	$9,017,705
Bank Loan	**$7,000,000**	$8,500,000
11% Convertible Debentures	**$7,400,000**	$ —
Common Shares Outstanding	**2,919,024**	2,907,024

OPERATIONAL

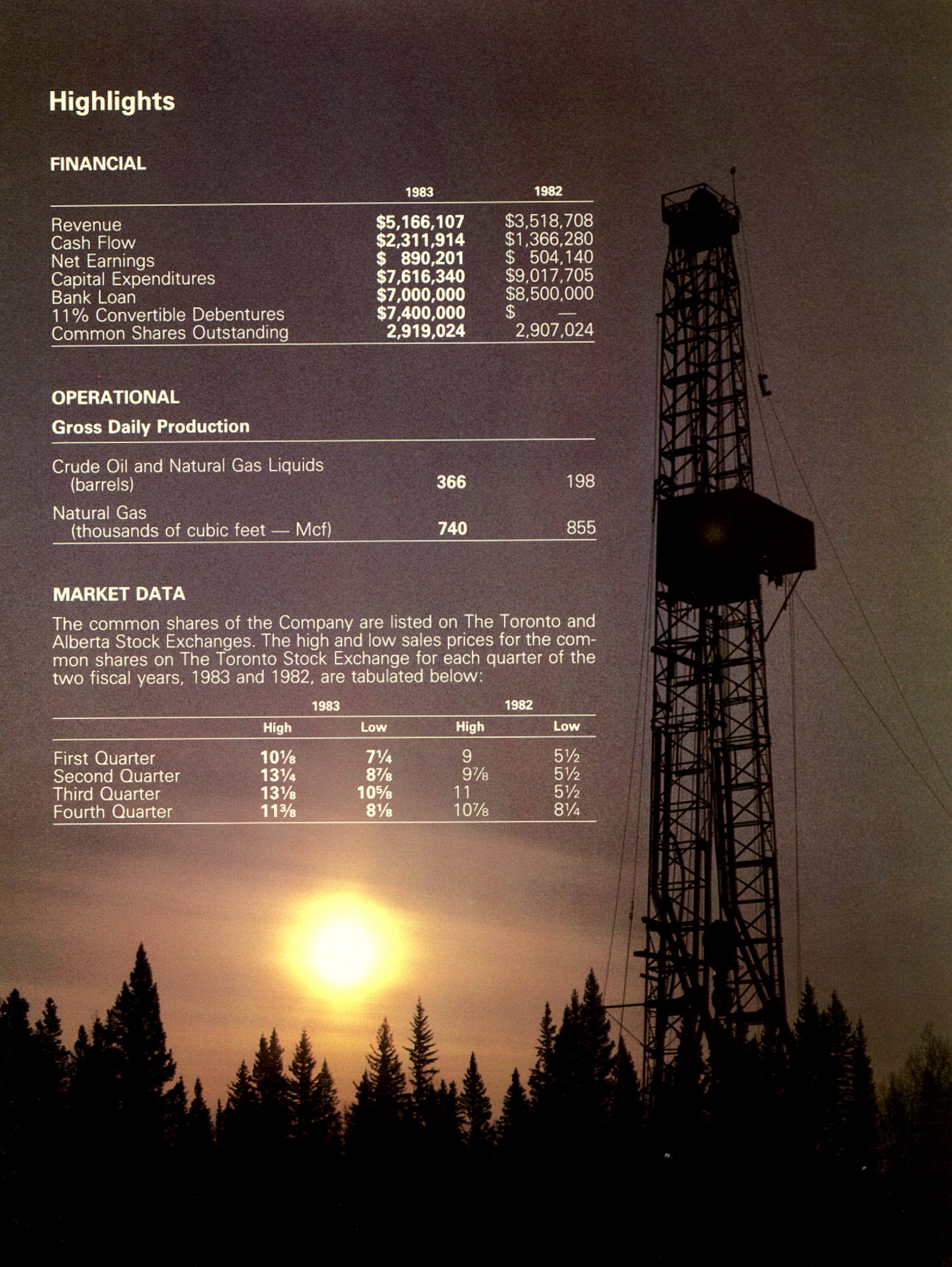
Gross Daily Production

Crude Oil and Natural Gas Liquids (barrels)	**366**	198
Natural Gas (thousands of cubic feet — Mcf)	**740**	855

MARKET DATA

The common shares of the Company are listed on The Toronto and Alberta Stock Exchanges. The high and low sales prices for the common shares on The Toronto Stock Exchange for each quarter of the two fiscal years, 1983 and 1982, are tabulated below:

	1983		1982	
	High	Low	High	Low
First Quarter	**10⅛**	**7¼**	9	5½
Second Quarter	**13¼**	**8⅞**	9⅞	5½
Third Quarter	**13⅛**	**10⅝**	11	5½
Fourth Quarter	**11⅜**	**8⅛**	10⅞	8¼




Dennis Flanagan, President

President's Report

OVERVIEW

Onyx enjoyed a very active and prosperous year in 1983. The Company participated in 34 wells and has plans for an equally aggressive year in 1984. The Company has been able to maintain a strong financial position with manageable debt and therefore has been able to take advantage of opportunities created by the general downturn in the industry.

The exploration and development highlights for the year include a Granite Wash oil discovery at Ogston in the eastern Peace River area of Alberta and a Bow Island oil discovery in late 1983 in the Keho Lake area of southern Alberta. Eight wells are now producing at Ogston with more development wells still to be drilled. At Keho, the second well has been cased and production testing will commence shortly.

The Peace River region in northwestern Alberta is still one of the most active areas in Alberta. While most of the Company's operations in 1983 were in that area, we are starting to diversify into other active oil areas in Alberta and northeastern British Columbia.

FINANCIAL

As a result of active exploration and development activities in the past two years, the Company's financial results have increased to record levels. Gross revenue after royalty increased 46% to $5,166,107, cash flow increased 69% to $2,311,914, and net income after tax increased 76% to $890,201 for the year.

These record levels were due to substantially increased oil production resulting from previous years' drilling successes. Oil production for the year averaged 366 barrels per day compared to an average level of 198 barrels per day for 1982. Successful drilling during 1983 will be reflected in the 1984 revenues which are expected to be substantially higher than 1983.

In March 1983, the Company completed the private placement of $7.4 million unsecured convertible subordinated debentures with 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.

CORPORATE OUTLOOK

Predictions for small companies are difficult, at best, because what might otherwise be considered a routine event can have a significant impact on the year's results. Unusual rains in the Peace River area last summer delayed our Ogston road building program, and therefore our production, by at least 90 days. On the other hand, the recent change in Alberta minimum allowables will increase our production by about 10% for 1984 over and above increases from new wells.

We are optimistic that 1984 will show a continued growth pattern for the Company, partly as a result of past developments, but also in anticipation of future successes. The Company's share of production is now approximately 600 barrels of oil per day and 1,000 Mcf of gas per day compared to an average of 366 barrels of oil per day and 725 Mcf of gas per day last year.

