NORTHSTAR RESOURCES LTD.

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1984 ANNUAL REPORT

Company Profile

Northstar Resources Ltd. is a Canadian integrated resource company headquartered in Calgary, Alberta. The Company engages in petroleum and natural gas exploration and production in Canada and the United States, both directly and through a 54% public subsidiary. It also owns 54% of an Alberta based drilling contractor which operates 10 medium depth rigs. Other activities include resource investments and related financial transactions.

The Company was incorporated under the Laws of the Province of Alberta on January 11, 1978. This annual report is Northstar's sixth as a public company. The common shares are listed on The Toronto Stock Exchange and The Alberta Stock Exchange (symbol NOS).

Corporate Highlights

		1984	1983 (restated)
FINANCIAL (Thousands except per share data)	Gross revenues	**$ 17,859**	$ 16,665
	Net earnings (loss)	**205**	(18,327)
	Per common share	**0.02**	(2.31)
	Cash flow from operations	**1,689**	nil
	Per common share	**0.15**	nil
	Working capital (deficiency)	**1,136**	(3,768)
	Total assets	**56,366**	65,769
	Total bank debt	**12,175**	34,208
OIL AND GAS OPERATIONS	Reserves (gross)		
	Oil or gas liquids (barrels)	**1,055,000**	794,000
	Gas (million cubic feet)	**34,200**	39,500
	Production (average per day)		
	Oil and gas liquids (barrels)	**221**	167
	Gas (million cubic feet)	**1.6**	1.3
	Land holdings		
	Gross acres	**817,000**	964,000
	Net acres	**140,000**	162,000
DRILLING OPERATIONS	Rig operation days	**1,779**	1,512
	Utilization rate — S & T	**52.3%**	46.4%
	— total industry	**47.3%**	37.4%
COMMON SHARE INFORMATION	Market price — high	**$1.40**	$2.10
	— low	**$0.62**	$0.75
	Number of shares traded	**1,813,654**	3,364,256
	Shares outstanding at year-end	**11,593,346**	8,222,656

Annual Meeting

The annual meeting of the shareholders will be held at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta at 3:30 P.M. Wednesday, June 5, 1985.

NORTHSTAR RESOURCES LTD.

FIRST QUARTER REPORT TO THE SHAREHOLDERS

For the three months ended March 31, 1984

Consolidated Statement of Earnings

(Unaudited)

	1984	1983
Revenue		
Oil and gas - net	**$ 935,000**	$ 757,000
Fees, interest and other	**500,000**	468,000
	1,435,000	1,225,000
Expenses		
Operating	**178,000**	165,000
General and administrative	**338,000**	682,000
Interest	**334,000**	299,000
Depreciation and depletion	**199,000**	255,000
	1,049,000	1,401,000
Earnings (loss) before income taxes	**386,000**	(176,000)
Income Taxes		
Current	**(75,000)**	(38,000)
Deferred (recovery)	**250,000**	(2,000)
	175,000	(40,000)
Earnings (loss) before minority interest	**211,000**	(136,000)
Minority interest	**(139,000)**	(5,000)
Net earnings (loss)	**$ 72,000**	$ (141,000)
Net loss per share (Note 1)	**$ (0.01)**	$ (0.04)
Cash flow from operations	**$ 660,000**	$ 117,000
Cash flow per share	**$ 0.08**	$ 0.01

Consolidated Statement of Changes in Financial Position

(Unaudited)

	1984	1983
Funds Provided:		
From operations	**$ 660,000**	$ 117,000
Debentures issued	**—**	2,500,000
Note receivable	**—**	1,890,000
Deferred revenue	**31,000**	169,000
Sale of resource properties	**421,000**	—
	1,112,000	4,676,000
Funds Used:		
Property and equipment	**430,000**	1,099,000
Investments	**200,000**	—
Repayment of long-term debt	**390,000**	3,335,000
	1,020,000	4,434,000
Increase in working capital	**92,000**	242,000
Working capital (deficit), beginning of period	**(572,000)**	479,000
Working capital (deficit), end of period	**$ (480,000)**	$ 721,000

Note 1: Per share figures are calculated after providing for preferred share dividends which have been accrued but not paid.

Northstar Resources Ltd. and its subsidiary and affiliated companies are engaged in oil and natural gas exploration and production, and contract drilling in Canada and the United States. The Company's common shares are listed on The Toronto and The Alberta Stock Exchanges, and its preferred shares are listed on The Toronto Stock Exchange under the respective trading symbols NOS and NOS PR.A.

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Gane Energy Corporation Ltd.
800 - 640 - 8 Avenue S.W.
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Northstar Resources, Inc.
Suite 850
1010 Lamar Building
Houston, Texas 77002
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NORTHSTAR RESOURCES

NORTHSTAR RESOURCES LTD.

SECOND QUARTER REPORT TO THE SHAREHOLDERS

For the six months ended June 30, 1984

Published October 1984

Sohio Testing Salinas Well

Northstar's Salinas project in Central California may be on the verge of yielding positive results after more than two years of exploration.

The Sohio Northstar Bradley Minerals 1-2 well, which is located in the Hames Valley region immediately South of the giant San Ardo oil field, has been drilled and cased to a depth below 10,000'. At the time of writing of this report, Sohio as operator is undertaking a thorough evaluation of the drilling results prior to commencing a program to test the well for its commercial production capability.

Northstar holds working interests in the project that vary from 4.2% in Hames Valley to 21% in the Peach Tree region located further North. Sohio has expended over $30 million on land acquisition and seismic costs since 1982 in establishing its position in the area. Although additional well(s) may be or have been licensed, specific details of further drilling plans are being held confidential at this time because of the current "tight hole" status.

The principal exploration work undertaken to date has involved the acquisition by Sohio of approximately 190,000 acres for $25 million and the shooting of over 600 miles of seismic data at a cost of approximately $6 million. A number of drillable structural and stratigraphic traps have been identified that may have the potential for a major new oil discovery. Sohio's Upton Canyon No. 1 well, which was abandoned in mid-1983 after extensive testing, provided substantial encouragement respecting the oil producing potential of the Monterey formation in the basin.

Although the Salinas Basin is surrounded by a number of the largest oil fields in North America, most of the relatively sparse drilling activity has taken place in the 1940's and 1950's, generally at shallower depths.

