ONYX PETROLEUM EXPLORATION COMPANY LTD.

ANNUAL REPORT 1984

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.

Corporate Information

Officers and Senior Personnel

D. G. FLANAGAN
President

A. J. SIMUS
Executive Vice President

L. L. HANSEN
Vice President — Finance

M. G. WEBB
Vice President — Exploration

R. D. S. DOUGLAS
Senior Engineer

R. J ENGBLOOM
Secretary

Head Office

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

Corporate Registrar and Transfer Agents

The Canada Trust Company

Board of Directors

D. G. FLANAGAN
(Calgary, Alberta)
President of the Company

L. WAISBERG
(Toronto, Ontario)
Partner, Goodman & Goodman

J. M. HALLWARD
(Montreal, Quebec)
Self Employed

A. J. SIMUS
(Calgary, Alberta)
Executive Vice President
of the Company

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

R. J. ENGBLOOM
(Calgary, Alberta)
Partner, MacKimmie Matthews

Bankers

Bank of Montreal
Calgary, Alberta

Auditors

Thorne Riddell
Calgary, Alberta

Solicitors

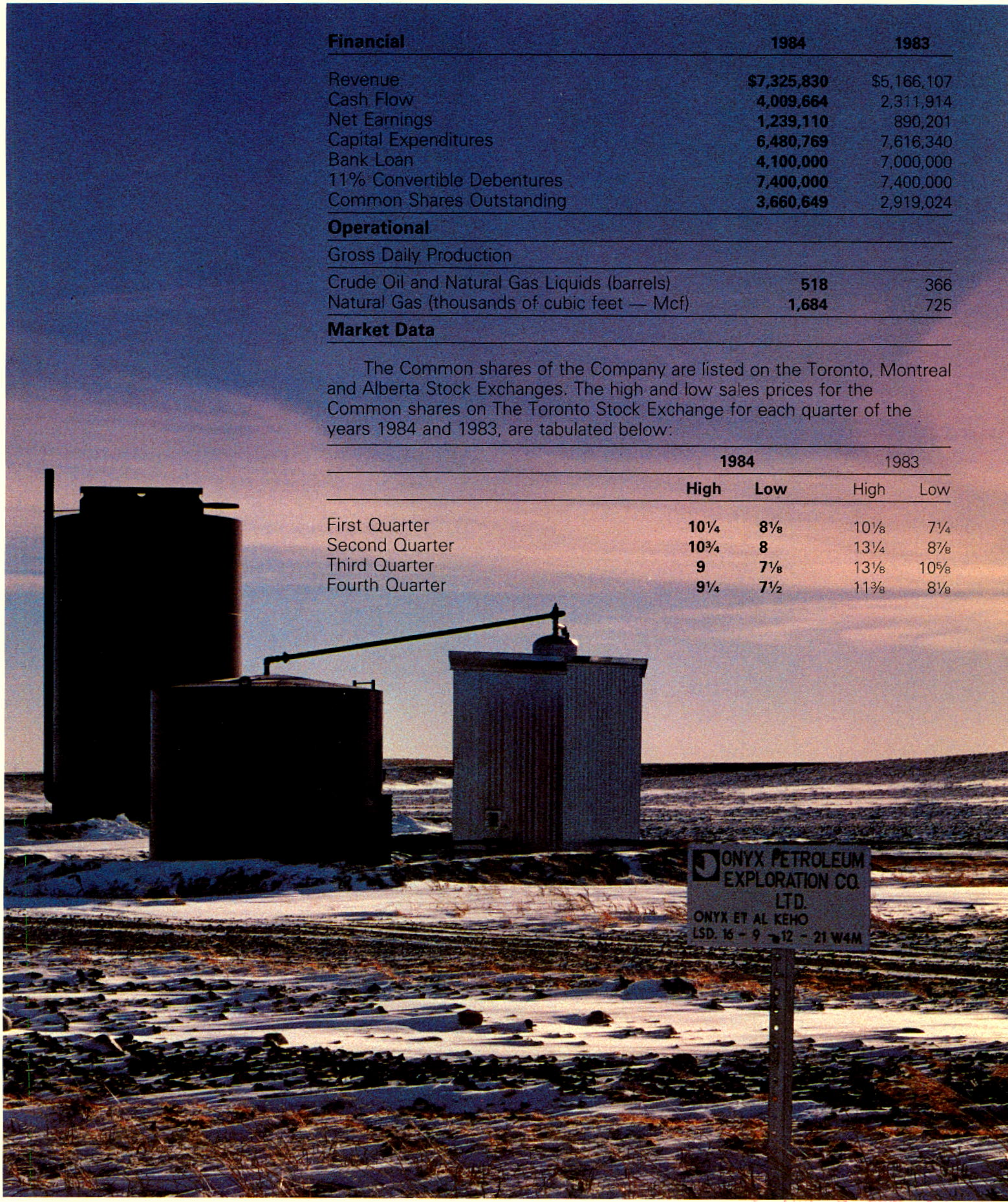
MacKimmie Matthews
Calgary, Alberta

Share Listing

The Toronto Stock Exchange
The Alberta Stock Exchange
The Montreal Exchange

Onyx Petroleum Exploration Company Ltd.

Highlights



Financial	1984	1983
Revenue	**$7,325,830**	$5,166,107
Cash Flow	**4,009,664**	2,311,914
Net Earnings	**1,239,110**	890,201
Capital Expenditures	**6,480,769**	7,616,340
Bank Loan	**4,100,000**	7,000,000
11% Convertible Debentures	**7,400,000**	7,400,000
Common Shares Outstanding	**3,660,649**	2,919,024

Operational

Gross Daily Production	1984	1983
Crude Oil and Natural Gas Liquids (barrels)	**518**	366
Natural Gas (thousands of cubic feet — Mcf)	**1,684**	725

Market Data

The Common shares of the Company are listed on the Toronto, Montreal and Alberta Stock Exchanges. The high and low sales prices for the Common shares on The Toronto Stock Exchange for each quarter of the years 1984 and 1983, are tabulated below:

	1984		1983	
	High	Low	High	Low
First Quarter	**10¼**	**8⅛**	10⅛	7¼
Second Quarter	**10¾**	**8**	13¼	8⅞
Third Quarter	**9**	**7⅛**	13⅛	10⅝
Fourth Quarter	**9¼**	**7½**	11⅜	8⅛

APR 9 1985
McGILL UNIVERSITY

Dennis Flanagan, President

President's Report

Overview

The year 1984 was very successful for Onyx with the Company having achieved record revenue, cash flow and earnings. Calculated on the average number of shares outstanding, earnings and cash flow were $.42 and $1.35 per share, respectively, in 1984. The Company also maintained a very strong financial position enabling it to carry out an active drilling program in 1984 as well as providing for an equally high level of activity in 1985.