INDUSTRY COMMENT

Events over the past two to three years have created an "opportunity window" for small Canadian exploration companies like Onyx to explore for oil and gas in Canada — particularly in the western plains. Drilling and service costs have been reduced substantially over the past few years as a result of equipment oversupply and a general decrease in drilling. Land tenure regulations have changed recently in Alberta which has resulted in land being more available for drilling, both by way of farmout or acquisition. Industry competition is lower than in the past few years due to many companies having insufficient cash flow to maintain an active exploration program while concurrently trying to service debt.

Government payments such as PIP or provincial incentive payments contribute significantly to reduce the risk costs. World oil prices combined with lower effective royalties for small companies provide the profit necessary to encourage more exploration. On a longer term basis, gas markets will expand and with the much needed cash flow there will be a notable increase in drilling activity.

Onyx has maintained sufficient financial capabilities to take advantage of this "opportunity window" and because of our aggressive approach during these times, we expect our financial results to reflect favourably for years to come.

1984 ACTIVITIES TO DATE

Since the beginning of the year, two more development wells were drilled at Ogston with one being completed as an oil well and the other dry. Construction of a pipeline from Ogston to our terminal facilities at Otter has been completed, which will permit year-round production without interruption for weather and road bans. The Ogston field is currently producing approximately 1,000 barrels of oil per day of which Onyx has a 21.25% share, or approximately 210 barrels per day.

EMPLOYEES

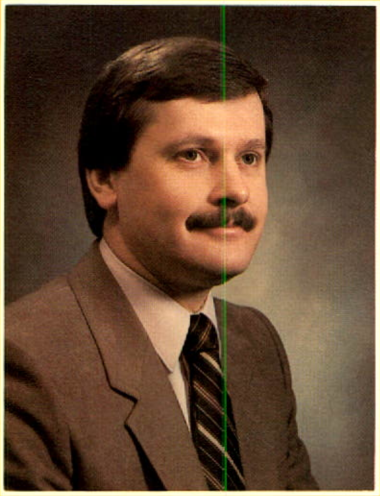
No matter how good the incentives are, or the economics, or the competition — none of them mean a thing unless you are able to find oil or gas in the first place. In this connection, appreciation is extended to our employees for their significant contribution to the Company's performance.

We also welcome Mr. Gordon MacNeill of Toronto to our Board of Directors. Mr. MacNeill is President and Chief Executive Officer of Jannock Limited and is a director of several major Canadian companies.

On Behalf of
the Board of Directors

D. G. Flanagan
President

March 28, 1984



Orest Humeniuk, Land Manager

Land

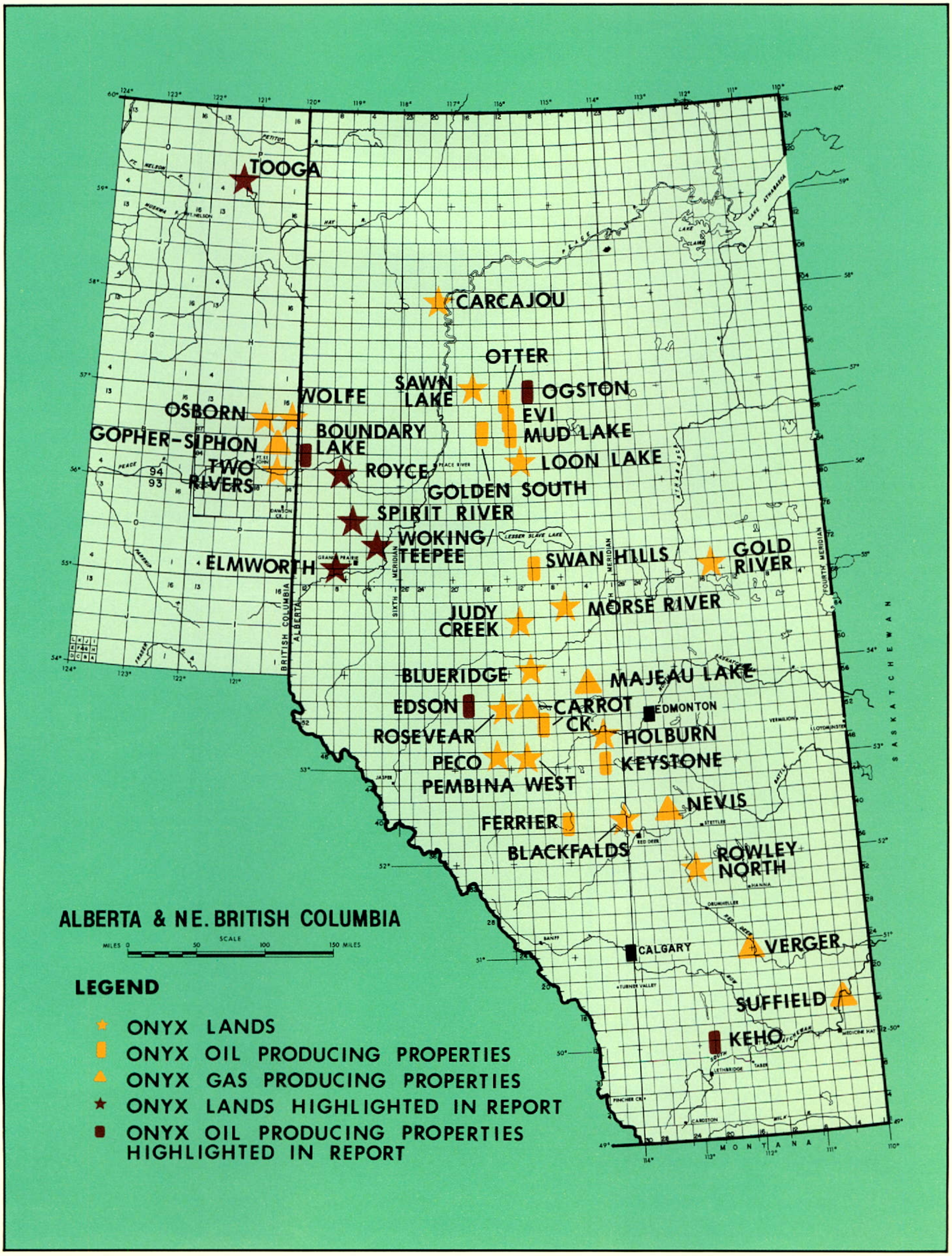
Following is a comparative summary of the Company's land holdings for the years ending December 31, 1982 and 1983:

	1983		1982	
	Gross	Net	Gross	Net
	Acres		Acres	
Alberta	185,411	39,492	145,998	27,428
British Columbia	26,573	3,995	29,211	4,686
Total Land	211,984	43,487	175,209	32,114

During 1983, Onyx participated in the acquisition of Crown and Freehold Petroleum and Natural Gas acreage in the Province of Alberta. A total 39,865 gross acres (net 10,205 acres) were purchased at a net cost to Onyx of $2.5 million. A majority of the lands were acquired in the Ogston/Sawn Lake and Spirit River/Rycroft regions of Alberta.