S & T Refinancing Near

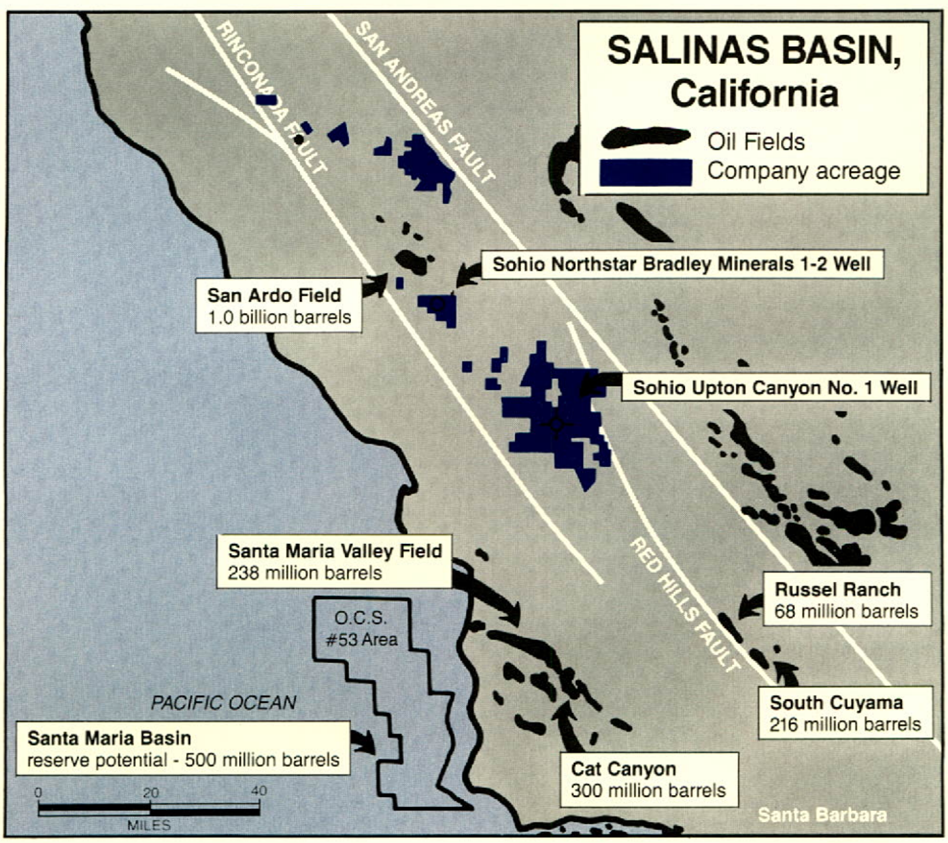
A debt restructuring agreement for S & T Drilling has recently been negotiated which will allow S & T to maintain its business operations and place the drilling company in a position to respond to future opportunities.

Northstar will be released from its guarantee for $2.6 million of S & T's bank indebtedness and has agreed to purchase $2.6 million of common share equity in the restructured drilling operation. In addition, Northstar may be required to provide up to a maximum of $1.4 million of fully secured working capital financing in future.

Northstar Participates Gane Financing

Subsequent to the end of the six month period Northstar has acquired approximately $3.5 million of additional common share equity in its Canadian oil and gas subsidiary, Gane Energy Corporation Ltd.

Northstar's investment will allow Gane to carry on the aggressive expansion of its exploration and acquisition activities.



Consolidated Statement of Earnings

Six months ended June 30
(Unaudited)

	1984	1983
Revenue		
Oil and gas - net	**$1,726,000**	$1,228,000
Alberta Royalty Tax Credit	**150,000**	74,000
Fees, interest and other	**687,000**	694,000
	2,563,000	1,996,000
Expenses		
Operating	**394,000**	280,000
General and administrative	**699,000**	1,288,000
Interest	**576,000**	616,000
Depreciation and depletion	**379,000**	457,000
Deferred income taxes	**400,000**	(200,000)
Minority interest	**368,000**	(54,000)
	2,816,000	2,387,000
Net earnings (loss) before extraordinary item	**(253,000)**	(391,000)
Extraordinary item	**464,000**	—
Net earnings (loss)	**$ 211,000**	$ (391,000)
Net earnings (loss) per share		
Before extraordinary item	**$ (0.07)**	$ (0.09)
After extraordinary item	**$ (0.01)**	$ (0.09)
Cash flow from operations	**$ 894,000**	$ (188,000)
Cash flow per share	**$ 0.11**	$ (0.02)

Consolidated Statement of Changes in Financial Position

Six months ended June 30
(Unaudited)

	1984	1983
Funds Provided:		
From operations	**$ 894,000**	$ (188,000)
Debentures issued	**—**	6,000,000
Long term debt	**—**	357,000
Note receivable	**—**	1,890,000
Deferred revenue	**31,000**	65,000
Sale of resource properties	**2,080,000**	—
Sale of subsidiary	**663,000**	—
Common shares issued by subsidiary	**90,000**	—
	3,758,000	8,124,000
Funds Used:		
Property and equipment	**1,105,000**	821,000
Investments	**200,000**	1,500,000
Repayment of long-term debt	**2,233,000**	3,685,000
Dividends paid by subsidiary	**—**	105,000
Other	**—**	15,000
	3,538,000	6,126,000
Increase in working capital	**220,000**	1,998,000
Working capital (deficit), beginning of period	**(572,000)**	479,000
Working capital (deficit), end of period	**$ (352,000)**	$2,477,000

Financial Review

Gross revenue for the first half of 1984 totalled $2,563,000 versus $1,996,000 for the same period in 1983, an increase of 28%. Increases in Canadian oil and gas revenues accounted for the majority of the increase.

Cash expenses, including operating, general and administration and interest declined by 23% to $1,669,000 from $2,184,000 in 1983. The decrease in the Company's U.S. operations is principally responsible for the reduction. Net earnings after an extraordinary item were $211,000. Excluding the extraordinary item the Company had a loss of $253,000. In 1983 the Company showed a loss of $391,000. The extraordinary gain arose from the sale of a subsidiary company, Rathtron Resources Ltd.

Earnings per share is calculated after provision for unpaid preferred share dividends, which results in a loss per share of 7 cents before the extraordinary item and 1 cent after the extraordinary item. In 1983 the loss per share was 9 cents.

Cash flow from operations for the period increased to $894,000 or 11 cents per share which compares to cash flow used in operations in 1983 of $188,000.

Subsequent to the end of the six month period, the Company closed a private placement of $3.5 million of Convertible Debentures the proceeds of which will be used to maintain or increase the Company's holdings in its subsidiaries.

NORTHSTAR RESOURCES

NORTHSTAR RESOURCES LTD.

THIRD QUARTER REPORT TO THE SHAREHOLDERS

For the nine months ended September 30, 1984

Published November 1984

Salinas Well Tight Hole

The Sohio Northstar Bradley Minerals 1-2 well continues testing under an official ''tight hole'' status imposed by the operator. The confidentiality surrounding the well has been necessary in order that land negotiations in the region not be compromised. Flow rates and other detailed test data may not be released by Northstar to its shareholders until Sohio, as operator, agrees to public disclosure.

Sohio has announced that a second well has now been licensed, located 3.7 miles directly east of the Bradley 1-2 well. The Bradley 1-6 well will test the Miocene section of the Monterey formation which was also the principal target in the initial wildcat test.

The Hames Valley region of current activity lies only a few miles south of the giant one billion barrel San Ardo oil field and is presumed to be San Ardo's hydrocarbon source.

Northstar holds working interests in the Salinas project that vary from 4.2% in the Hames Valley to 21% in the Peach Tree region located to the north and east of San Ardo. The total lands under lease by Sohio-Northstar is approximately 190,000 acres.

The major exploration expenditures undertaken to date have involved the shooting and processing of over $7.0 million of seismic data in the region. Additional exploratory drilling will continue through 1985.

Oil Acquisition Completed

Gane Energy Corporation Ltd., Northstar's Canadian oil and gas subsidiary, completed the acquisition of Consort Resources (1984) Ltd. effective October 1. Gane paid a cash consideration of $2.0 million for the Consort shares and, in addition, issued 4.9 million common shares from treasury to the Consort shareholders. Northstar now owns approximately 54% of Gane.