The exploration and development highlights for the year were the continued development of the Ogston Granite Wash oil field and an exploration success at Grande Prairie. Subsequent to year end, the Company also had drilling success near Lesser Slave Lake and Keho in Alberta and at Desan in northeast British Columbia.

Financial

Successful exploration and development drilling eventually finds its way to the financial statements as evidenced by our financial results in 1984. Gross revenue after royalty increased 52% to $7,025,000, cash flow increased 73% to $4,009,000 and net income increased 39% to $1,239,000.

These financial records are the result of substantially increased production levels which we anticipate will carry on into 1985. Oil production averaged 518 barrels per day compared to 366 last year and gas production was more than twice as high as last year at approximately 1,684 Mcf/d compared to 725 Mcf/d last year.

In late 1984 the Company issued an additional 700,000 Common shares to a group of Canadian financial institutions for $8.25 per share with the proceeds used to reduce bank loans. We are very pleased to have these financial institutions as shareholders.

In November, 1984, the Company listed its shares for trading on the Montreal Exchange. Onyx has a large number of shareholders in Quebec, many of whom have been involved since the original share issued in 1977.

Corporate Outlook

For an active oil and gas exploration company one of the principal objectives is to maximize "barrels per share" because this obviously results in value per share, and as the barrels are produced they become cash flow and net earnings per share. For Onyx to find a new barrel per share we would have to add 3.6 million barrels to our reserves. While not suggesting this is easy to do, it is far easier than for a company that has several times that number of shares outstanding. The leverage factor is very high. For example, in the case of Onyx, every 100 barrels of additional daily oil production means an approximate 25¢ per share increase in cash flow. Onyx is a very active exploration Company prepared to take the risks inherent in exploring as long as the project is based on sound geology and has enough land to significantly reward the Company in the event of an exploration success.

With our expected increase in production and cash flow in 1985, we are very pleased that our projected capital expenditure program can, for the first time, be financed from internally generated funds. Our program for 1985 anticipates the drilling of approximately 40 wells as well as an aggressive land acquisition program in order to have continued growth activities in the future.

1985 Activities to Date

Since the beginning of the year the Company has drilled eleven exploratory and six development wells resulting in three successful exploration oil wells and eight exploratory dry holes. Five of the six development wells were successful oil wells. The exploration highlights include a new dual zone oil discovery on approximately 27,000 acres under lease or option at Driftpile near Lesser Slave Lake. The Company also participated in three successful step out oil wells at Desan in northeast British Columbia. In addition, Onyx has expanded the Keho oil field to the south and now has a total of four Bow Island oil wells on production.

Employees

We would like to extend our appreciation to the employees for their significant contribution to the Company's performance. The Company currently has 12 employees.

We would also like to thank Mr. Hartley and Mr. Jones for their contributions as directors over the past three years. Mr. Jones and Mr. Hartley have retired from our board. We would also like to welcome Mr. Robert J. Engbloom to our board. Mr. Engbloom is a partner with the law firm of MacKimmie Matthews and has been the Company's corporate secretary since 1983.

On Behalf of
the Board of Directors

D. Flanagan

D. G. FLANAGAN
President
March 25, 1985

Comments from the Executive Vice President

Onyx, through careful planning, has acquired oil and gas prospects that complement year round drilling activities. The mix of prospects provides a combination of high reserve and cash flow potential. While the eastern Peace River Arch region has a limited drilling season due to access problems in the summer, new prospects with similar economic attributes in the western Peace River Arch region can be drilled throughout the year. A new prospect in which Onyx has a significant acreage position is located at Driftpile, Alberta, immediately south of Lesser Slave Lake. Drilling and seismic activities near this recent drilling success can be sustained over the entire drilling season. Onyx, as operator for a group of companies, also has a planned year round drilling program in the Keho area of southern Alberta. Philosophically, the Company prefers to explore in regions where there is multiple reservoir potential.

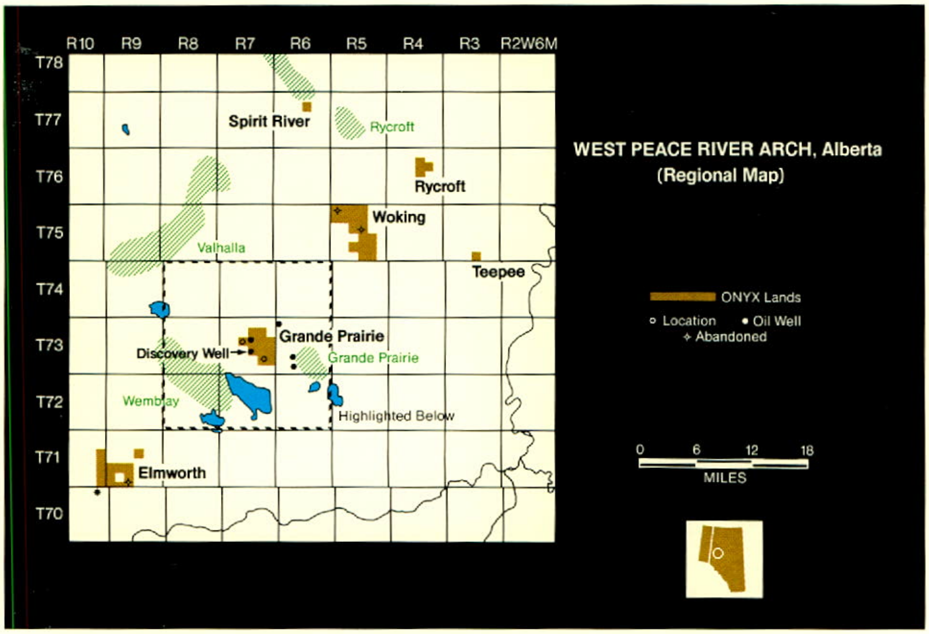
In the Peace River Arch area, prospects generally have a primary objective located at a drilling depth of 6,000' to 7,000', whereas at Keho the objective is in the 3,000' range. During 1984 the average dry hole cost net to Onyx, after government grants for a single venture, was approximately $65,000 with Onyx retaining an average 30% working interest. Onyx will assume moderate geological risks when high potential returns on reserves and cash flow are present, and the immediate land picture provides ample room for the Company's future development. We plan to drill several prospects each year which have the capability of rapidly increasing our reserve base.

Onyx has a strong cash flow that will allow continued land expansion on oil and gas prospects and this in turn should provide for future growth in reserves, production and revenue.