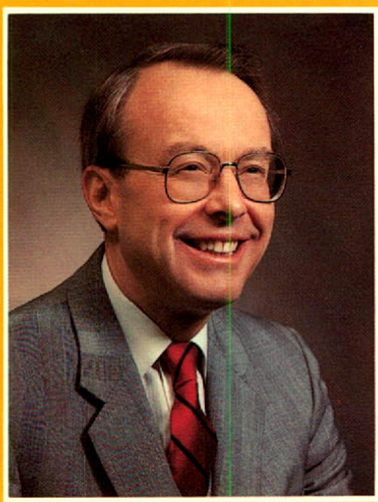
During the balance of 1984, Onyx will continue to aggressively expand its land holdings in potentially oil prone areas of western Canada.

3,000 barrel storage tanks at the main Edson terminal connected to the Peace River Pipe Line.



TOOGA
CARCAJOU
OTTER
SAWN LAKE
OGSTON
WOLFE
OSBORN
EVI
BOUNDARY LAKE
MUD LAKE
GOPHER-SIPHON
LOON LAKE
TWO RIVERS
ROYCE
GOLDEN SOUTH
SPIRIT RIVER
WOKING/TEEPEE
ELMWORTH
SWAN HILLS
GOLD RIVER
MORSE RIVER
JUDY CREEK
BLUERIDGE
MAJEAU LAKE
EDSON
CARROT CK.
EDMONTON
ROSEVEAR
HOLBURN
PECO
KEYSTONE
PEMBINA WEST
NEVIS
FERRIER
BLACKFALDS
ROWLEY NORTH
VERGER
CALGARY
SUFFIELD
KEHO
SASKATCHEWAN
MONTANA
BRITISH COLUMBIA
ALBERTA
ALBERTA & NE. BRITISH COLUMBIA
SCALE
MILES 0 50 100 150 MILES
LEGEND
ONYX LANDS
ONYX OIL PRODUCING PROPERTIES
ONYX GAS PRODUCING PROPERTIES
ONYX LANDS HIGHLIGHTED IN REPORT
ONYX OIL PRODUCING PROPERTIES HIGHLIGHTED IN REPORT

Exploration and Development



Jeff Simus, Executive Vice President

During 1983 Onyx participated in the drilling of thirty-four wells, of which three were drilled at no cost to the Company, resulting in twenty-two oil wells and twelve dry holes. In addition to being the most active drilling year since the Company's incorporation in 1976, Onyx established a land position in the west Peace River Arch which is an oil prone, multi-reservoir region.

Spirit River

Onyx participated in the purchase of 640 acres on November 30, 1983. This land is west of the Rycroft Triassic oil field and a southern offset to the Spirit River Triassic oil field.

In excess of 20 wells have been licenced in the Spirit River area with eleven to date being classified as potential oil wells; the closest being less than half a mile from the Onyx acreage. There are two primary potential oil bearing horizons as well as secondary gas prospects. The area is accessible all year round, and Onyx has a 12¼% working interest in the acreage.

Rycroft/Teepee

Onyx participated in a farmin from Esso Resources to earn a net 25% working interest in 1,920 acres. An exploratory well, Anderson Onyx Rycroft 14-23-76-4 W6M, was drilled with Onyx paying 50% of the costs. The well has been cased as a potential Doig oil well. This acreage is on trend with some recent Triassic oil wells to the southeast at Teepee. In addition Onyx purchased a 25% working interest in 640 acres at the February 1984 Crown land sale. Evaluation of this acreage will occur before year end as additional offsetting well information becomes available.

Royce

A P & NG licence containing 2,560 acres was purchased on June 29, 1983 with Onyx having a 25% working interest. An existing seismic program over the area has been evaluated for Triassic oil potential with an additional program currently being shot to further evaluate the deeper Mississippian formations. The acreage is summer accessible, and drilling is expected later this year.

Woking

In November 1983, Onyx and partners purchased a 6,400 acre P & NG licence. An exploration well, at 8-31-75-5 W6M, was drilled and abandoned on the licence to evaluate our lands as well as the offsetting sale lands to the north. Onyx acreage has Triassic oil and Cretaceous gas potential. Seismic data, recently acquired, is currently being evaluated. Onyx has a 25% working interest in the licence. This area is one of the most active exploratory areas in northwestern Alberta.