The acquisition will increase the Company's oil production by approximately 185 barrels per day, most of which is ''old oil'' production. Net annual production revenues will increase by over $1.0 million and may be further enhanced when oil prices are moved to world levels.

Natural gas production is also expected to increase as a result of the transaction. The Company has acquired access to a major ''area gas contract'' in East Central Alberta, which will provide a number of opportunities to produce reserves which are currently shut-in and pursue the drilling of new prospects within the contract area.

Preferred Shares Exchanged — Deficit Eliminated

At the recent meetings of common and preferred shareholders, special resolutions were conclusively approved to amend the Articles of the Company to exchange each outstanding first and second preferred share for five common shares.

As a result of the exchange, the preferred shareholders will be issued 3.4 million common shares, bringing the total of common shares issued to 11.6 million.

At the same meetings the shareholders approved a resolution to offset the accumulated deficit of $19.7 million against the share capital. Following the deficit elimination, the Company will have book equity attributable to the common shares of $8.7 million.

The Company's overall financial position has been strengthened by these transactions.

The appearance of the balance sheet has been significantly improved and as a result the Company's future financing flexibility is greatly enhanced.

S & T Drilling Builds New Rig

The refinancing of Northstar's contract drilling affiliate, S & T Drilling (Northern) Ltd., was completed October 31 and that operation has been put on a sound financial footing.

Increasing rig utilization levels in the Alberta drilling industry have created occasional rig shortage situations in the depth ranges shallower than 2000 metres. S & T Drilling has taken advantage of the opportunity to build rig #12, utilizing existing components in inventory together with certain major leased components from new equipment suppliers. This new rig will add significantly to the drilling company's cash flow in 1985 and brings S & T's Alberta-based rigs to a total of 10 rigs.

Consolidated Statement of Earnings

Nine months ended September 30
(Unaudited)

	1984	1983
Revenue		
Oil and gas - net	**$2,675,000**	$2,133,000
Fees, interest and other	**685,000**	1,143,000
	3,360,000	3,276,000
Expenses		
Operating	**576,000**	374,000
General and administrative	**1,001,000**	1,665,000
Interest	**873,000**	904,000
Depreciation and depletion	**606,000**	720,000
Deferred income taxes	**440,000**	17,000
Minority interest	**105,000**	(71,000)
	3,601,000	3,609,000
Net earnings (loss) before extraordinary item	**(241,000)**	(333,000)
Extraordinary item	**237,000**	—
Net earnings (loss)	**$ (4,000)**	$ (333,000)
Net earnings (loss) per share		
— Before extraordinary item	**$ (0.09)**	$ (0.10)
— After extraordinary item	**$ (0.06)**	$ (0.10)
Cash flow from operations	**$ 910,000**	$ 333,000
Cash flow per share	**$ 0.11**	$ 0.04

Consolidated Statement of Changes in Financial Position

Nine months ended September 30
(Unaudited)

	1984	1983
Funds Provided:		
From operations	**$ 910,000**	$ 333,000
Debentures issued	**3,500,000**	6,000,000
Long-term debt	**—**	388,000
Note receivable	**—**	1,890,000
Deferred revenue	**31,000**	119,000
Sale of resource properties	**2,080,000**	—
Sale of subsidiary	**663,000**	—
Common shares issued by subsidiary	**2,217,000**	78,000
	9,401,000	8,808,000
Funds Used:		
Property and equipment	**1,948,000**	1,715,000
Investments	**2,334,000**	1,500,000
Repayment of long-term debt	**5,647,000**	3,685,000
Dividends paid by subsidiary	**—**	103,000
Other	**—**	84,000
Conversion of debentures	**—**	78,000
	9,929,000	7,165,000
Increase (decrease) in working capital	**(528,000)**	1,643,000
Working capital (deficit), beginning of period	**(572,000)**	479,000
Working capital (deficit), end of period	**$(1,100,000)**	$2,122,000

Financial Review

The net loss before the extraordinary item for the nine months ended September 30, 1984 was $241,000 compared to a loss of $333,000 in 1983. The net loss after extraordinary item was $4,000.

Earnings per share is calculated after the provision for unpaid dividends and results in a loss per share for the period under review of 9 cents before the extraordinary item and 6 cents after the extraordinary item. In 1983 the loss per share was 10 cents.

If the conversion of the preferred shares into common shares recently approved by the shareholders had been effective on September 30, 1984, the adjusted loss per share would have been 2 cents before the extraordinary item and nominal after the extraordinary item.

Cash flow from operations increased from $333,000 to $910,000, or 11 cents per share, for the first nine months of 1984.

During the period, the Company issued $3.5 million of convertible debentures pursuant to a private placement, and subscribed for an additional 5,250,000 common shares of Gane Energy Corporation Ltd. at 40 cents per share. During the first nine months consolidated long-term debt was reduced by $5,647,000.

The financial results do not include the results of S & T Drilling.

Northstar Resources Ltd. and its subsidiary and affiliated companies are engaged in oil and natural gas exploration, production, and contract drilling in Canada and the United States. The Company's common shares are listed on The Toronto and The Alberta Stock Exchanges under the trading symbol NOS.

NORTHSTAR RESOURCES

Letter to the Shareholders

Corporate Developments

The past year has seen a considerable turnaround in the overall business operations of the Company. The principal objectives of completing the financial and operational restructuring of the Northstar group have been accomplished. The Company is now well positioned to develop and maintain a steady future pattern of growth of cash flow and asset value per share.

The restructuring of the Company has involved a greater participation in the day-to-day business operations of the subsidiaries by Northstar's senior officers. A major improvement has been achieved, thereby, in the cost effectiveness and efficiency of operations.

The Company's business base has now been clearly defined with three fundamental operating thrusts. Oil and gas exploration is carried on in the United States directly by the Company and in Canada through its 54% owned public subsidiary, Gane Energy Corporation Ltd. The oilfield service sector remains of great importance through a 54% ownership of S & T Drilling Ltd. Direct resource investments and various financial transactions are expected to take on added importance in future.

There were four principal financial elements of the restructuring plan, developed with the assistance of Hees International Corporation, a diversified financial services company:

- Convertible debentures of $3.5 million were privately placed by Northstar, the proceeds of which were used to increase Northstar's interest in Gane and S & T.
- Special shareholders' resolutions were approved to exchange each Northstar preferred share for five common shares, resulting in the issue of 3.4 million common shares for the $6.8 million of preferred shares previously outstanding.
- A major restructuring and reduction of S & T's debt was completed to ensure the future viability of the drilling company. As the largest shareholder of S & T, Northstar invested $2.6 million in S & T common shares. As a result of the successful S & T refinancing, the Company's 1984 results include those of S & T and the 1983 results have been restated.
- Gane Energy completed a number of significant financial transactions during the year including the issue from treasury of $4.1 million of common shares and the conversion of $3.4 million of preferred shares into 5.1 million common shares.

In summary, the refinancing and consolidation of the operations have resulted in the establishment of a truly integrated resource company that is financially sound and which will be competitive over the long term.

Financial Results

Cash flow from operations for the year showed a significant improvement to $1.7 million, or $0.15 per share. By comparison, in 1983, the Company did not have a positive cash flow.

Net earnings in 1984 were $205,000 after extraordinary items of $873,000. In the previous year operating losses were incurred in every division and a huge provision was taken against the book value of the Company's assets, resulting in a net loss for the year of $18.3 million.