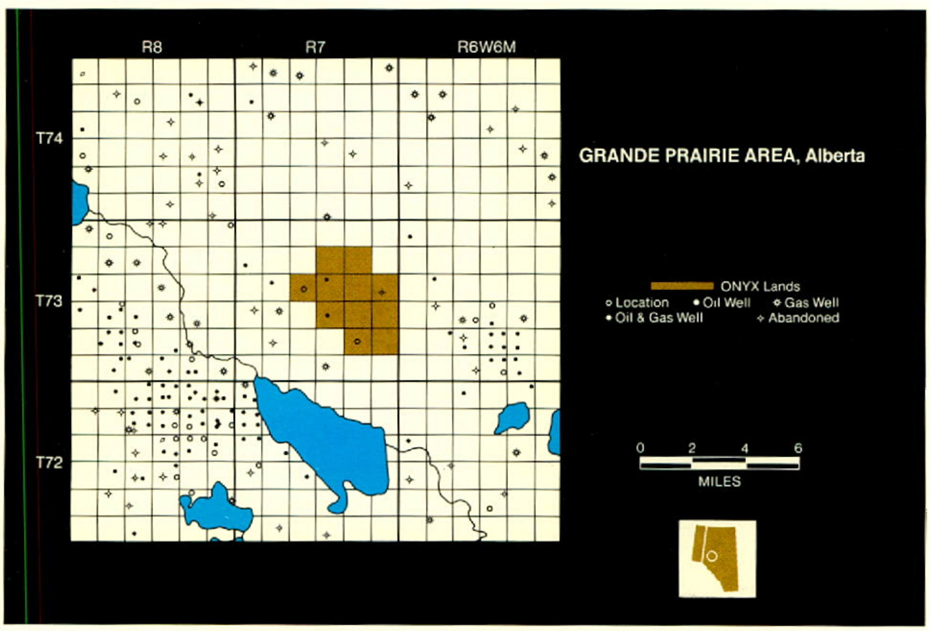
Jeff Simus, Executive Vice-President

Drilling near Driftpile River


Tooga/Desan
Ft. Nelson
ALBERTA
Otter
Ogston
Peace River
Grande Prairie
Driftpile
Carrot Creek
Edson
Edmonton
BRITISH COLUMBIA
Calgary
Keho
Lethbridge
ALBERTA &
N.E. BRITISH COLUMBIA
ONYX Lands
Oil Producing
Gas Producing
0 50 100 150
MILES

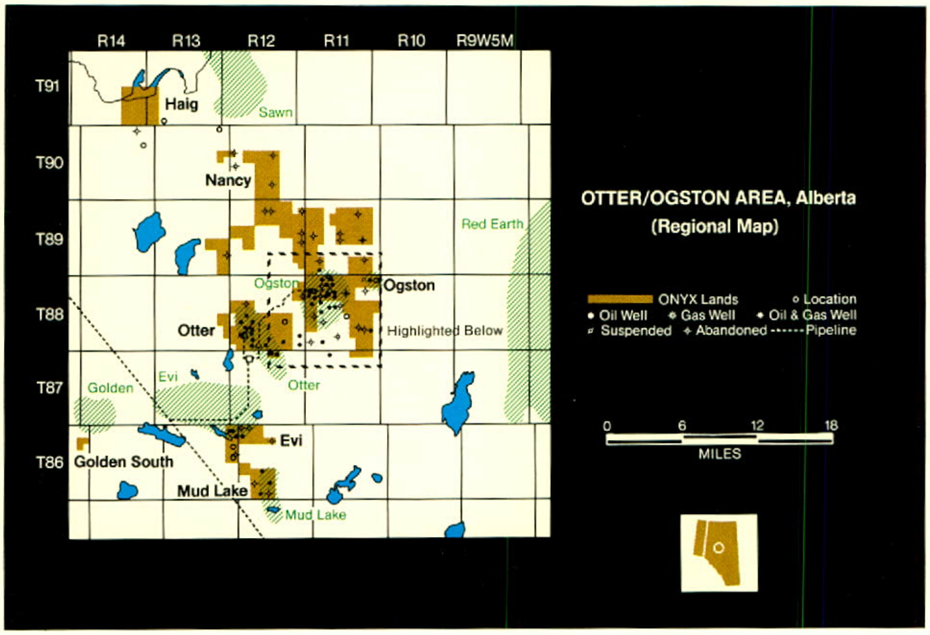


Michael Webb, Vice-President Exploration



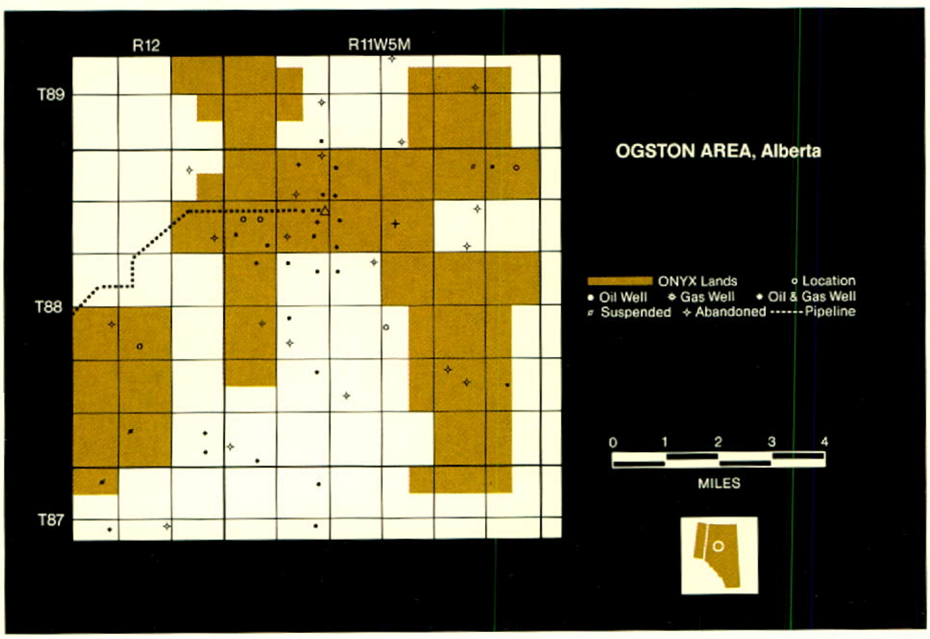
Grande Prairie

With an interest in over 7,000 acres on one of the most active plays in Western Canada, Onyx is in an excellent position to be an active player in a multi-zone Triassic oil and gas play. With the 6-15 discovery well capable of flowing 140 barrels per day and a successful follow-up in 14-22 currently producing approximately 120 barrels per day, the Company looks forward to a significant development program on these properties. In addition to the above, each development location provides exposure to an elusive lower horizon where net pays of 50′ - 60′ are not uncommon. A successful development program covering only one-third of Onyx acreage could increase Company wide production by as much as one-third and proven reserves by 15%.



