C

NORTHSTAR RESOURCES LTD.

1983 ANNUAL REPORT

About the Company

Northstar Resources Ltd., a public Canadian energy company with its head office in Calgary, Alberta and its public subsidiary, Gane Energy Corporation Ltd. are engaged in petroleum and natural gas exploration and production in Canada and the United States. In addition, the Company holds significant positions in S & T Drilling (Northern) Ltd., Northgane Minerals Ltd., and GLN Investments Limited.

Northstar was incorporated under the laws of the Province of Alberta on January 11, 1978. This annual report is Northstar's fifth as a public company. The common shares and first preferred shares are listed for trading on the Toronto Stock Exchange.

Corporate Highlights

		1983	1982
Financial (000's)	Gross revenues	**5,128**	9,923
	Operating earnings (loss)	**(693)**	403
	Net loss after extraordinary items	**(15,483)**	(3,359)
	Cash flow from operations	**78**	2,795
	Working capital (deficiency)	**(572)**	479
	Total assets	**38,882**	59,515
Operations	Wells drilled	**97**	98
	Land holdings		
	gross acres	**964,000**	1,050,000
	net acres	**162,000**	301,000
	Reserves		
	natural gas — MMcf	**39,500**	41,770
	oil and gas liquids — barrels	**794,000**	763,000
Share Capital	Common shares — outstanding	**8,222,656**	8,144,956
	— fully diluted	**15,227,837**	9,045,236
	Common share price — high	**$ 2.10**	$ 3.25
	— low	**$ 0.75**	$ 0.70

Annual Meeting

The Annual General Meeting of the Company will be held in the Viking Room of the Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary, Alberta at 9:30 A.M., Friday, June 29, 1984.

NORTHSTAR RESOURCES LTD.

FIRST QUARTER REPORT TO THE SHAREHOLDERS

For the three months ended March 31, 1983

Rights Issue is fully subscribed

The public rights offering of $3.5 million Convertible Debentures closed on May 13, 1983 and was fully subscribed. This brings the total proceeds from the sale of these Convertible Debentures to $6.0 million ($2.5 million Convertible Debentures were privately placed in February of this year.)

The Convertible Debentures bear interest at the prime rate and are convertible into Northstar common shares at $1.00 per share until June 30, 1988.

The proceeds of this issue were used to retire all of the Company's long-term debt and to maintain its equity position in GLN Investments Limited.

Exploration Highlights

United States

Since the closing of the sale of the Salinas Valley, California acreage to Sohio Petroleum Company in June of last year, Sohio has conducted an extensive seismic program and has acquired an additional 20,000 acres in certain key areas of the basin. Pursuant to the terms of the sale Northstar is carried through all lease and seismic costs during the exploration phase. The first wildcat well is scheduled to spud in early summer 1983 and four or five additional wildcat wells will be drilled in the following year. If successful, potential recoverable reserves could exceed 100,000,000 barrels. Northstar's working interest in the project is approximately 7%.

As a result of two recent oil discoveries close to our acreage, Northstar was able to sell a 50% interest in the 34,000 gross acre Michigan play to recover most of our investment and receive a carried interest on two exploratory wells. Seismic is currently being shot and the first well should spud in the 3rd quarter of 1983.

In California's Sacramento Valley the company has farmed out three gas prospects, scheduled to be drilled during the summer of 1983.

Canada

The Company's Canadian operating subsidiary, Gane Energy Corporation Ltd., continues to be successful in farming out its prospects to other oil companies. This enables Gane to retain a significant working interest in the well, while not incurring any drilling costs. During the first quarter four farmout wells were drilled resulting in 2 oil wells and 2 gas wells. To date, Gane has commitments or has granted options to drill 15 farmout wells on its acreage; already approaching the number of farmout wells drilled for all of 1982 which was 16.

Gane continues to have considerable success from the sale of geological studies for both cash and/or a carried working interest. In the first quarter, the company realized over $150,000 from the sale of the Eastern-Central Alberta Leduc oil study and has assembled a carried working interest in 11 sections from the sale of a Keg River oil study and 10 sections from a Slave Point study.

Financial Review

The financial statements include the results of Northstar Resources, Inc. and Gane Energy Corporation Ltd. for the three months ended March 31, 1983. The Company's investment in S & T Drilling (Northern) Ltd. was written off in 1982 and therefore the results of this company will be excluded until it returns to profitability. The 1982 comparative figures have been restated to account for S & T Drilling on an equity basis.