The sizable working capital deficit was replaced at the end of 1984 by a working capital surplus of $1.1 million. Total bank debt was reduced from in excess of $34.0 million in 1983, to $12.2 million in 1984 and, of this amount, close to $10.0 million is non-recourse to the parent company.

Oil and Gas Operations

The main thrust in the U.S. in 1984 was the continued exploration of the Salinas project in central California. Of current significance is the Sohio Bradley 1-34 well which has been spudded on offsetting Texaco acreage and is drilling ahead at the time of printing of this report.

The Company's principal exploration and production activities remain in Canada, which is a focal point of industry optimism for the first time in recent years as a result of the "Western Accord". In general, 1984 capital expenditures were concentrated on development drilling and cash flow situations.

The overall quality of the Company's oil and gas assets was significantly improved through several transactions:

- The sale of certain Alberta properties, mostly small interests in shut-in gas wells, for $2.6 million.

- The acquisition of a private Alberta company, Consort Resources (1984) Ltd., for $4.3 million which boosted year-end oil production to 350 barrels per day and provided the Company with access to an area gas contract encompassing 7,776 square miles in east-central Alberta.
- Subsequent to the year-end, the purchase of a 20% interest (and the right to purchase a 100% interest) in GLN Resources Limited. GLN Resources is a private company with daily oil production of approximately 350 barrels and natural gas production of eight million cubic feet per day, in addition to its undeveloped land holdings. Gane is currently managing GLN Resources' assets and has agreed to purchase directly an interest in certain of its oil and gas production. The purchase by the Company of all of the shares or assets of GLN Resources would increase cash flow by approximately $0.15 per share on an annualized basis after all estimated financing costs.

Drilling Operations

The first signs of recovery were evident for Alberta drilling contractors in 1984. Rig utilization rates throughout the industry increased to 46% from 37% in 1983, and S & T maintained its historical above average performance increasing to 52% from 46% the year before.

The outlook for 1985 is very encouraging at this time. The winter activity and results have generally surpassed expectations and, barring a significant influx of rigs from the United States, the balance of the year should produce the best results since 1981.

The refinancing of S & T was accomplished on very favorable terms both to S&T and its shareholders. S & T's established reputation and the dedication of its employees played a vital role in assisting the Company through the most difficult period in memory.

Resource Investments

Subsequent to the year-end the Company was successful in selling its 20% interest in GLN Investments Limited for $5.5 million, and was able to recover the current book value of its investment.

The Company continues to hold a major interest in Northgane Minerals Ltd., a public, Calgary based minerals exploration company. Northgane plans to have its gold mine at Germansen, B.C. operational by mid-1985.

The Company also engages in specialized financial transactions in the resource industry and has recently assisted Gane in the structuring and placement of a $15.0 million production and development fund. It is expected that similar activities within the resource sector will increase in 1985.

Outlook for 1985

As previously suggested, the Western Accord has given rise to a spirit of optimism in the Canadian oil patch and investment community not seen during the past four years.

Notwithstanding the general investor indifference to the petroleum industry worldwide, the further anticipation by the industry that the Province of Alberta will soon review its royalty and incentive regime has expectations climbing for 1985. At this juncture, it appears that only a severe drop in oil prices or a disappointing announcement from the Province could undermine the enthusiasm that has been regenerated in Canada in recent weeks.

The Company's principal objectives for the year ahead are to generate continued improvement in operating results from its current business operations and to seek opportunities to increase cash flow and underlying asset values without exposing the Company to significant financial risks.

During the year Warren Hurst resigned as a director of the Company; his contributions to the Company's development have been significant and his counsel was always deeply appreciated.

With the continued support of our Board of Directors and dedicated employees, we are confident that we can achieve our corporate goals in 1985.

On behalf of the Board,

John A. Hagg,
Chairman

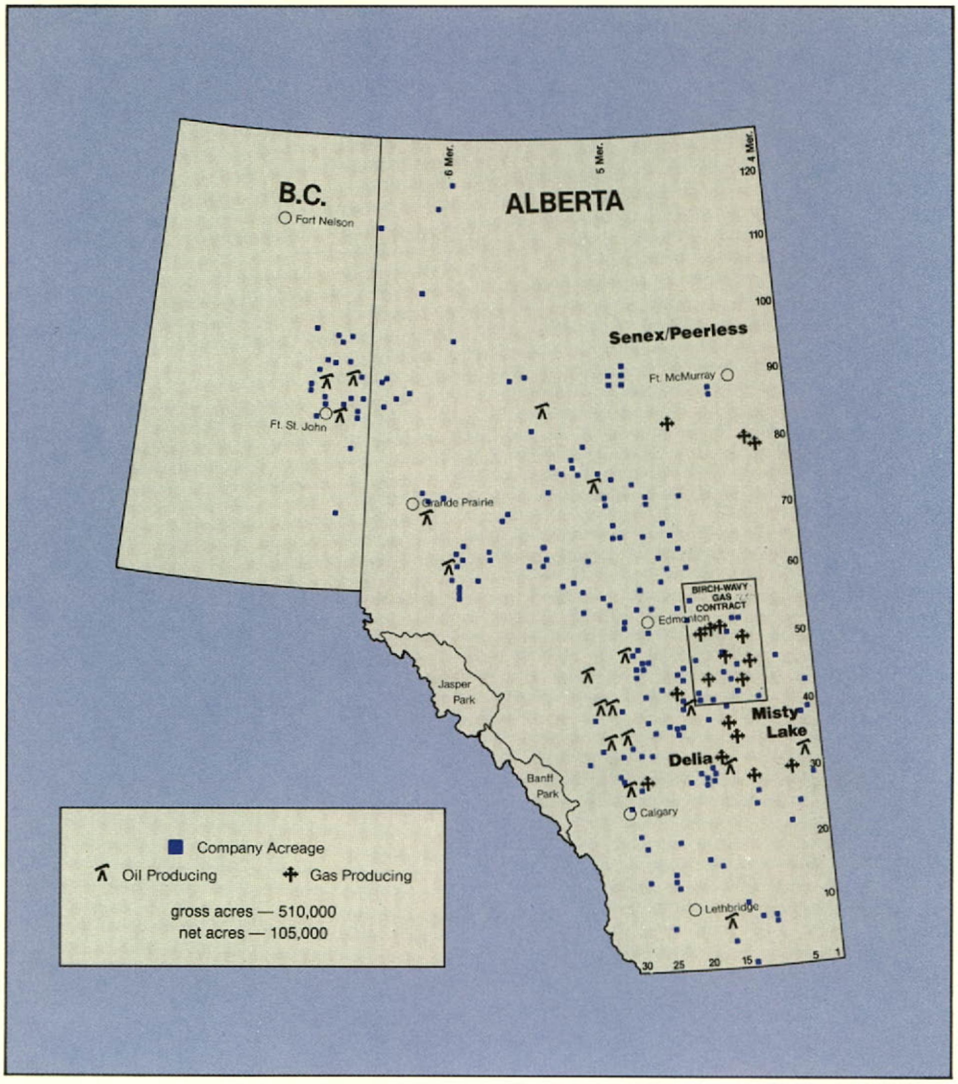
Michael M. Kanovsky,
President

April 30, 1985

Oil and Gas Operations

The Company's main base of operations is in Calgary, Alberta. A professional staff of 10, plus support staff, manage the Company's business as well as administering numerous associated partnerships and assets on a fee basis. During the year Peter Rainier joined Gane Energy as Executive Vice-President and, following the year-end, John Hagg became Gane's Chairman.