Otter

The Otter area remained one of the major revenue producers for Onyx in 1984. The Company's average oil production from this area was 97 BOPD in 1984. The 8-4-88-12 W5M well was successfully fracture stimulated in 1984, increasing its daily production from 20 to 42 BOPD. Planning is underway to stimulate at least three wells and, if successful, four more wells could be stimulated in the first half of 1985. This could increase the Company's production by up to 50 BOPD.

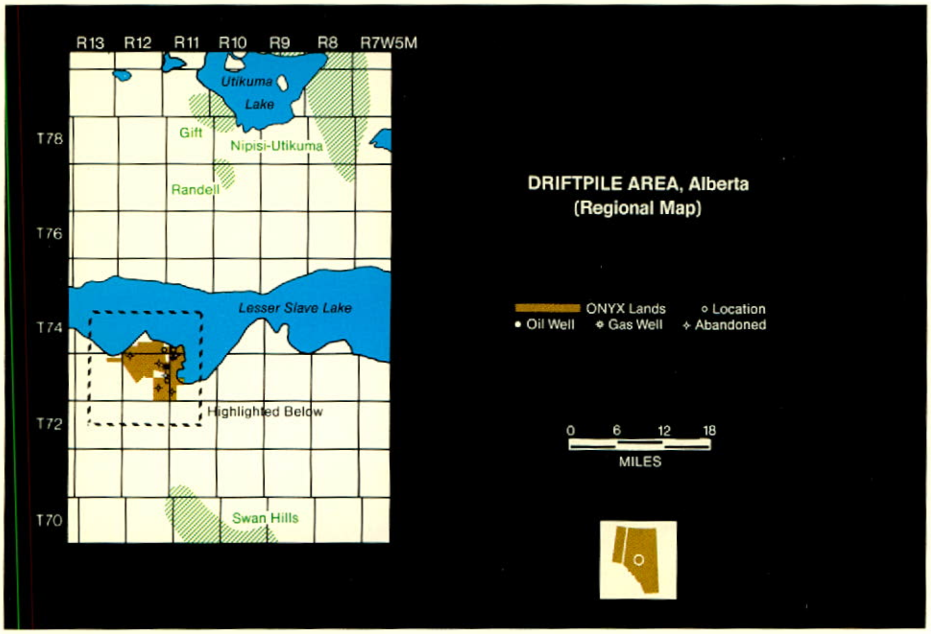


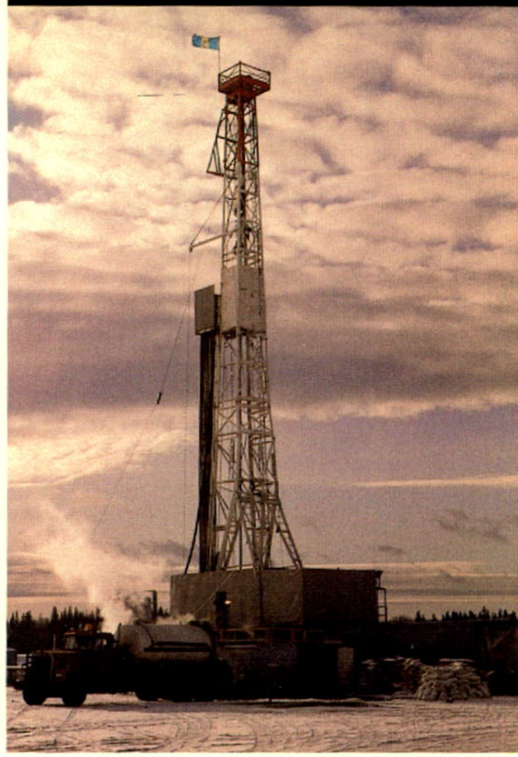
Ogston

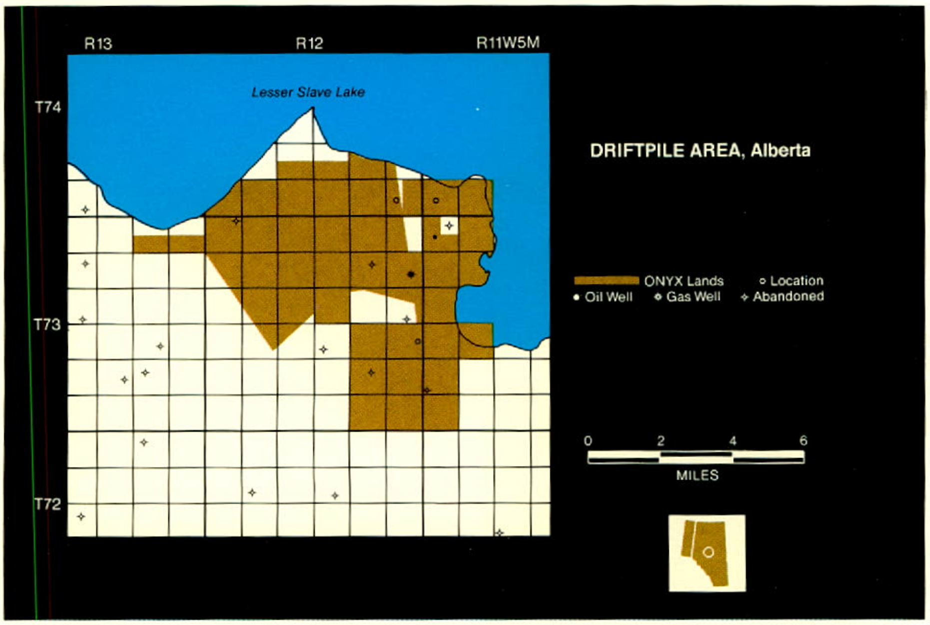
At Ogston, development drilling by both Onyx and others in the vicinity of the 4-33 discovery well has extended this pool north, south and west. The pool has been enlarged, and steps taken to increase allowables should make this area the Company's largest revenue producer in 1985. Onyx currently has a 21.25% working interest in 13 producing wells.

The high deliverability of some of the wells in this area, coupled with their relatively high reserves, makes this play an acceptable exploratory risk.

Onyx has participated in seismic acquisition and interpretation on a regional basis and will attempt to maintain its large land base through selective farmout and active participation. The Company has also elected to participate in several farmin ventures throughout the area in order to expand its land and reserve base.