The net loss for the period amounted to $141,000 compared to a profit of $125,000 for the first quarter in 1982. The loss per share is calculated after deduction of accrued dividends payable and results in a loss per share of 4 cents in 1983 and 1 cent in 1982.

Cash flow from operations decreased to $117,000 compared to $248,000 (restated) in 1982. The principal reason for the decrease is the decline in U.S. oil revenues as production and per barrel price from the Austin Chalk field deteriorates.

Annual Meeting

The fifth Annual Meeting of shareholders of the Company was held on May 3, 1983. The following have been elected to serve as Directors for the ensuing year:-

John W. Burrows
President, Travacon Limited
James W. Davidson
Chairman, S & T Drilling (Northern) Ltd.
Robert A. Dunford
Senior Vice-President, Brascan Limited
John A. Hagg
Chairman, Northstar Resources Ltd.
F. Warren Hurst
Vice-Chairman, F. H. Deacon Hodgson Inc.
Michael M. Kanovsky
President, Northstar Resources Ltd.
David W. Kerr
Executive Vice-President, Hees International Limited
Douglas W. Miller
Executive Vice-President, Westmin Resources Limited

Mr. Kerr has been elected for the first time and we are pleased to welcome him to the Board.

Consolidated Statement of Earnings and Retained Earnings

Three Months Ended March 31, 1983
(With comparative figures for the three months ended February 28, 1982)
(Unaudited)

	1983	1982
Revenue:		
Oil and gas - net	$ **757,000**	$ 610,000
Prospect and study sales	**283,000**	—
Management fees	**357,000**	317,000
Interest and other	**30,000**	244,000
	1,427,000	1,171,000
Expenses:		
Cost of prospect sales	**202,000**	—
Operating	**165,000**	109,000
General and administrative	**682,000**	518,000
Interest	**299,000**	303,000
Depreciation and depletion	**255,000**	226,000
	1,603,000	1,156,000
Earnings (loss) before income taxes	**(176,000)**	15,000
Income Taxes:		
Current	**(38,000)**	(7,000)
Deferred (recovery)	**(2,000)**	140,000
	(40,000)	133,000
Loss before the undernoted	**(136,000)**	(118,000)
Minority interest	**5,000**	—
Equity share of earnings of S & T Drilling (Northern) Ltd.	—	243,000
Net earnings (loss)	**(141,000)**	125,000
Retained earnings (deficit), beginning of period	**(3,835,000)**	50,000
Preferred share dividends	—	161,000
Amortization of organization costs	**(10,000)**	—
Retained earnings (deficit), end of period	**$(3,986,000)**	$ 14,000
Net loss per share	$ **(0.04)**	$ (0.01)

Consolidated Statement of Changes in Financial Position

Three Months Ended March 31, 1983
(With comparative figures for the three months ended February 28, 1982)
(Unaudited)

	1983	1982
Source of Funds:		
From operations	$ **117,000**	$ 248,000
Issue of debentures	**2,500,000**	—
Note receivable	**1,890,000**	—
Deferred revenue	**169,000**	(288,000)
Proceeds on sale of resource properties	—	4,900,000
	4,676,000	4,860,000
Application of Funds:		
Purchase of property & equipment	**1,099,000**	1,956,000
Repayment of long-term debt	**3,335,000**	324,000
Preferred share dividends	—	161,000
	4,434,000	2,441,000
Increase in working capital	**242,000**	2,419,000
Working capital (deficit), beginning of period	**479,000**	(1,146,000)
Working capital, end of period	$ **721,000**	$ 1,273,000

Northstar Resources Ltd. and its subsidiary companies are engaged in oil and natural gas exploration and production, and contract drilling in Canada, the United States and Australia. In Canada, 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. In the United States the common shares are traded on NASDAQ under the symbol NTHRF.

Northstar Resources Ltd.
2000 Ford Tower
633 - 6 Avenue S.W.
Calgary, Alberta T2P 2Y5
Telephone (403) 261-4830

Gane Energy Corporation Ltd.
800 - 640 - 8 Avenue S.W.
Calgary, Alberta
T2P 1G7
Telephone (403) 233-8282

Northstar Resources, Inc.
Suite 850
1010 Lamar Building
Houston, Texas 77002
Telephone (713) 654-9238

S & T Drilling (Northern) Ltd.
P.O. Box 4890
Edmonton, Alberta
T6E 5G7
Telephone (403) 955-7011

NORTHSTAR RESOURCES

NORTHSTAR RESOURCES LTD.