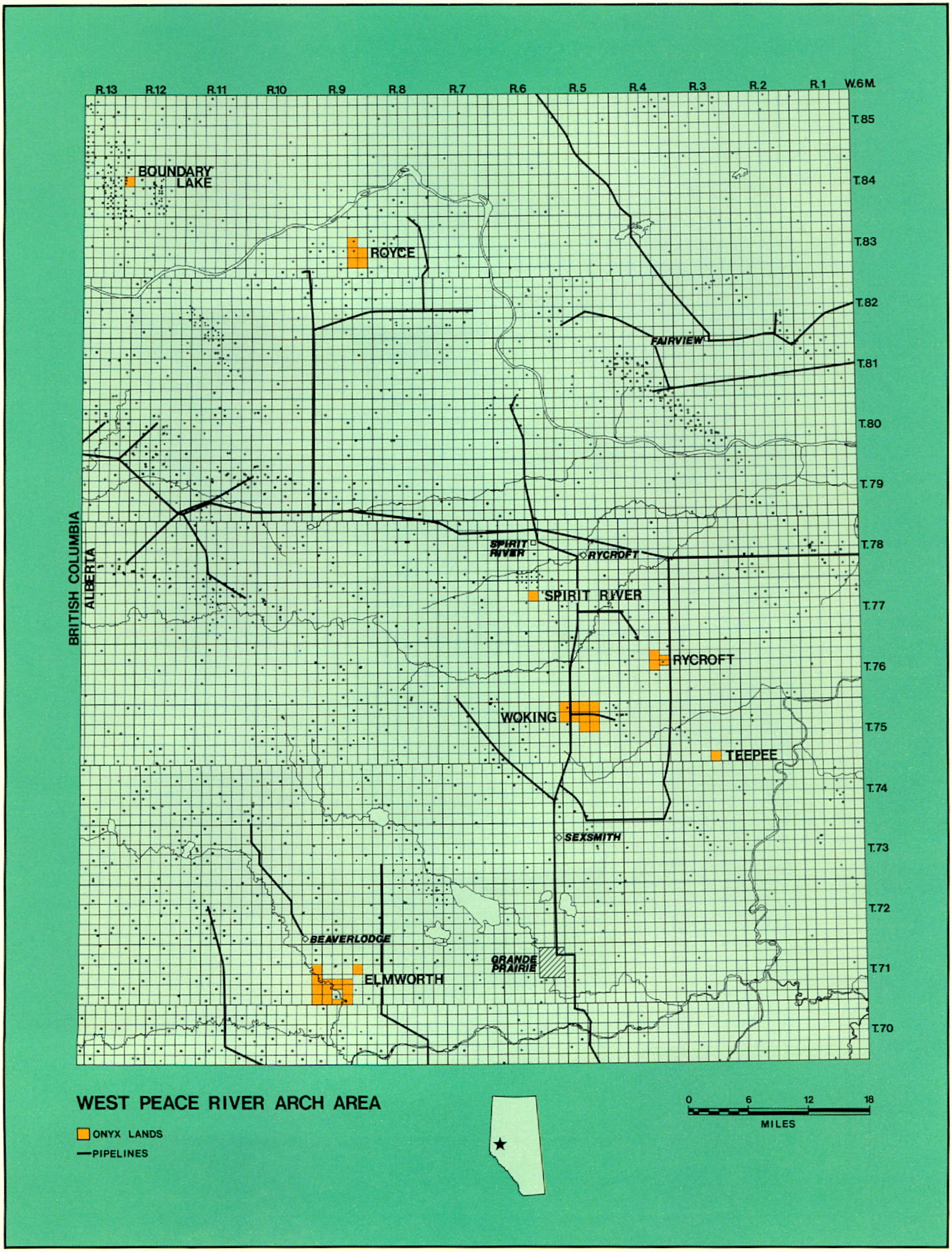
Elmworth

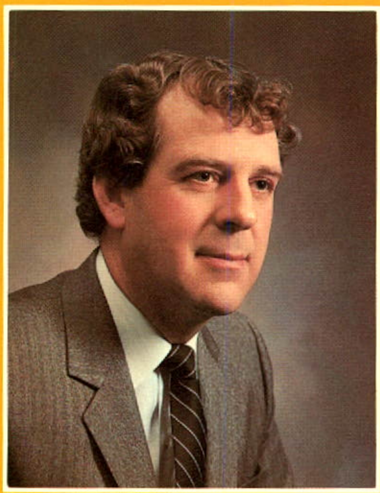
Onyx has an 8¾% working interest in 7,360 lease acres in this prospect.

Recently, a Triassic oil and gas play has developed in the immediate area. The lands will be evaluated to determine their potential relative to this play as information becomes available.

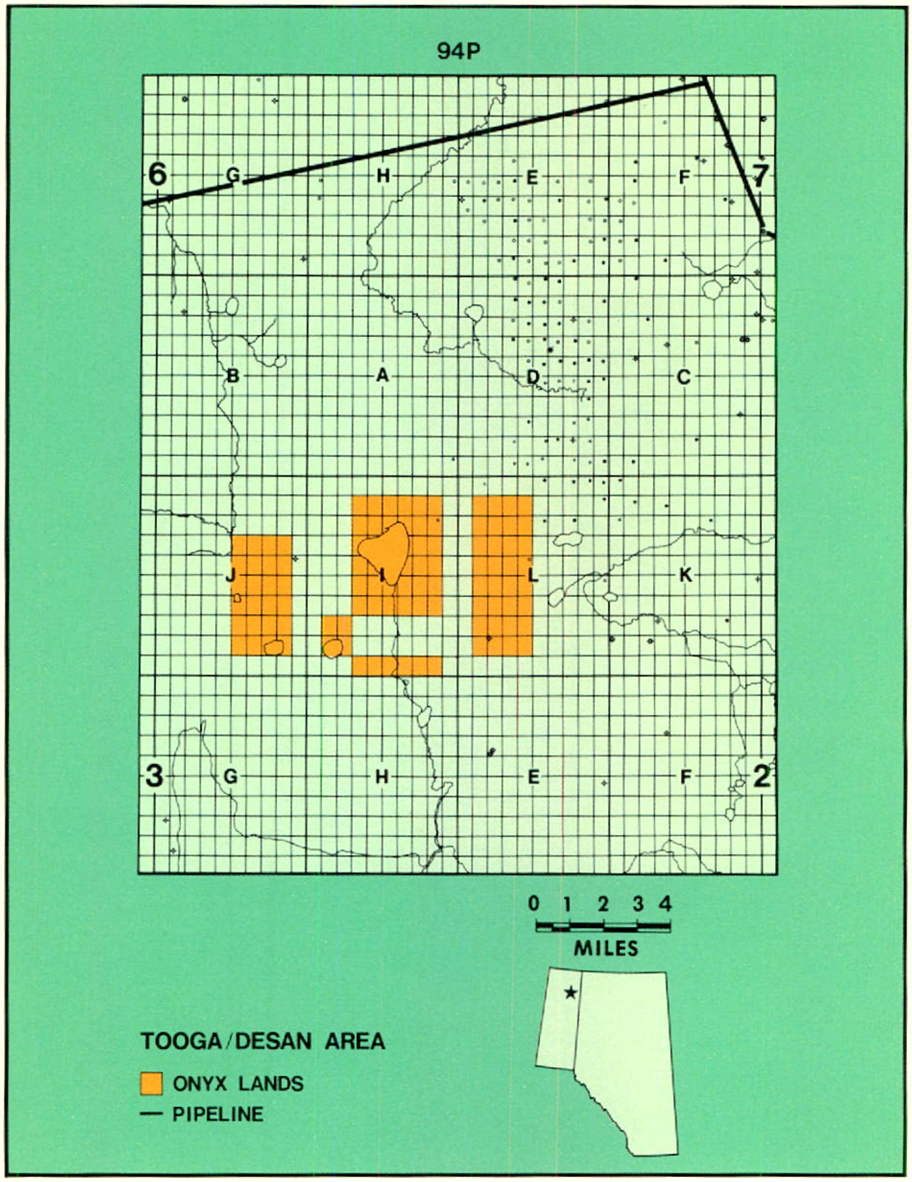
Boundary Lake

Onyx farmed out its interest in a one section P & NG lease in January 1983. The earning well was completed in the Boundary Lake member as an oil well in which Onyx retains a gross overriding royalty interest.


R.13
R.12
R.11
R.10
R.9
R.8
R.7
R.6
R.5
R.4
R.3
R.2
R.1
W.6M.
T.85
T.84
T.83
T.82
T.81
T.80
T.79
T.78
T.77
T.76
T.75
T.74
T.73
T.72
T.71
T.70
BOUNDARY LAKE
ROYCE
FAIRVIEW
BRITISH COLUMBIA
ALBERTA
SPIRIT RIVER
RYCROFT
SPIRIT RIVER
RYCROFT
WOKING
TEEPEE
SEXSMITH
BEAVERLODGE
GRANDE PRAIRIE
ELMWORTH
WEST PEACE RIVER ARCH AREA
ONYX LANDS
PIPELINES
0
6
12
18
MILES