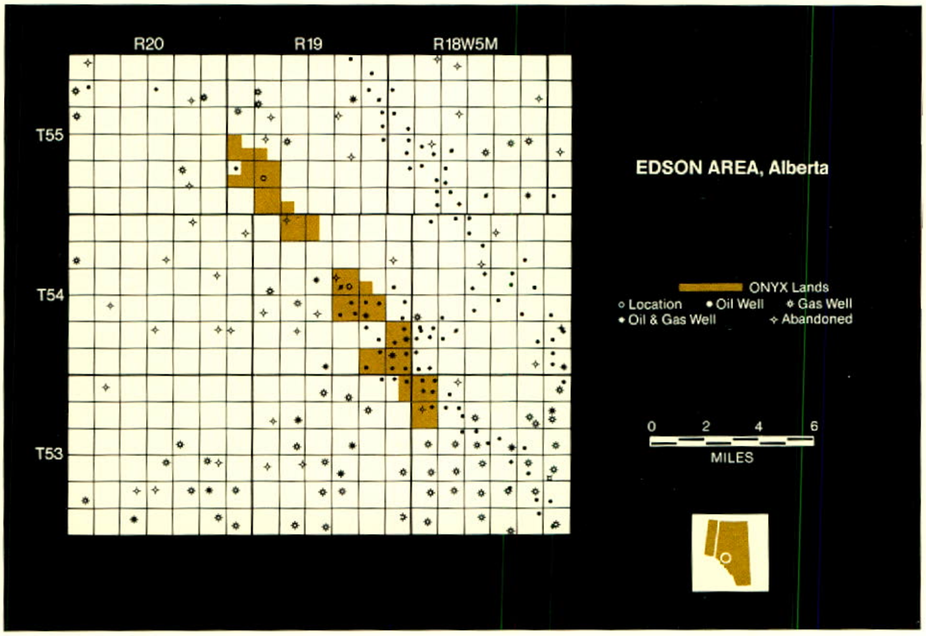




Driftpile

Onyx's interest in approximately 27,000 acres in the Driftpile area gives the Company exposure to a play of major proportions both in land and potential reserves. A discovery well, drilled and completed as a dual zone oil well during the first quarter of 1985, was sufficiently promising to encourage the drilling of three offset wells and some additional seismic activity.

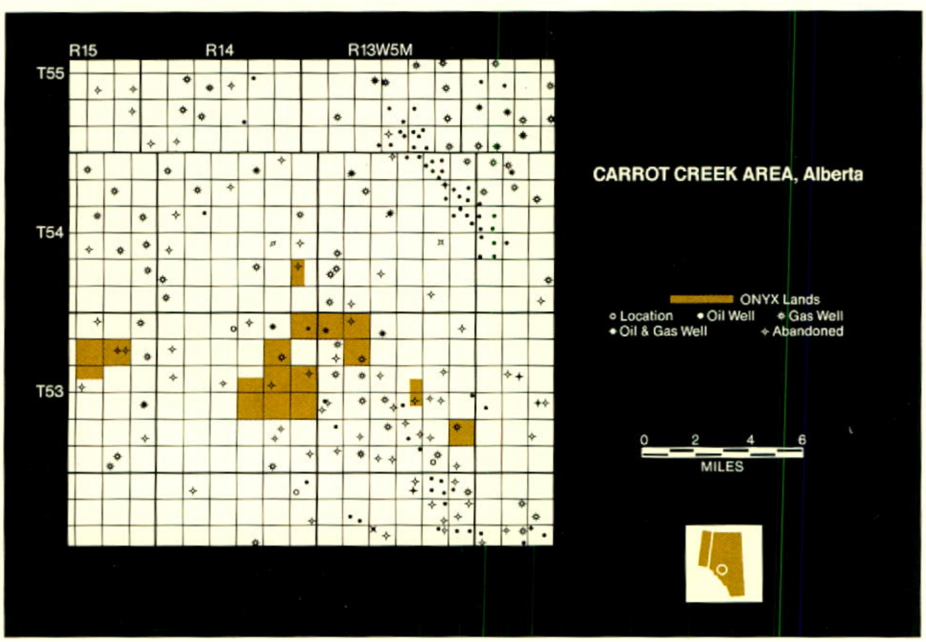
The Company anticipates accelerated activity on this prospect through 1985.



Edson

This area, which was the Company's largest revenue producer in 1984, has considerable additional potential which will be explored during 1985. Both development and exploratory drilling are anticipated, with the objective being to extend the Cardium pool to the north and to expand the Company's land holdings on a similar play northwest of the existing pool.

Onyx holds interests in these lands ranging from 20% - 25%.



Carrot Creek

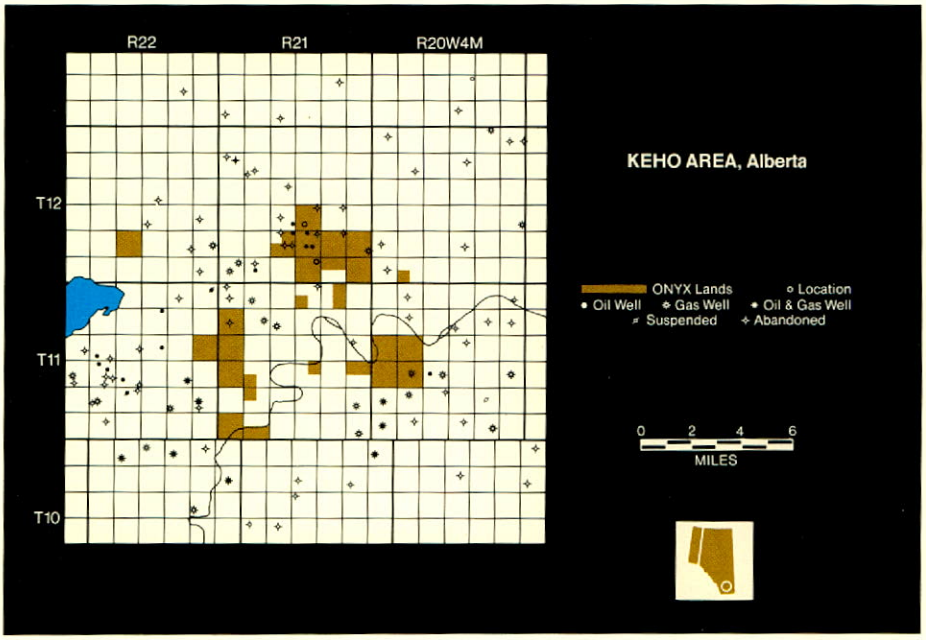
At Carrot Creek, Onyx successfully extended its participation in the Carrot Creek gas pool with a 25% working interest in a dual zone gas/condensate well drilled in Section 31-53-13 W5M. With both zones prolific and within the existing Carrot Creek pool boundary, prospects for marketing these reserves are excellent. In addition, several low risk, high reserve offsets remain to be drilled on Company lands.