A small office is maintained in Houston, Texas to administer the U.S. assets and certain U.S. partnership interests.



Exploration

In 1984 the Company participated in the drilling of 19 wells in Canada and 2 wells in the U.S., resulting in 4 oil wells, 8 gas wells, 8 dry holes and 1 suspended oil well. Much of this drilling activity was further development of the Misty Lake and Delia properties in Alberta.

In addition, 12 wells were drilled at no cost to the Company on farmouts of Company lands in both Canada and the U.S., resulting in 1 oil well and 2 gas wells.

Seismic activity and land acquisition in Canada has increased in recent months as the Company prepares for a significant increase in exploratory and development drilling in 1985. Approximately 50 prospects are in various stages of pre-drilling development. They include Cretaceous gas prospects in the Birch-Wavy contract area, oil prospects in northeastern British Columbia in the Halfway trend, Keg River reef anomalies at Rainbow Lake in northwestern Alberta, oil prospects in the Peace River Arch, and low risk Mississippian plays in southeast Saskatchewan.

In the United States, the Salinas Valley project in central California and the La Garita play in southern Colorado continue to provide the largest single exposures to a major discovery. Other drilling will likely occur on individual prospects in the Sacramento Valley of southern California and along the Texas-Louisiana Gulf Coast in 1985.

Peerless Lake, Alberta

The Company owns an average 10.2% working interest in 24,640 acres in the Senex-Peerless Lake area of northcentral Alberta. Through the ability of its exploration staff to generate regional geological studies, the Company has leveraged itself into the middle of one of the most active and competitive oil exploration plays in western Canada at a nominal cost.

The Company's acreage is comprised of five drilling licenses all purchased in the fourth quarter of 1984. Seismic interpretation indicates several anomalies which are being refined to determine optimum drilling locations. The Company's drilling program will commence in 1985.

Birch-Wavy, Alberta

The Company has acquired an area gas contract in east-central Alberta with TransCanada Pipelines Limited. This contract covers 7,776 square miles in an area highly prospective for gas in numerous Cretaceous sand reservoirs including the Viking, Colony, Glauconite and Basal Quartz sandstones. The area has seen considerable activity in recent years, with many wells on production. The Company currently holds an interest in 26,320 gross acres and eighteen wells in the contract area, eleven of which are now on production. A number of wells are scheduled to be drilled in this area in 1985 and it is expected that the Company's natural gas reserves and production will increase accordingly.

La Garita, Colorado

In late 1983 Northstar and its partners entered into a joint venture whereby a large U.S. independent purchased an 80% working interest in this 250,000 acre wildcat oil project.

The purchaser has undertaken to drill two wells at no cost to Northstar. The Company retains a net working interest of 9.5% and a royalty interest of 2.5% in the play. In addition, the Company earned a cash profit through the initial sale.

The prospect area is generally concealed by surface volcanics and little industry activity had occurred prior to the time Northstar became interested in the area. Leasing activity has increased dramatically during the past year and Champlin, the operator, has undertaken considerable seismic and other electronic surveys.

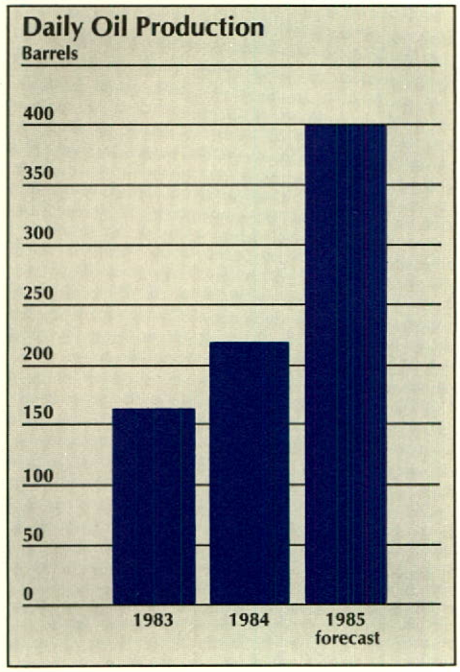
Pending further evaluation, drilling may not commence on Company acreage until late 1985.

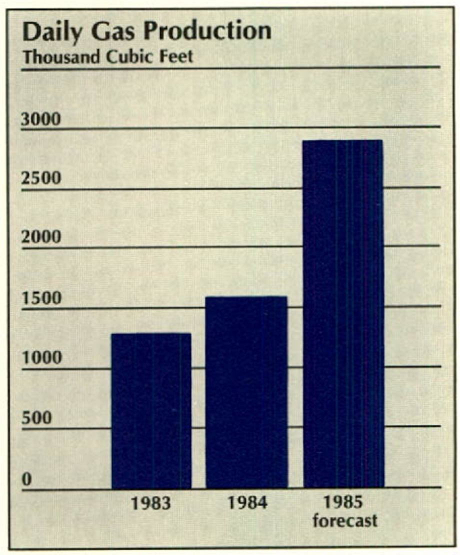
Salinas, California

The Sohio Northstar Bradley Minerals 1-2 well, which is located in the Hames Valley region immediately south of the giant San Ardo oil field was drilled and cased to a depth below 10,500′. After lengthy testing of the miocene section of the Monterey formation the well was suspended pending the drilling of the Bradley 1-34 well anticipated in April 1985.

Northstar holds working interests in the project that vary from 4.2% in Hames Valley to 21% in the Peach Tree region located further north. Sohio has expended over $30 million on land acquisition and seismic costs since 1982 in establishing its position in the area.

Although the Salinas Basin is surrounded by a number of the largest oil fields in North America, most of the relatively sparse drilling activity took place in the 1940's and 1950's, generally at shallower depths.





Oil and Gas Reserves

	Gross Reserves	
	Proved	Probable
Oil and gas liquids (bbls)	997,000	58,000
Natural gas (MMcf)	26,100	8,100
Present value — undiscounted ('000s)	$143,000	$41,000
— discounted @ 15% ('000s)	$ 35,000	$ 6,000

Drilling Operations

S&T History

S&T Drilling is one of the longest established private drilling contractors in Canada. The Company was founded in 1952 and Northstar became actively involved in the business through the purchase of a controlling interest in January, 1981.

Northstar has been actively involved in managing and supporting the business operations of S&T; in 1982, John Hagg, Northstar's Chairman, was appointed President of S&T. At the time, the drilling industry worldwide was experiencing the most severe depression in its history. Many companies did not survive the period.

Early in 1984, S&T successfully completed a total refinancing of the company which enabled it to maintain its business operations uninterrupted throughout the industry crisis.

S&T is now in a sound financial position and has been able to respond to recent opportunities which have developed as the Canadian industry continues its recovery.

Progress in 1984

S&T achieved an increase in rig utilization to 52% in 1984 as compared to an average for the total Alberta industry of 47%. Based upon the improved 1985 winter results, it appears that the current year will see continued improvement.

Contract rates and operating margins have begun to improve and bottom line profits could be achievable this year for the first time since 1982.