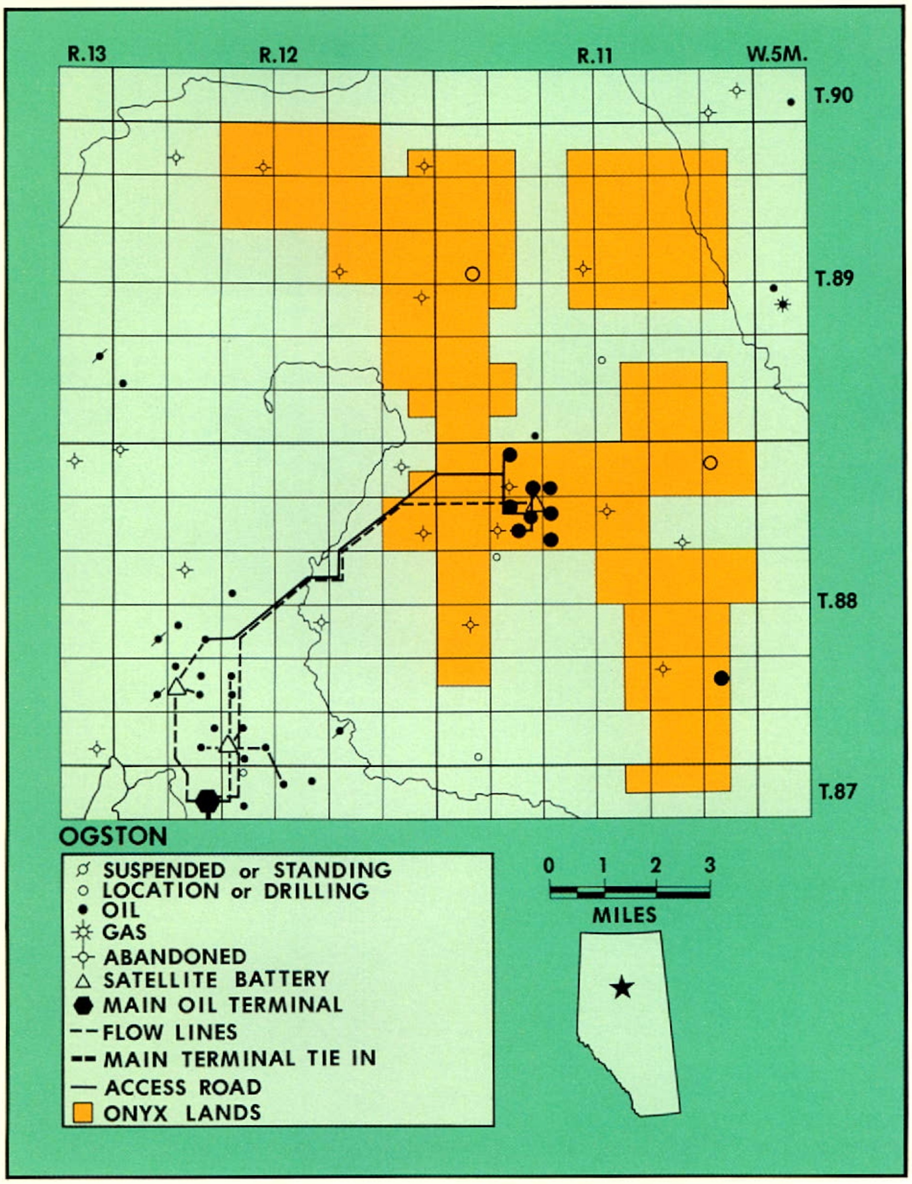
Allen Puzey, Exploration Manager



Tooga/Desan

Onyx has a 7.23% working interest in 16,712 acres in the rapidly developing Mississippian oil play located in the Tooga/Desan region of northeastern British Columbia.

The initial Desan discovery is located approximately four miles north of Onyx leases. Onyx and partners will drill two wells, as soon as ground conditions permit, to evaluate the Mississippian formation under our leases and future Crown land postings.

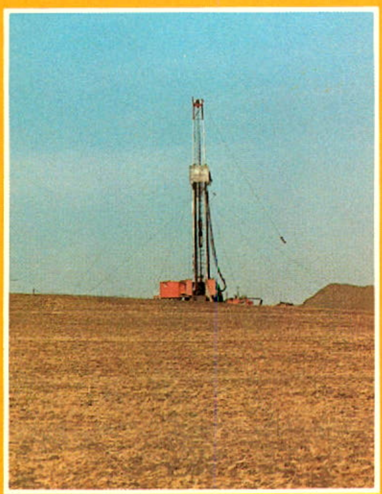


Production testing at Ogston 4-33 discovery.