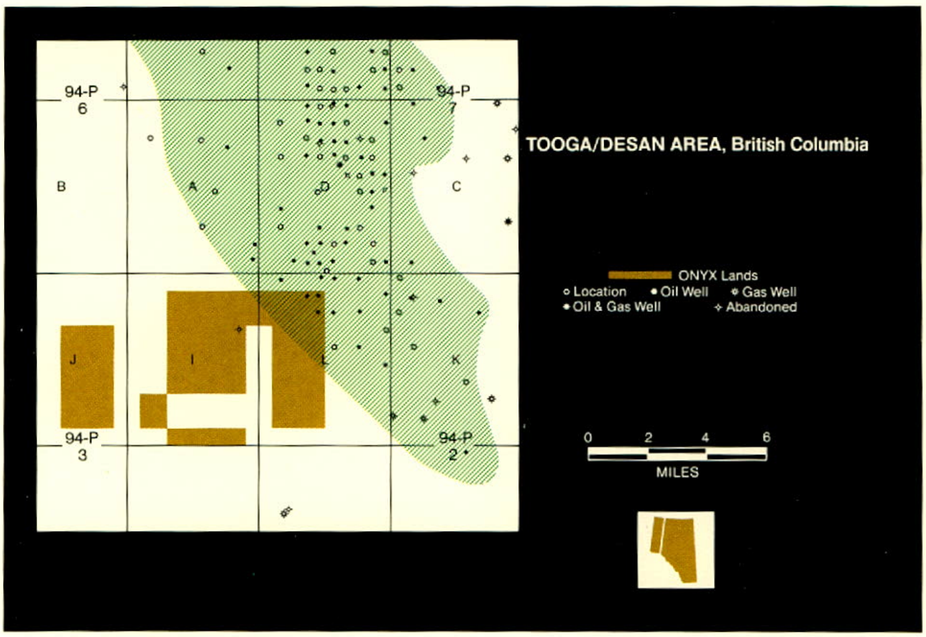
This prospect offers the Company an opportunity to significantly increase natural gas and gas liquid reserves at moderate cost and moderate risk.

Keho

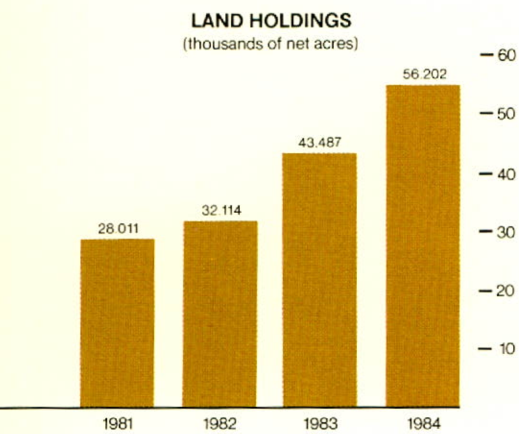
The Keho area offers the Company an opportunity to operate on a year round basis.

The area has been the scene of an active evaluation program targeted to the Bow Island Conglomerate. Onyx, as operator, has drilled four oil wells and one gas well to date. The oil wells have productive capacity ranging from 50 - 80 barrels per day. There is considerable room for expansion of this play and the Company will drill several exploratory wells during 1985. There will also be continued development around the oil pool. Once development is complete, waterflooding of the pool could double current reserves in the area. Onyx holds interests in this project ranging from 37.5% - 100%.





Land



During 1984, Onyx participated in the acquisition of Crown, Freehold and Natural Gas Leases and Licences to enhance its base of exploration acreage needed for future growth and development. A total of 42,088 gross acres (15,924 net acres) were acquired at a net cost to Onyx of $1,765,277. A majority of the newly acquired lands are located west of the 5th Meridian in areas known as Driftpile, Ogston, Grande Prairie and Desan.

Onyx plans to aggressively pursue an expansion of its land holdings in Western Canada and has set aside approximately 18% of its capital expenditure budget in 1985 for this purpose.

Following is a comparative summary of the Company's land holdings for the years ending December 31, 1983 and 1984.

	1984		1983	
	Acres		Acres	
	Gross	Net	Gross	Net
Alberta	210,752	51,734	185,411	39,492
British Columbia	29,946	4,468	26,573	3,995
Total Land:	240,698	56,202	211,984	43,487

Drilling Activity

In 1984, Onyx participated in the drilling of 29 wells of which seven were operated by the Company. Operatorship is a natural progression in the growth of the Company and it provides for increased control over exploration and development activities.

The table below recaps the Company's drilling statistics for 1984:

Exploratory Wells

Gross Wells				Net Wells			
Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
5	1	10	16	1.81	.67	3.17	5.65

Development Wells

Gross Wells				Net Wells			
Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
6	2	5	13	1.75	.31	1.30	3.36

Farmout Wells

Gross Wells				Net Wells			
Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
1	—	—	1	.03	—	—	.03

Total Gross Wells = 30
Total Net Wells = 9.04

Reserves

The Company's share of gross oil, NGL and natural gas reserves at December 31, 1984, as determined by independent consulting engineers, is as shown opposite:

The proven liquid reserves and natural gas reserves, net of 1984 production and adjustments, show a 22% and 4% increase respectively over 1983.

Proven:	
Oil & NGL	1,939,274 barrels
Gas	16,450 mcf
Proven plus Probable:	
Oil & NGL	2,096,658 barrels
Gas	20,185 mcf

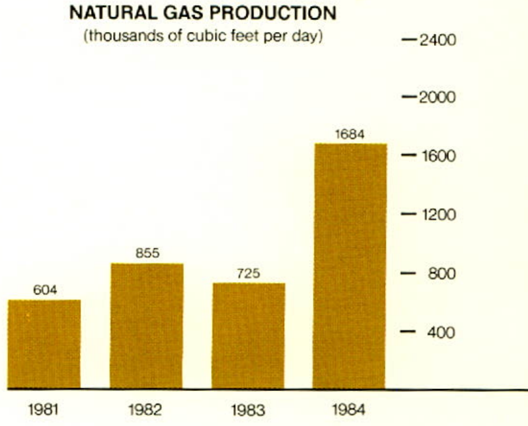
Ross Douglas, Senior Engineer

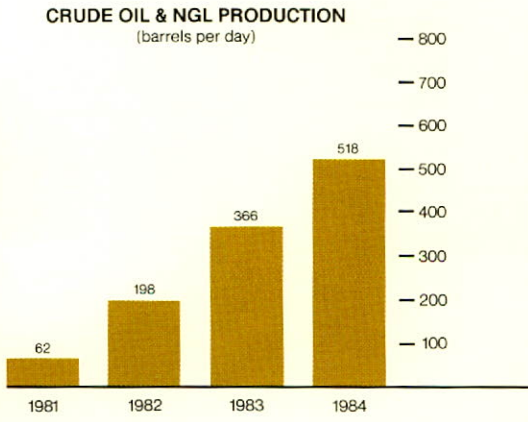
Production

Onyx production has shown significant gains in 1984. The Company's share of oil and natural gas liquids production was 189,060 barrels or an average of 518 bbl/d. This is an increase of 42% over the 1983 production rates. Sales of natural gas were 614,656 Mcf, an average of 1,684 Mcf/d for an annual increase of 132%. The increase in oil and natural gas liquids relates primarily to new production from the Keho and Ogston areas, whereas the increase in gas production relates to associated gas production from the Edson field and new production from the Carrot Creek area.