New Rigs

Increasing rig utilization levels in the Alberta drilling industry have created occasional rig shortage situations in the depth ranges shallower than 2000 metres. S&T has taken advantage of the opportunity to build two new rigs utilizing existing components in inventory, together with certain major new components.

Rig #12E was rigged up and spudded its first well in October, 1984. It achieved a profitable winter of operations and has recently been contracted to Esso Resources for a multi-well program at Cold Lake, Alberta.

Rig #14E is currently being constructed in S&T's 17 acre yard and shop facility at Nisku, Alberta. Also an electric powered rig, it will go to work in central Alberta on a long-term contract in June, 1985.

Corporate Development

S&T's head office was relocated to Calgary early in the year in order to facilitate closer contact with S&T's oil company customers. In August, 1984, A.T. (Alex) Lemmens joined S&T as President and General Manager. Mr. Lemmens' broad experience in the Canadian drilling industry, together with the long tenure of many of S&T's employees provide the company with a strong organization in the office and in the field.

Rig Inventory

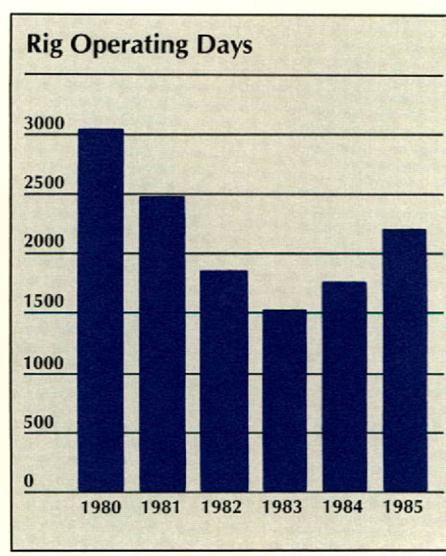
RIG EQUIPMENT	DRILLING DEPTH
# 1 National 55	3700 m
# 2 National T-32	2000 m
# 3 National 55	3700 m
# 4 National 50CA	2450 m
# 5 National T-45	2900 m
# 6 National 610	3700 m
# 7 National 610	3200 m
# 8 Gardner Denver 800*	4000 m
# 9 National 370	2750 m
#10 Unit 34	1800 m
#11 Unit 20*	4000 m
#12E National 50AE	2000 m
#14E Brewster N45E	2200 m

*Both rigs currently racked pending recovery in deeper drilling demand.

Alberta Drilling Rig Utilization 1984-85

		S&T	Industry
	No. of Rigs	10*	400
1984	January	51%	57%
	February	51%	64%
	March	51%	58%
	April	61%	21%
	May	23%	24%
	June	31%	39%
	July	31%	45%
	August	61%	48%
	September	64%	41%
	October	39%	50%
	November	72%	58%
	December	79%	63%
	Average	52%	47%
1985	January	81%	71%
	February	87%	76%
	March	71%	70%

*Rig #12 was rigged up on its first well in October providing the Company with 10 rigs in Alberta.



Thousands of dollars

		1984	Pro forma 1983 (note 1)	1983
Assets	**Current assets**			
	Cash	**$ 982**	$ 2,738	$ 2,738
	Accounts and notes receivable (note 6)	**5,359**	6,564	5,416
	Inventory	**225**	249	—
		6,566	9,551	8,154
	Investments (note 4)	**6,181**	4,875	4,195
	Property and equipment (notes 5 and 6)	**43,619**	51,343	26,533
		$56,366	$65,769	$38,882
Liabilities and Shareholders' Equity	**Current liabilities**			
	Bank loan	**$ —**	$ 4,549	$ 2,000
	Accounts payable	**5,355**	7,092	2,448
	Current portion of deferred revenue	**30**	—	—
	Current portion of long-term debt	**45**	1,678	1,678
	Due to associated company	**—**	—	2,600
		5,430	13,319	8,726
	Deferred revenue	**265**	243	243
	Long-term debt (note 6)	**12,130**	27,981	5,647
	Deferred income taxes	**1,529**	1,153	—
	Minority interest	**13,516**	8,240	9,568
	Convertible debentures (note 7)	**9,422**	5,922	5,922
	Subordinated income debentures (note 8)	**5,000**	—	—
		47,292	56,858	30,106
	Shareholders' equity			
	Share capital (note 9)	**8,734**	28,495	28,495
	Retained earnings	**340**	(19,584)	(19,719)
		9,074	8,911	8,776
		$56,366	$65,769	$38,882

Approved on behalf of the Board, John A. Hagg, Director Michael M. Kanovsky, Director

Consolidated Statement of Earnings

Year Ended December 31, 1984

Thousands of dollars

		1984	Pro forma 1983 (note 1)	1983
Revenue	Oil and gas	**$ 3,863**	$ 3,036	$ 3,036
	Prospect sales	**—**	1,173	1,173
	Contract drilling	**13,076**	11,537	—
	Fees, interest and other	**920**	919	919
		17,859	16,665	5,128
Expenses	Operating	**879**	663	663
	Cost of prospect sales	**—**	1,033	1,033
	Contract drilling	**11,389**	11,175	—
	General and administrative	**2,824**	3,935	2,624
	Interest	**1,455**	4,047	1,141
	Depreciation and depletion	**1,506**	1,773	793
		18,053	22,626	6,254
	Operating (loss) before income taxes	**(194)**	(5,961)	(1,126)
	Income taxes (recovery) (note 10)			
	Current	**(156)**	7	7
	Deferred	**359**	(2,508)	(440)
		203	(2,501)	(433)
	Operating (loss) before the following	**(397)**	(3,460)	(693)
	Equity in loss of subsidiaries	**—**	(679)	(153)
	Unusual items (note 11)	**—**	(19,894)	(19,894)
	Minority interest	**(271)**	6,410	5,257
	(Loss) before extraordinary items	**(668)**	(17,623)	(15,483)
	Extraordinary items (note 12)	**873**	(704)	—
	Net earnings (loss)	**$ 205**	$(18,327)	$(15,483)
	Earnings (loss) per share			
	— before extraordinary items	**$ (0.06)**	$ (2.23)	$ (1.96)
	— after extraordinary items	**$ 0.02**	$ (2.31)	$ (1.96)

Consolidated Statement of Retained Earnings

Year Ended December 31, 1984

Thousands of dollars

	1984	Pro forma 1983 (note 1)	1983
Deficit at beginning of year			
As previously reported	**$(19,719)**	$ (3,835)	$ (3,835)
Retroactive consolidation of S & T Drilling Ltd.	**135**	2,979	—
As restated	**(19,584)**	(856)	(3,835)
Elimination of deficit against common share capital (note 9)	**19,719**	—	—
Net earnings (loss)	**205**	(18,327)	(15,483)
Write-off of share issue costs	**—**	(401)	(401)
Retained earnings (deficit) at end of year	**$ 340**	$(19,584)	$(19,719)