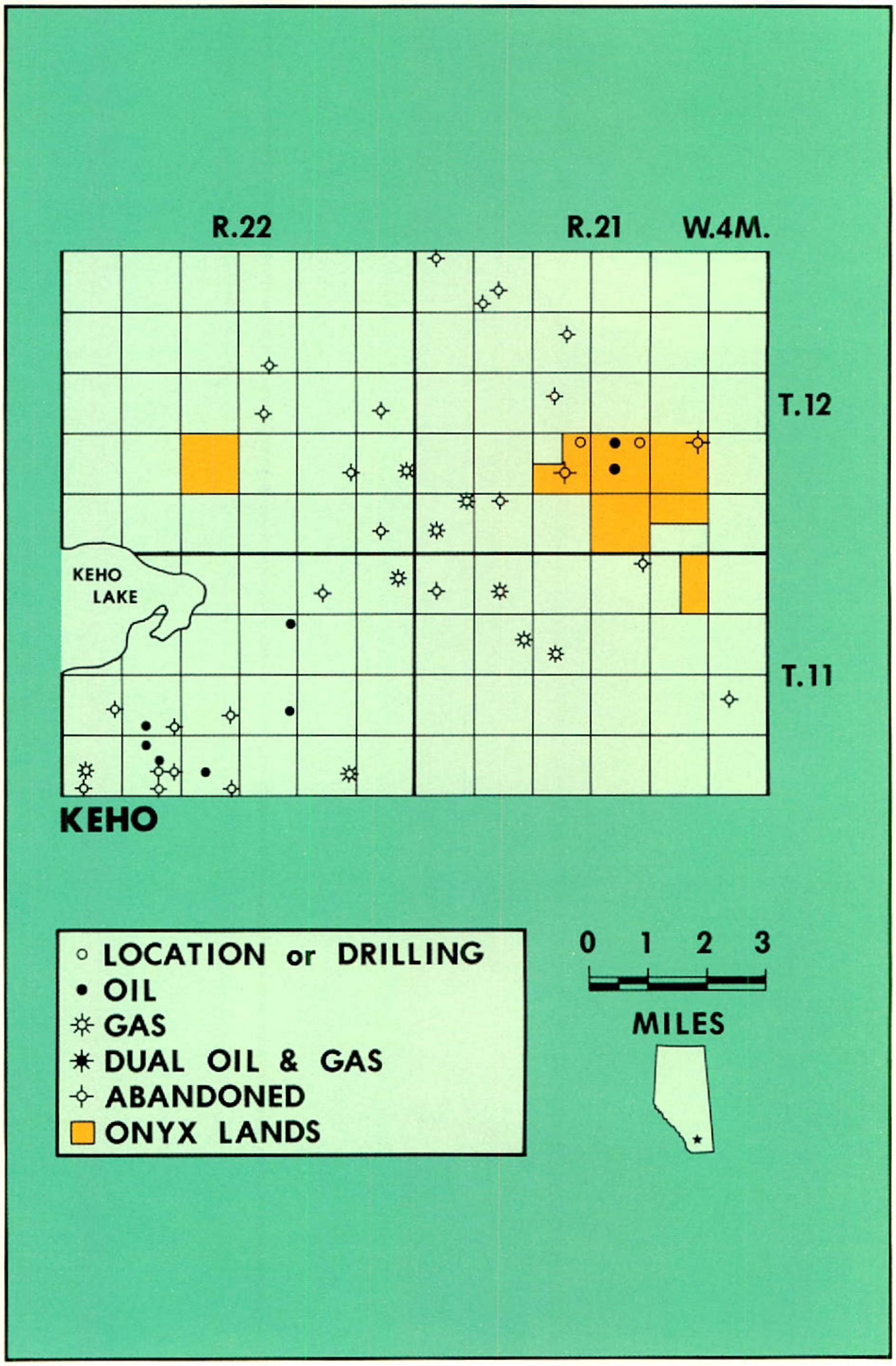
Ogston

In 1983 Onyx participated in 13 wells in the Ogston/Sawn Lake region of north central Alberta. The first well, Canterra Onyx et al Ogston 4-33-88-11 W5M, was a significant Granite Wash oil discovery. Subsequent to drilling the discovery, an additional seven successful development wells have been drilled and placed on production. Continuous development drilling on this project is planned throughout 1984. In addition to the development program, the Company is actively exploring on its substantial land holdings in the area. A new oil well discovery was drilled early in 1984 at 11-12-88-11 W5M. This discovery will result in additional stepout drilling in 1984 to determine the size of the reservoir. Two more exploratory wells are currently being drilled in the area.

Pump and Storage Facilities at Keho 6-10.



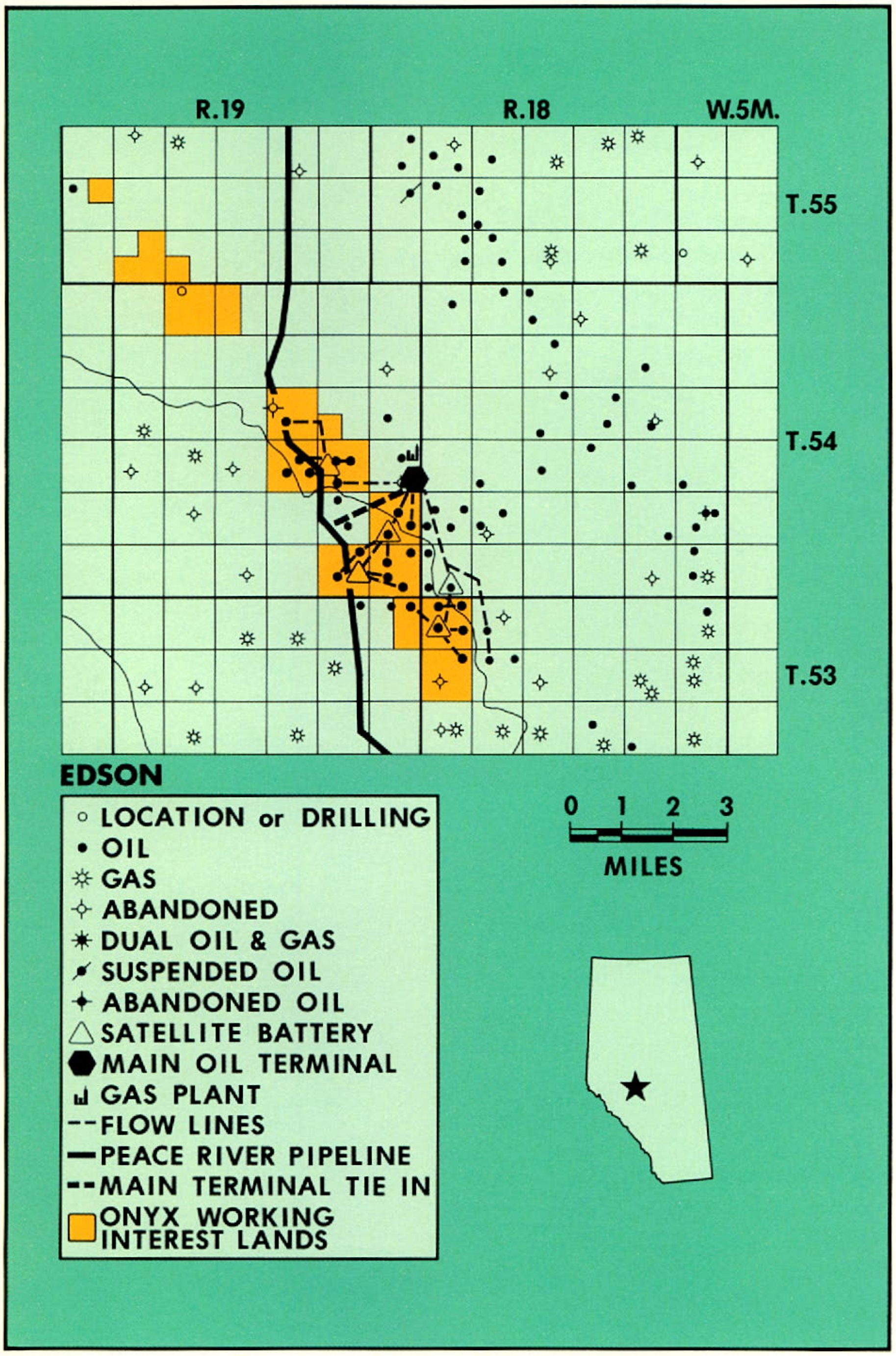
Drilling Keho 14-10.

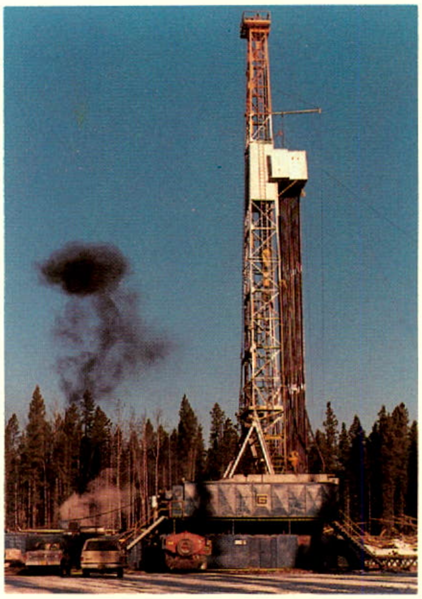


Keho

Keho is a new project located in southern Alberta, approximately 18 miles north of the city of Lethbridge. In October 1983 a discovery well was drilled and placed on production, and in February 1984 the Company drilled a confirmation well in 14-10-12-21 W4M which is currently being completed. Additional development drilling is under way at 16-10-12-21 W4M.