SECOND QUARTER REPORT TO THE SHAREHOLDERS

For the six months ended June 30, 1983

Balance Sheet Strong, Exploration Increasing

As a result of two fully subscribed Convertible Debenture financings totalling $6.0 million during the first six months, Northstar has completely eliminated all of its bank debt. The consolidated financial results of the Company however, continue to be affected by difficulties in the energy industry, in particular price declines and reduced natural gas deliveries.

Nevertheless with the balance sheet strengthened as a result of the Convertible Debenture placements and with additional cost cutting measures implemented during the period, Northstar feels that it is in a financially strong position to be able to respond to the opportunities which are developing within the industry.

Lower land and drilling costs together with Government incentive grants currently make the economics of oil and gas exploration extremely attractive and Northstar continues to pursue an active drilling program.

Active Drilling Program Underway in Alberta

During the first six months of the year the Company's Canadian operating subsidiary, Gane Energy Corporation Ltd., participated in a total of 37 wells resulting in 11 oil wells and 12 gas wells. Thirteen of the wells were drilled at no cost to Gane as a result of farmouts to other companies.

Garrington

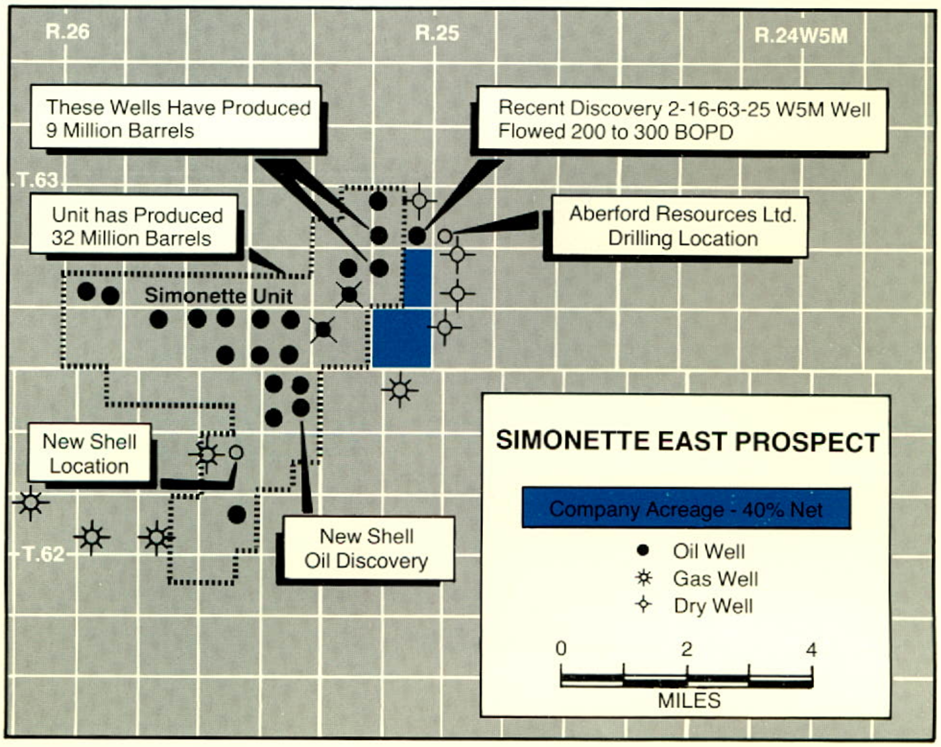
In the Garrington area of Southwestern Alberta, Gane successfully completed two oil wells. The initial discovery well production tested oil from the Cardium formation at rates exceeding 900 barrels of oil per day. The second well, a short step out from the first, stabilized at 250 barrels of oil per day and 140 mcf per day of natural gas. During the next quarter a third well will be drilled on this prospect approximately one-half mile to the north of the first two wells. Gane's interest in this prospect varies from 8.1% to 16.2%. Allowable production rates from these wells are currently substantially less than the rates quoted, as a result of Government regulations.