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1984

Thousands of dollars

		1984	Pro forma 1983 (note 1)	1983
Funds provided	From operations	**$ 1,689**	$ —	$ 78
	Long-term debt	**2,900**	250	—
	Issue of convertible debentures	**3,500**	6,000	6,000
	Share capital issued (cancelled) by Gane Energy Corporation Ltd.	**2,863**	(10)	(10)
	Proceeds on sale of subsidiary	**464**	—	—
	Proceeds on sale of property and equipment	**3,058**	125	123
	Deferred revenue	**21**	119	119
	Net working capital provided on reorganization of S & T Drilling Ltd.	**4,863**	—	—
	Note receivable	**—**	1,890	1,890
		19,358	8,374	8,200
Funds used	Used in operations	**—**	3,481	—
	Property and equipment	**5,705**	3,057	3,057
	Acquisition of Consort Resources (note 3)	**4,074**	—	—
	Investments	**1,632**	1,857	1,927
	Long-term debt	**3,000**	4,831	4,164
	Share capital repurchased and preferred share conversion cost	**43**	—	—
	Dividends paid by subsidiaries	**—**	103	103
		14,454	13,329	9,251
	Increase (decrease) in working capital	**4,904**	(4,955)	(1,051)
	Working capital (deficiency) at beginning of year	**(3,768)**	1,187	479
	Working capital (deficiency) at end of year	**$ 1,136**	$ (3,768)	$ (572)

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Northstar Resources Ltd. as at December 31, 1984 and the consolidated 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 consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
April 30, 1985

Touche Ross & Co.
Chartered Accountants

Thousands of dollars

Summary of significant accounting policies

a) **Principles of consolidation**

i) The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Northstar Resources Inc., its 54% owned subsidiary, Gane Energy Corporation Ltd. ("Gane") and its 54% owned subsidiary S & T Drilling Ltd. ("S & T") (note 2).

ii) The Company's 56% owned subsidiary, Northgane Minerals Ltd., is accounted for by the equity method, since the Company anticipates this investment will be reduced to less than 50% during 1985.

b) **Oil and gas exploration and development expenditures**

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration and development of oil and gas reserves in North America are capitalized. These costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, interest and overhead expenses related to exploration activities and plant and equipment. The Company employs a ceiling test annually, whereby capitalized costs would be written off should they exceed the present values of future net revenues from estimated production of proven reserves. Proceeds on property sales and government grants are credited against costs. These costs, excluding undeveloped land, are depleted on the unit of production method, based on estimated proven recoverable reserves as determined by independent petroleum engineers.

c) **Drilling and other equipment**

At the beginning of the year, the Company wrote down the carrying value of its drilling equipment to fair value as determined by the directors. All additions to fixed assets since the beginning of the year are recorded at cost. Replacement of drilling equipment and pipe repair items are written off to expense as incurred.

Depreciation of drilling equipment and pipe is provided based upon operating days at daily rates estimated to reduce the net book value of the assets to salvage value at the end of their useful lives.

Depreciation of other fixed assets is provided at the following annual rates:

Camp equipment	10% straight-line
Automotive equipment	30% straight-line (to estimated salvage value)
Office furniture	20% reducing balance
Buildings	5% straight-line

d) **Joint venture accounting**

Substantially all of the Company's exploration and production activities are conducted jointly with others, and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

e) **Deferred revenue**

Payments received for undelivered gas are initially deferred and are recognized as revenue when deliveries are made or on expiry of the period allowed for such deliveries.

f) **Investment tax credits**

When realized, investment tax credits relating to the purchase of new assets are credited to the appropriate fixed asset account.

g) **Drilling revenue recognition**

Drilling revenue is recognized as earned, either on a per day basis or by depth drilled.

h) **Inventory**

Inventory is valued at the lower of cost and net realizable value.

i) **Foreign currency translation**

The Company considers its U.S. subsidiary to be an integrated foreign operation for purposes of foreign currency translation. Accordingly, the accounts of the Company's U.S. operations are translated using the temporal method, whereby monetary items are translated at the balance sheet date rate and other assets and liabilities at historical rates. Revenue and expense items are translated at the average rate of exchange prevailing during the year, except for depreciation and depletion which is translated at the rates used for the related assets. Resulting gains and losses are recognized in the statement of earnings.

1. Pro forma figures

As a result of the financial restructuring and retroactive consolidation of S & T Drilling Ltd., as described in note 2, pro forma 1983 comparative figures have been provided. These figures represent the audited 1983 figures as previously reported, consolidated with the audited 1983 accounts of S & T.

2. Financial restructuring of S & T Drilling Ltd.

Pursuant to a plan to reduce the Company's interest in S & T below 50%, the accounts of S & T were not consolidated in 1982 and 1983. As a result of the continuing poor performance of the drilling industry and S & T being in default of certain of the provisions of its bank loan agreements, the Company wrote down its investment in S & T to nil in 1982.

Notes to Consolidated Financial Statements continued Thousands of dollars

In 1984 S & T was restructured financially and continued under a new parent company called S & T Drilling Ltd. The principal events of the restructuring are as follows:

a) $20,751,000 of existing bank term loans were restructured as follows:
   i) $10,751,000 of bank term loans were exchanged for 22,500 non-voting class B common shares of S & T.
   ii) An additional $5,000,000 of bank term loans were exchanged for a subordinated income debenture as described in note 8.
   iii) The interest rate and terms of the remaining $5,000,000 of bank term loans were modified.
b) Accrued interest payable of $2,875,000 and other indebtedness totalling $2,934,000 were eliminated and recorded as an extraordinary gain.
c) The new parent company issued a total of 77,500 class A common shares of which the Company subscribed for 54,000 shares for $2,600,000.
d) As indicated under significant accounting policy note c, drilling equipment was written down by $12.7 million.

As a result of completing the above financial and operational restructuring of S & T, management feels this subsidiary is now a viable entity. Therefore the Company has retroactively consolidated S & T resulting in the restatement and reduction of the 1984 and 1983 opening deficit by $135,000 and $2,979,000 respectively.

3. Acquisition

Effective October 1, 1984, Gane acquired all of the issued shares of Consort Resources (1984) Ltd., a private Alberta-based oil company, for an aggregate consideration of $2.0 million in cash and 4.9 million common shares of Gane. The acquisition has been accounted for by the purchase method. The purchase price of $4,322,000 was allocated to the assets acquired as follows:

Working capital	$ 248
Property and equipment	4,191
	4,439
Deferred income taxes	117
	$4,322

4. Investments

	1984	Pro forma 1983
Northgane Minerals Ltd., at equity	**$ 305**	$ 79
Investment in associated company, at written down value	**5,510**	4,011
Other, at cost or written down value	**366**	785
	$6,181	$ 4,875

5. Property and equipment

	1984			Pro forma 1983
	Cost or written down value	**Accumulated depreciation and depletion**	**Net book value**	Net book value
Petroleum and natural gas properties	**$35,896**	**$4,773**	**$31,123**	$ 26,354
Drilling equipment	**12,395**	**464**	**11,931**	24,810
Other	**966**	**401**	**565**	179
	$49,257	**$5,638**	**$43,619**	$ 51,343

6. Long-term debt

	1984	Pro forma 1983
Operating loan	**$ 4,225**	$ —
Term loan	**5,000**	28,075
Bank loan	**450**	—
Due to affiliated company	**2,500**	1,584
	12,175	29,659
Less current portion	**45**	1,678
	$12,130	$ 27,981

The operating loan is repayable on demand, bears interest at the bank's prime rate plus ⅝% and is secured by a first fixed charge on Gane's oil and gas properties and a general assignment of accounts receivable. The bank has indicated that no principal repayments will be required during 1985.