Onyx has a 40% working interest in the property and is the operator of the project.





Drilling at Edson.

Edson

In 1983 an additional five development wells were drilled and completed, bringing the total to 22 at year-end. Onyx has a 20% working interest in the Edson project.

In January 1984, Onyx (25%) negotiated a farmin from Shell whereby a test well, 14-32-54-19 W5M currently drilling, will earn Onyx an interest in 1,280 acres with further continuing options to earn an interest in an additional 640 acres.

Reserves

The Company's share of gross oil and gas reserves at December 31, 1983 as determined by independent consulting engineers is as follows:

Proven:

Oil	1,590,167 barrels
Gas	15,835 million cubic ft.

Probable:

Oil	567,773 barrels
Gas	4,470 million cubic ft.

Since publication of our 1982 annual reserves, Onyx has changed its independent engineering firm. As a result of minor differences in engineering approach and reductions necessitated by production performance at Otter, a decrease is noted in overall reserves at the end of 1983.

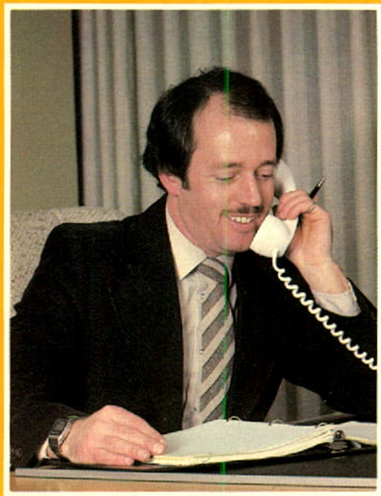
Production

Onyx's share of oil and gas liquids production continues to show significant growth with 1983 production totalling 133,597 barrels for an average production of 366 barrels of oil per day. The increase in production relates primarily to the Ogston area where the Company has a total of eight new wells on production.

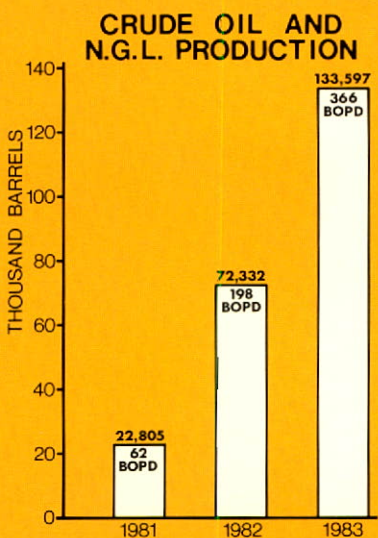
Gas production of 264,606 Mcf was down from 1982 due to continuing reduced demand. While demand for gas decreased substantially, most of the Company's gas production was solution gas produced with the oil from our Edson field. Solution gas has priority to markets.

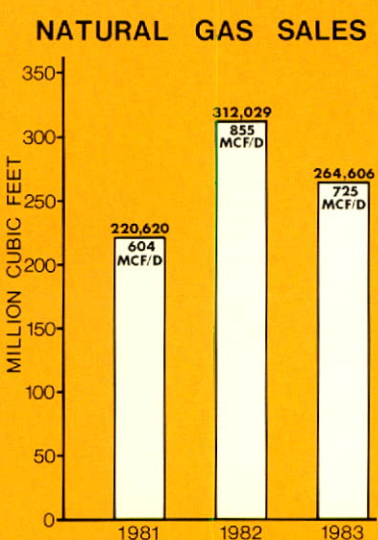
To enable year round production, the Company has made a significant investment in production facilities and the construction of high grade all weather access roads to its new development areas. During 1983, Onyx completed the installation of a gathering system and central processing facility at Otter, where there is a production tie-in to the Rainbow Pipeline. At Ogston, 10 miles of all weather access road was constructed to facilitate production and allow for further development drilling surrounding the 4-33 discovery. The success of this development effort has necessitated the construction of additional production facilities. Construction is presently under way to install pumpjacks, gathering lines, a test satellite and a main transmission line to transport Ogston crude to the Otter battery for processing and subsequent sale. Completion of these facilities, which is expected prior to spring break-up, will streamline the production operation and significantly reduce operating costs in the area.

The Alberta government's announcement of an increase in the minimum allowable production rate effective February 1, 1984, together with an anticipated relaxation of the gas/oil ratio penalty at Edson, are expected to double production from the Edson field. To accommodate the higher volumes, design of additional gas processing capacity is currently underway and any necessary facility additions will be completed as soon as possible.



Ken MacLellan, Chief Engineer





Financial Comment

Lloyd Hansen, Vice President Finance

Onyx enjoyed an exceptionally good year in 1983, reporting record high revenues, cash flow and earnings for the twelve month period ended December 31, 1983. Revenue from the sale of crude oil, natural gas and natural gas liquids amounted to $4.6 million after royalties, for a 56% increase over the $2.9 million recorded in 1982. While gas sales remained depressed throughout most of the year, oil production on an average daily basis increased approximately 85%, accounting for the significant improvement in gross revenues.

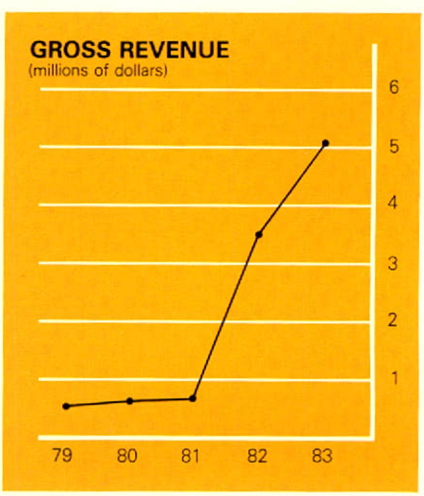
Production expenses of $803,000 were up 36% over the $587,000 reported in 1982. The increase reflects both a higher volume of production and higher than normal operating costs associated with getting new oil on production in the northern regions.

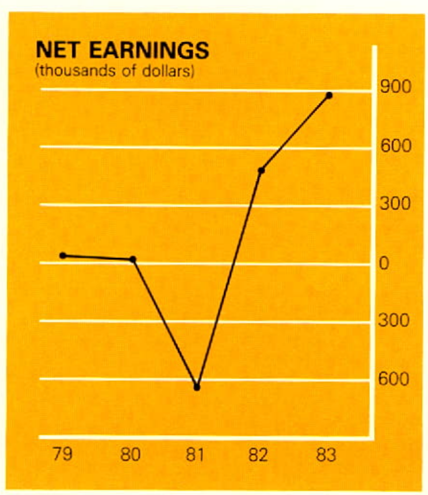
General and administrative expenses in the amount of $639,000 increased approximately 35% over 1982 and interest expense increased 31% to $1.4 million. Interest expense includes interest payable on the $7.4 million 11% convertible debentures issued by the Company on March 1, 1983. The debenture proceeds together with funds generated internally, enabled the Company to finance a $7.6 million capital expenditure program and to reduce bank loans by $1.5 million.