The Company has completed construction of major facilities at Edson and Ogston which have been influential in the production increases. At Edson, an expansion of the gas plant was completed, allowing gas processing capacity to be increased from 6 to 10 MMcf/d. A pipeline and satellite were completed at Ogston which ties-in oil production to the Company's Otter oil battery for processing and subsequent sale. These facilities have lowered transportation costs and will allow year round production. The facilities will also accommodate future production from continuing development of the Ogston area.

Production increases are expected in 1985 at both Ogston and Edson. The Ogston wells produced below capable levels for much of 1984 due to Provincial allowable restraints. Early in 1985, a majority of the wells received allowable increases (from 60 to 96 BOPD/well) and this will have a favorable impact on total production volume this year. At Edson, production is slightly below capacity due to restrictions on solution gas contract sales. Negotiations are currently underway to have the maximum production volumes restored and this is expected to happen later in 1985.





Financial Comments

Lloyd Hansen, Vice-President Finance

Onyx had an excellent year in 1984, reporting record high revenue, cash flow and earnings. Revenue from the sale of crude oil, natural gas and natural gas liquids amounted to $7,025,000 after royalties, for a 52% increase over the $4,603,000 reported in 1983. Cash flow of $4,009,000 ($1.35 per share) was up 73% over the $2,312,000 ($.79 per share) reported in 1983. All of the Company's oil production receives the world price and due in part to a weak Canadian dollar, prices for production remained firm throughout 1984.

Even though we had substantial increases in production, operating expenses of $775,000 declined $28,000 from the $803,000 incurred in 1983. The decrease is due primarily to lower transportation costs resulting from the construction of gathering facilities and a main transmission line from the Ogston field to the Otter battery.

Onyx also has a working interest participation in large oil terminal facilities at both Edson and Otter, both of which were operating at near capacity, resulting in substantially reduced operating expenses in these areas.

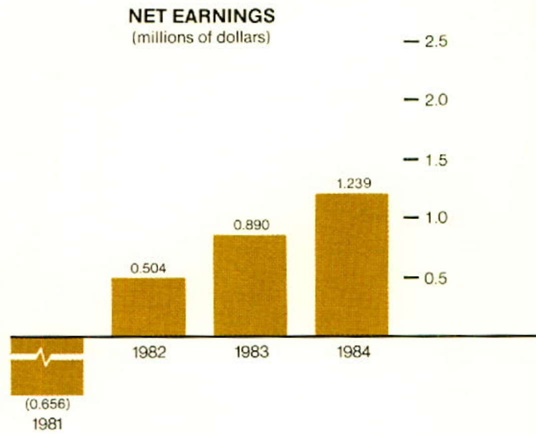
General administrative expenses of $674,000 were up a nominal 5% over 1983 whereas borrowing costs were up 32% to $1.9 million. Interest expense includes interest payable on the $7.4 million 11% convertible debentures due March 1993, and reflects a slight increase in borrowing requirements and in interest rates generally.

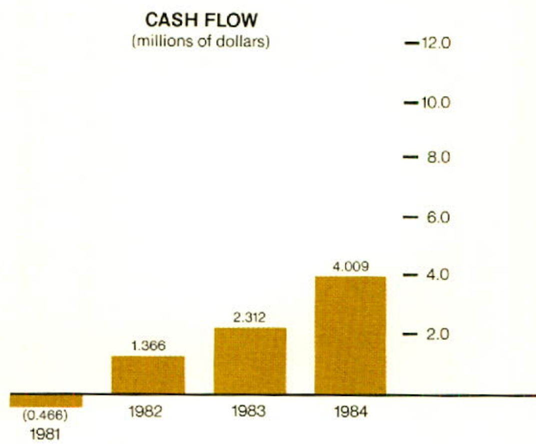
In November 1984, the Company issued 700,000 common shares at a price of $8.25 per share. The shares were issued by way of a private placement to several Canadian financial institutions. The proceeds of this issue, together with our internally generated $4 million cash flow, were used to finance a $6.6 million capital expenditure program and to reduce bank loans by $2.9 million.

Pretax earnings of $2 million were up 57% over the $1.2 million achieved in 1983. After provision for deferred taxes of $730,000, the Company had a profit of $1,239,000 ($.42 per share) for a 39% improvement over the $890,000 reported in 1983.

Outlook for 1985

Onyx has established a good cash flow which will enable the Company to maintain an active exploration and development drilling program throughout 1985 and beyond. The Company is forecasting a further increase in both oil and gas production and while this may be offset to some extent by lower product prices, improved revenue, cash flow and earnings are expected in 1985.

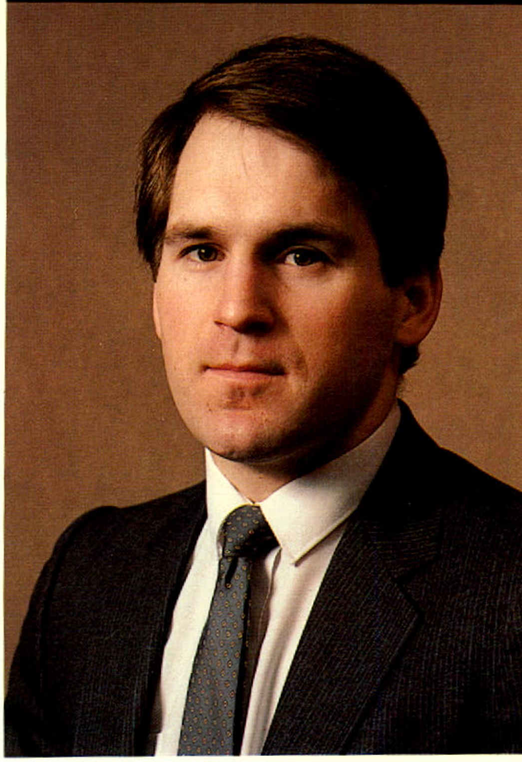




Onyx Petroleum Exploration Company Ltd.