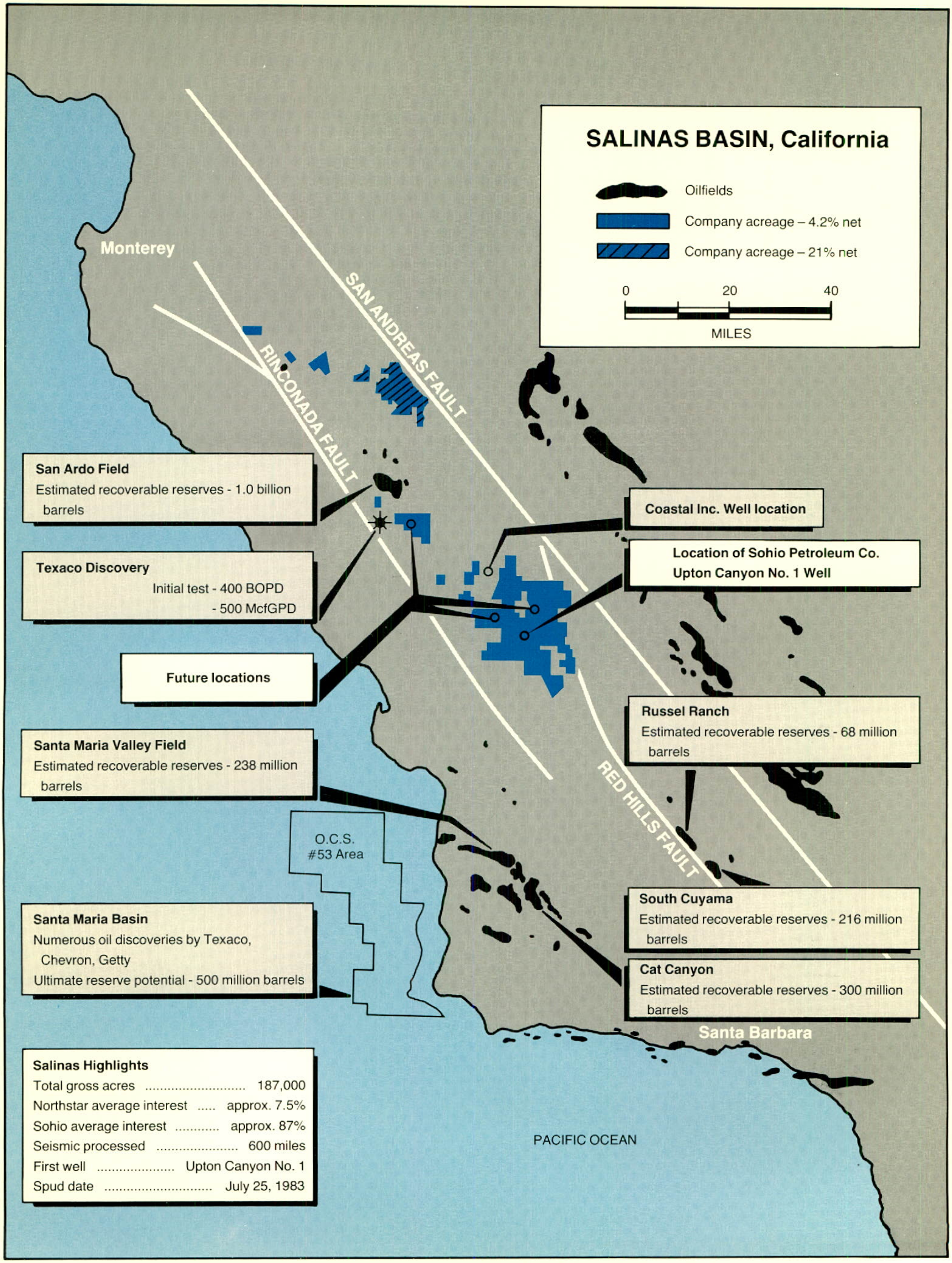
Delia

At Delia, in Southern Alberta, Gane has successfully completed its twelfth development well. The two most recent wells were completed as an oil well and a gas well with the latter well drill stem testing 1.7 million cubic feet per day from the Belly River formation and 2.0 million cubic feet per day from the Basal Quartz. Gane now has varying interests (averaging 10.7%) in five oil wells and seven gas wells on this prospect and an additional 12.2% in a further 9,760 acres. During the next few months it is anticipated that further development wells will be drilled. All new gas reserves discovered in this development program are covered by an area gas purchase contract.

Simonette East

At Simonette East, Gane holds a 40% working interest in 960 acres directly adjacent to and east of the Simonette D-3 unit, which has produced in excess of 32 million barrels of oil to date. A new discovery in 2-16-63-25 W5M, directly to the north of our acreage, has established the presence of a reef separate from the main D-3 pool. Aberford Resources Ltd. is currently drilling a well in 4-15-63-25 W5M offsetting Gane's acreage to the northeast. In addition, Shell Oil has recently completed a well in the Dunvegan formation and has licensed a follow up well in 10-26-62-26 W5M, approximately one and one-half miles southwest of Gane's acreage. Once the results of these wells are known, Gane will finalize the location of the well to be drilled on its acreage. Gane has already received four proposals from other oil companies who wish to participate in this well.