Thousands of dollars

The term loan bears interest at the bank's prime rate and is payable in three equal installments beginning in 1987. The term loan and the subordinated income debenture, referred to in note 8, are secured by a $25 million fixed and floating charge against the assets of S & T and a general assignment of accounts receivable.

The bank loan bears interest at the bank's prime rate plus 1¼% and is repayable over the next four years as follows: 1985 - $45,000; 1986 - $62,000; 1987 - $70,000 and 1988 - $273,000. The loan is secured by a chattel mortgage on certain equipment of S & T and is guaranteed by the Company.

The amount due to affiliate is unsecured and repayable on demand. In the event of demand, the Company may elect to convert the loan to a term loan, repayable in full no later than 18 months from the date of conversion. Interest is payable at the bank's prime rate plus ½%. The affiliate has indicated that no principal repayments will be required in 1985.

Interest in the amount of $124,000 (1983 - $136,000) has been capitalized and included in petroleum and natural gas properties.

7. Convertible debentures

	1984	Pro forma 1983
Series A, redeemable after March 1, 1985, maturing on June 30, 1988	$5,922	$5,922
Series B, redeemable after July 1, 1986, maturing on September 30, 1989	3,500	—
	$9,422	$5,922

The debentures bear interest at the bank's prime rate and are convertible at any time into common shares of the Company at $1 per share. The Company may redeem the outstanding convertible debentures at any time after the dates noted above, on 30 days notice provided that the common shares have traded for 20 consecutive business days at a minimum average price of $1.60 per share.

8. Subordinated income debenture

The debenture bears interest at a rate equal to one half of the bank's prime rate plus 1%. The interest will be payable annually in arrears to the extent of 30% of adjusted net income of S & T if earned. The debenture matures in 1989, at which time S & T may require the bank to convert any unpaid portion of the debenture into a maximum of 27,049 non-voting class B common shares of S & T.

9. Share capital

	1984	Pro forma 1983
First preferred shares, par value $10 per share; authorized 10,000,000 shares; issued nil (1983 - 500,000)	$ —	$ 5,000
Second preferred shares, par value $10 per share; authorized 500,000 shares; issued nil (1983 - 179,058)	—	1,791
Common shares without nominal or par value; authorized 25,000,000 shares; issued 11,593,346 shares; (1983 - 8,222,656)	28,453	21,704
Less elimination of deficit	(19,719)	—
	$ 8,734	$28,495

During the year the issued first and second preferred shares together with dividend arrears were converted into common shares on the basis of 5 common shares for each preferred share. Conversion costs of $20,000 have been netted against share capital.

On November 7, 1984, the shareholders approved an extraordinary resolution to reduce the common share capital of the Company by $19,719,000, thereby eliminating the deficit as previously reported at December 31, 1983.

As at December 31, 1984, common shares were reserved as follows:

a) 9,422,300 shares for conversion of the convertible debentures.
b) 153,600 shares under stock option agreements granted to senior employees of the Company. The options are exercisable at prices which range between $1 and $2 and expire on June 29, 1994.

10. Income taxes

Income tax expense varies from the amounts that would be computed by applying the combined Federal and Provincial income tax rates to earnings (loss) before income taxes and extraordinary items as shown below:

	1984	Pro forma 1983
Effective Canadian tax rate	47%	47%
Computed "expected" income taxes (recovery)	$ (91)	$(2,855)
Increases (decreases) resulting from:		
Non-deductible Crown payments	231	165
Non-deductible depletion	36	146

Notes to Consolidated Financial Statements continued — Thousands of dollars

	1984	1983
Resource allowance	(228)	(143)
Earned depletion	(92)	—
Alberta Royalty Tax Credit	(124)	(129)
U.S. accounting loss at lower tax rate	246	(16)
Loss carryforward without virtual certainty of recovery	225	113
Other	—	196
Capital loss	—	22
Actual income tax provision (recovery)	$ 203	$ (2,501)

Property and equipment with a carrying value of approximately $10,000,000 has a nil cost base for tax purposes.

The Company and its consolidated subsidiaries have unrecognized non-capital and capital losses carryforward of approximately $3,700,000 and $200,000 respectively available for offset against future income for tax purposes. The non-capital losses expire at various dates subsequent to December 31, 1987.

11. Unusual items

	1984	Pro forma 1983
Provision for decline in value of petroleum and natural gas properties (net of deferred income taxes of $784,000)	$ —	$16,304
Provision for decline in value of investments	—	3,590
	$ —	$19,894

12. Extraordinary items

The extraordinary items are shown net of applicable income taxes and minority interest in the amounts of $101,000 (recovery) and $739,000 respectively (1983 - nil and $379,000 respectively) and comprise the following:

	1984	Pro forma 1983
S & T		
Gain on conversion of bank debt to equity	$ 5,265	$ —
Accrued interest cancelled	992	—
Gain on elimination of other indebtedness	609	—
Write-down of fixed assets	(6,067)	—
Write-down of investments	(176)	(704)
Gane		
Recovery of income tax benefits not previously recognized, on disposal of subsidiary	250	—
	$ 873	$ (704)

13. Segmented information

The Company is active as an oil and gas exploration and development company, in both the United States and Canada, and operates as a drilling contractor in Canada.

1984	Oil and gas Canada	Oil and gas U.S.	Drilling Canada	Total
Revenue	$ 3,636	$1,147	$13,076	$17,859
Operating income (loss)	$ (78)	$ (320)	$ 1	$ (397)
Identifiable assets	$35,912	$5,023	$15,431	$56,366

Pro forma 1983	Oil and gas Canada	Oil and gas U.S.	Drilling Canada	Total
Revenue	$ 2,669	$ 2,459	$ 11,537	$ 16,665
Operating income (loss)	$ (374)	$ (319)	$ (2,767)	$ (3,460)
Identifiable assets	$ 30,776	$ 8,106	$ 26,887	$ 65,769

14. Related party transactions

During the year the Company charged management fees aggregating $201,000 (1983 - $222,600) to an affiliated company, all of which has been received.

15. Commitments

The Company has approximate minimum annual lease commitments in respect of each of the next five years; 1985 - $293,000; 1986 - $185,000; 1987 - $204,000; 1988 - $185,000, and 1989 - $185,000.

16. Comparative figures

The comparative numbers were reported on by other auditors. Certain 1983 figures have been reclassified to conform with the current year's presentation.

Corporate Information

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Toronto, Ontario

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Touche Ross & Co.
Calgary, Alberta

Officers

John A. Hagg
Chairman

Michael M. Kanovsky
President

Anthea E. Lister
Treasurer and Secretary

Directors

John W. Burrows[2], Calgary
Private Businessman and
Company Director

James W. Davidson, Edmonton
Chairman (retired)
S&T Drilling Ltd.

Robert A. Dunford, Toronto
Senior Vice-President
Brascan Limited

John A. Hagg[1], Calgary
Chairman of the Company

Michael M. Kanovsky[1], Calgary
President of the Company

David W. Kerr[1,2], Toronto
Executive Vice-President and
Chief Operating Officer
Hees International Corporation

Douglas W. Miller[1,2], Calgary
Executive Vice-President
Westmin Resources Limited

[1] Member of the Executive Committee
[2] Member of the Audit and Compensation Committee.

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