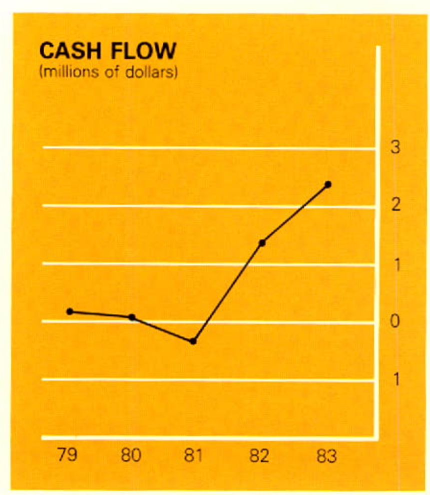
Earnings, before income taxes, were up 72% to $1.2 million in 1983 as compared to $724,000 in 1982. After provision for deferred income taxes of $360,000, the Company had a profit of $890,000 for a 76% improvement over the $504,000 reported in 1982.

Outlook for 1984

Onyx has a positive working capital position, unused bank lines and a strong cash flow which gives the Company the financial capability to manage an aggressive capital expenditure program and the opportunity to pursue worthwhile acquisitions that may be forthcoming in the future. The Company expects increased oil production which, combined with more stable gas markets, should generate improved revenue, cash flow and earnings for the coming year.







Onyx Petroleum Exploration Company Ltd.

BALANCE SHEET

as at December 31, 1983

ASSETS

	1983	1982
CURRENT ASSETS		
Cash	$ 124,139	$ 83,446
Accounts receivable	1,791,896	1,360,051
	1,916,035	1,443,497
FIXED ASSETS		
Petroleum and natural gas properties, including exploration, development and equipment thereon, at cost	31,107,574	23,491,319
Accumulated depletion and depreciation	2,215,984	1,174,831
	28,891,590	22,316,488
DEFERRED FINANCING CHARGES	225,229	—
	$31,032,854	$23,759,985

LIABILITIES

	1983	1982
CURRENT LIABILITIES		
Accounts payable	$ 1,267,883	$ 1,425,769
BANK PRODUCTION LOAN (note 3)	7,000,000	8,500,000
11% CONVERTIBLE DEBENTURES (note 4)	7,400,000	—
DEFERRED REVENUE	210,174	—
DEFERRED INCOME TAXES	580,400	220,400
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 5)		
Issued		
5,484 (1982 — 5,558) Restricted Return shares	548,400	555,800
2,919,024 (1982 — 2,907,024) Common shares	12,624,759	12,552,159
	13,173,159	13,107,959
CONTRIBUTED SURPLUS (note 5)	661,164	655,984
RETAINED EARNINGS (DEFICIT)	740,074	(150,127)
	14,574,397	13,613,816
	$31,032,854	$23,759,985

Approved by the Board

D. G. Flanagan

D. G. Flanagan, Director

D. C. Jones

D. C. Jones, Director

Onyx Petroleum Exploration Company Ltd.

STATEMENT OF EARNINGS

Year Ended December 31, 1983

	1983	1982
REVENUE		
Oil and gas sales, net of royalties	$4,603,009	$2,937,302
Alberta Royalty Tax Credit	818,125	559,953
Petroleum and Gas Revenue Tax	(255,027)	(156,726)
	5,166,107	3,340,529
Interest and other income	—	178,179
	5,166,107	3,518,708
EXPENSES		
Operating	803,185	587,116
General and administrative	639,181	471,724
Interest on long term debt	1,432,302	1,093,588
Depletion and depreciation	1,041,238	641,740
	3,915,906	2,794,168
Earnings before income taxes	1,250,201	724,540
DEFERRED INCOME TAXES	360,000	220,400
NET EARNINGS (note 6)	$ 890,201	$ 504,140

STATEMENT OF RETAINED EARNINGS (DEFICIT)

Year Ended December 31, 1983

	1983	1982
DEFICIT AT BEGINNING OF YEAR	$(150,127)	$(654,267)
Net earnings	890,201	504,140
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ 740,074	$(150,127)

Onyx Petroleum Exploration Company Ltd.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1983

	1983	1982
WORKING CAPITAL DERIVED FROM		
Operations	$2,311,914	$1,366,280
Issue of 11% convertible debentures	7,400,000	—
Deferred revenue	210,174	—
Issue of common shares	72,600	3,392,928
Bank production loan	—	5,000,000
	9,994,688	9,759,208
WORKING CAPITAL APPLIED TO		
Fixed assets	7,616,340	9,017,705
Financing charges	245,704	—
Bank production loan	1,500,000	—
Purchase of restricted return shares	2,220	18,960
	9,364,264	9,036,665
INCREASE IN WORKING CAPITAL	630,424	722,543
Working capital (deficiency) at beginning of year	17,728	(704,815)
WORKING CAPITAL AT END OF YEAR	$ 648,152	$ 17,728

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, 1983 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, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

Calgary, Canada
February 17, 1984

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 1983

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.

(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.

(c) Deferred Financing Charges

Financing charges incurred in connection with the issuance of convertible debentures have been deferred and are being amortized on a straight line basis over ten years, the term of the debentures.

(d) Comparative Accounts

Certain 1982 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1983.

2. INCOME TAXES

Petroleum and natural gas properties include approximately $8 million of unamortized costs at December 31, 1983 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 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. 11% CONVERTIBLE DEBENTURES

The debentures bear interest at 11% per annum and 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.

5. CAPITAL STOCK

(a) Authorized Capital

During 1983, the Company was continued under the Alberta Business Corporations Act. The authorized capital of the Company is comprised of:

6,552 Restricted Return shares
10,000,000 Preferred shares
10,000,000 Common shares

(b) Restricted Return Shares

During 1983, the Company purchased and cancelled 74 restricted return shares for $2,220 cash. The difference ($5,180) between the stated value 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.

(c) Common Shares

Common share capital is shown net of the value ($4,374,293) of the income tax deductions relating to exploration and development expenditures incurred in prior years by subscribers in return for shares of the Company and which deductions were not available to the Company.

During 1983, the Company issued 12,000 common shares for $72,600 cash on the exercise of employee incentive share options.

As of December 31, 1983, 721,951 common shares were reserved for issue on conversion of debentures (see note 4).

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.

(d) Key Employee Incentive Share Option Plan

As of December 31, 1983, 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 243,000 shares are outstanding, exercisable from time to time to November 1988 at prices ranging from $5.85 to $9.25 per share.

6. NET EARNINGS PER COMMON SHARE

Net earnings per common share for the year ended December 31, 1983 amount to $.07 and have been computed after first allocating 1983 net earnings to the restricted return shares to the extent that cumulative earnings amount to $100 per restricted return share. The balance ($191,674) of net earnings for the year ended December 31, 1983 has been allocated to the common shares.

ONYX PETROLEUM EXPLORATION COMPANY LTD.
Annual Report
1983

Ronalds Western
PRINTED IN CANADA