SALINAS BASIN, California
Oilfields
Company acreage – 4.2% net
Company acreage – 21% net
0
20
40
MILES
Monterey
SAN ANDREAS FAULT
RINCONADA FAULT
RED HILLS FAULT
San Ardo Field
Estimated recoverable reserves - 1.0 billion barrels
Texaco Discovery
Initial test - 400 BOPD
- 500 McfGPD
Future locations
Coastal Inc. Well location
Location of Sohio Petroleum Co. Upton Canyon No. 1 Well
Russel Ranch
Estimated recoverable reserves - 68 million barrels
Santa Maria Valley Field
Estimated recoverable reserves - 238 million barrels
O.C.S. #53 Area
Santa Maria Basin
Numerous oil discoveries by Texaco, Chevron, Getty
Ultimate reserve potential - 500 million barrels
South Cuyama
Estimated recoverable reserves - 216 million barrels
Cat Canyon
Estimated recoverable reserves - 300 million barrels
Santa Barbara
PACIFIC OCEAN
Salinas Highlights
Total gross acres 187,000
Northstar average interest ..... approx. 7.5%
Sohio average interest .... approx. 87%
Seismic processed .... 600 miles
First well .... Upton Canyon No. 1
Spud date .... July 25, 1983

Sohio Spuds First Well in Salinas

During the first six months, the majority of Northstar's activities in the U.S. were directed towards the development and acquisition of leases for resale. Northstar has also participated in two gas wells and has committed to a further six wells to be drilled during the second half. The majority of the costs of these wells will be incurred by other companies on our behalf.

Northstar's most significant project in the U.S. is the exploration of the Salinas Basin which is approximately 50 miles north of Santa Barbara, California. Northstar and its joint venture partners sold a 70% working interest in this project to Sohio Petroleum Company in 1982 for $24 million cash. In addition, Northstar is carried, cost free through the first $8.5 million of exploration costs and retains a net interest of 4.2% on 157,000 acres and 21% on an additional 30,000 acres.

The Salinas Basin was selected for exploration because of the potential for geologic features similar to the neighboring San Ardo field to the north (5,000,000 barrels produced to date) and to the offshore Santa Maria Basin (where bids, exceeding $2.7 billion, were recently made by the majors). The Salinas Valley is an underdrilled area with only one or two prior wells drilled per township in the southern area. Most of the early activity took place in the 1940s and 1950s. Detailed subsurface geologic data is sparse and an ambitious seismic program is necessary to provide adequate bases to drill wildcat wells. The presence of the Monterey and Vaqueros formations in the Salinas Basin have been well established both in surface outcrops and in the subsurface and this project is premised on the probability that it is highly unlikely that nearly all of the oil generated from a very rich source rock is trapped in one accumulation at San Ardo.

Sohio has undertaken a large seismic exploration program, which is still in progress; over 600 miles of seismic data are being shot and reprocessed to establish drillable structural and stratigraphic traps for the Monterey and Vaqueros section. Several independent prospects have been identified, any of which has the potential of a major discovery exceeding 100 million barrels.

The first exploratory well, Sohio Petroleum Co. Upton Canyon No. 1, was spudded in late July and is currently drilling ahead. This is the first of what is expected to be a multi-well program to determine the potential of the reservoirs in this area. It is anticipated that at least six more exploratory wells will be drilled during the next twelve to eighteen months.

Two important events have occurred in the past year that add significance to the Salinas Basin Project. In the Santa Maria Basin offshore California, a group led by Texaco and another led by Standard Oil of California have made major discoveries at Hueso and Point Arguello respectively. Other major oil companies are also active in this region, where over 40 wildcat wells have been drilled to date. These exciting oil discoveries are found in traps similar to those being analyzed in Salinas and the oil is being discovered in formations (the Monterey) of the same age as the section we will explore.

Another discovery of more immediate importance occurred last year in the Salinas Basin. The Texaco Hames Valley Unit 1-15 was tested at 400 barrels of oil per day and 500,000 cubic feet of gas per day. The oil gravity is 38 degrees and is the first light gravity oil discovered in the Salinas Basin. The section perforated was the Monterey-Vaqueros formations which are our primary objectives. Northstar has approximately 6,500 acres offsetting this important discovery. In addition, Coastal Oil and Gas has recently spudded a well offsetting our southern acreage.