Statement of Earnings Year Ended December 31, 1984

	1984	**1983**
REVENUE		
Oil and gas sales, net of royalties	**$7,025,259**	$4,603,009
Alberta Royalty Tax Credit	**870,534**	818,125
Petroleum and Gas Revenue Tax	**(569,963)**	(255,027)
	7,325,830	5,166,107
EXPENSES		
Operating	**774,583**	803,185
General and administrative	**674,240**	639,181
Interest on long term debt	**1,891,913**	1,432,302
Depletion and depreciation	**2,015,984**	1,041,238
	5,356,720	3,915,906
Earnings before income taxes	**1,969,110**	1,250,201
DEFERRED INCOME TAXES (note 6)	**730,000**	360,000
NET EARNINGS	**$1,239,110**	$ 890,201
NET EARNINGS PER COMMON SHARE (note 7)	**$.42**	$.07
Weighted average number of Common shares outstanding	**2,970,967**	2,912,961



Curtis Hicks, Chief Accountant

Statement of Retained Earnings Year Ended December 31, 1984

	1984	**1983**
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	**$ 740,074**	$ (150,127)
Net earnings	**1,239,110**	890,201
RETAINED EARNINGS AT END OF YEAR	**$1,979,184**	$ 740,074

Balance Sheet as at December 31, 1984

Assets	1984	1983
CURRENT ASSETS		
Cash	**$ 88,285**	$ 124,139
Accounts receivable	**2,205,209**	1,791,896
	2,293,494	1,916,035
FIXED ASSETS		
Petroleum and natural gas properties, including exploration, development and equipment thereon, at cost	**37,588,343**	31,107,574
Accumulated depletion and depreciation	**4,231,968**	2,215,984
	33,356,375	28,891,590
OTHER ASSETS (note 2)	**380,219**	225,229
	$36,030,088	$31,032,854
Liabilities		
CURRENT LIABILITIES		
Accounts payable	**$ 1,492,608**	$ 1,267,883
BANK PRODUCTION LOAN (note 3)	**4,100,000**	7,000,000
11% CONVERTIBLE DEBENTURES (note 4)	**7,400,000**	7,400,000
GAS PRODUCTION PREPAYMENTS	**210,174**	210,174
DEFERRED INCOME TAXES	**1,147,400**	580,400
	14,350,182	16,458,457
Shareholders' Equity		
CAPITAL STOCK (note 5)		
Issued		
5,313 Restricted Return shares (1983 — 5,484)	**531,300**	548,400
3,660,649 Common shares (1983 — 2,919,024)	**18,496,288**	12,624,759
	19,027,588	13,173,159
CONTRIBUTED SURPLUS (note 5)	**673,134**	661,164
RETAINED EARNINGS	**1,979,184**	740,074
	21,679,906	14,574,397
	$36,030,088	$31,032,854

Approved by
the Board

D. G. Flanagan, Director

R. J. Engbloom, Director

Statement of Changes in Financial Position Year Ended December 31, 1984

	1984	1983
WORKING CAPITAL DERIVED FROM		
Operations	$ 4,009,664	$ 2,311,914
Issue of Common shares	5,708,529	72,600
Bank production loan	2,525,000	5,900,000
Issue of 11% convertible debentures	—	7,400,000
Gas production prepayments	—	210,174
	12,243,193	15,894,688
WORKING CAPITAL APPLIED TO		
Fixed assets	6,480,769	7,616,340
Other assets	179,560	245,704
Bank production loan	5,425,000	7,400,000
Purchase of Restricted Return shares	5,130	2,220
	12,090,459	15,264,264
INCREASE IN WORKING CAPITAL	152,734	630,424
Working capital at beginning of year	648,152	17,728
WORKING CAPITAL AT END OF YEAR	$ 800,886	$ 648,152

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, 1984 and the statements of earnings, retained earnings 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, 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 on a basis consistent with that of the preceding year.

Thorne Riddell
Chartered Accountants

Calgary, Canada
February 22, 1985

Notes to Financial Statements Year Ended December 31, 1984

1. ACCOUNTING POLICIES

These financial statements are prepared on an historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with the accounting standards recommended by the International Accounting Standards Committee.

(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 proved oil and gas reserves. The capitalized costs less accumulated depletion and depreciation shall not exceed an amount equal to the estimated value of future net revenues from proved reserves (based on current prices and operating costs) plus the lower of cost and estimated fair value of unproved properties.

(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 1983 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1984.

2. OTHER ASSETS

	1984	1983
Notes receivable from certain officers, non-interest bearing, $96,690 due on November 15, 1985 and $179,560 due on November 15, 1989 (see note 5(c))	**$276,250**	$ —
Deferred financing charges	**200,659**	225,229
	476,909	225,229
Less current portion of notes receivable	**96,690**	—
	$380,219	$225,229

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 expected to be repaid 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

The authorized capital of the Company is comprised of 6,552 Restricted Return shares, 10,000,000 Preferred shares and 10,000,000 Common shares.

(b) Restricted Return Shares

During 1984, the Company purchased and cancelled 171 Restricted Return shares for $5,130 cash. The difference ($11,970) 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

Changes in the Company's outstanding Common share capital during the year were as follows:

	Number of Shares	Amount
Balance, December 31, 1983	2,919,024	$12,624,759
Shares issued		
For cash by way of private placement, net of agent's fees and share issue expenses totalling $347,231, less applicable income tax benefits of $163,000	700,000	5,590,769
For cash on exercise of employee stock options	14,000	101,200
In exchange for exploration and development expenditures incurred by certain officers, less accrued Petroleum Incentive Program payments of $96,690	27,625	179,560
Balance, December 31, 1984	3,660,649	$18,496,288

(d) 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.

(e) Key Employee Incentive Share Option Plan

As of December 31, 1984, 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 238,500 shares are outstanding, exercisable from time to time to December 1990 at prices ranging from $5.85 to $8.25 per share.

(f) As of December 31, 1984, 721,951 Common shares were reserved for issue on conversion of debentures (see note 4).

6. INCOME TAXES

Petroleum and natural gas properties include approximately $7 million of unamortized costs at December 31, 1984 which are not deductible for income tax purposes by the Company.

Deferred income tax provisions for 1984 and 1983 are less than the taxes which would result from applying the expected tax rate of 48% to earnings before income taxes. The components of the income tax provisions are summarized as follows:

	1984		1983	
	Amount	**%**	**Amount**	**%**
Computed expected tax expense	**$945,000**	**48**	$600,000	48
Increase (decrease) in taxes resulting from:				
Non-deductible Crown charges, net of provincial credits	**692,000**	**35**	265,000	21
Depletion expense relating to non-deductible property costs	**220,000**	**11**	142,000	11
Federal resource allowance	**(857,000)**	**(43)**	(510,000)	(40)
Earned depletion allowance	**(256,000)**	**(13)**	(127,000)	(10)
Other	**(14,000)**	**(1)**	(10,000)	(1)
Actual deferred income tax expense	**$730,000**	**37**	$360,000	29

7. NET EARNINGS PER COMMON SHARE

For purposes of earnings per share computation, net earnings have been allocated to the Restricted Return shares in accordance with the dividend priorities attaching to each class of shares of the Company.

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.

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