San Juan Basin, Colorado

Another area of importance to Northstar is the San Juan Basin in Colorado. Northstar has been acquiring leases in this area since early 1982 and to date holds an approximate 72% interest in 230,000 acres. The prospect known as the La Garita play is perceived as the northeast extension of the San Juan Basin, where sizeable hydrocarbon reserves are located. Activity in the area has recently increased with both Amoco and Milestone developing large land plays.

The complex geology of this volcanic region has necessitated the use of innovative geological, geophysical and geochemical techniques to test the potential of the area. These tests indicate that rocks beneath the San Juan volcanic field probably contain major reserves of oil and associated gas in a virtually unexplored cretaceous sedimentary basin.

Two multi-million barrel oil fields, the Gramps and Chromo fields, have been developed on the southern edge of the basin and a number of shows and seeps are confirmed from within the volcanic covered area. Despite a number of large structures present in this area, no significant wildcat tests have been drilled in this frontier basin.

Northstar is currently seeking a partner to jointly explore and develop this prospect.

Michigan Basin

Early in 1983 Northstar sold a 50% interest in its 34,000 acre Michigan play to Transco et al. Since the sale, approximately 22 miles of seismic has been shot and several well sites have been identified. The first location has been selected and the first exploratory well is expected to spud by the end of the third quarter.

Financial Review

The financial statements include the results of the Company's wholly owned subsidiary, Northstar Resources Inc., and its 51% owned subsidiary, Gane Energy Corporation Ltd., for the six months ended June 30, 1983. The Company's investment in S & T Drilling (Northern) Ltd. was written off in 1982 and therefore the results of this company are excluded. The 1982 comparative figures have been restated to account for S & T on an equity basis.

The net loss for the period amounted to $391,000 compared to a loss of $44,000 in 1982. The loss per share is calculated after deduction of accrued dividends payable and results in a loss per share of 9 cents in 1983 compared to 5 cents in 1982.

U.S. oil and gas revenues have declined from $712,000 in 1982 to $330,000 for the same period in 1983 as a result of both price and volume declines. However, our U.S. subsidiary's principal business is now the development, acquisition and sale of leases and they expect to regain profitability by year end.

During the first six months, Northstar issued $2.5 million of Convertible Debentures by way of private placement and $3.5 million of Convertible Debentures pursuant to a rights offering to shareholders. Both issues were fully subscribed. The proceeds of these issues were used to retire Northstar's long-term debt, to maintain the Company's investment in GLN Investments Limited and to increase the Company's working capital.

Consolidated Statement of Earnings and Retained Earnings

Six Months Ended June 30, 1983
(With comparative figures for the six months ended May 31, 1982)
(Unaudited)

	1983	1982
Revenue:		
Oil and gas - net	**$ 1,228,000**	$ 1,282,000
Prospect and study sales	**342,000**	—
Management fees	**493,000**	738,000
Interest and other	**97,000**	291,000
	2,160,000	2,311,000
Expenses:		
Cost of prospect sales	**280,000**	—
Operating	**238,000**	170,000
General and administrative	**1,288,000**	1,172,000
Interest	**616,000**	503,000
Depreciation and depletion	**457,000**	452,000
	2,879,000	2,297,000
Earnings (loss) before income taxes	**(719,000)**	14,000
Income Taxes:		
Current	**(74,000)**	(27,000)
Deferred (recovery)	**(200,000)**	293,000
	(274,000)	266,000
Loss before the undernoted	**(445,000)**	(252,000)
Minority interest	**54,000**	—
Equity share of earnings of S & T Drilling (Northern) Ltd.	—	208,000
Net earnings (loss)	**(391,000)**	(44,000)
Retained earnings (deficit), beginning of period	**(3,835,000)**	50,000
Preferred share dividends	—	322,000
Amortization of organization costs	**(22,000)**	—
Retained earnings (deficit), end of period	**$(4,248,000)**	$ (316,000)
Net earnings (loss) per share	**$ (0.09)**	$ (0.05)

Consolidated Statement of Changes in Financial Position

Six Months Ended June 30, 1983
(With comparative figures for the six months ended May 31, 1982)
(Unaudited)

	1983	1982
Source of Funds:		
From operations	**$ (188,000)**	$ 493,000
Issue of debentures	**6,000,000**	—
Issue of common shares	—	6,000,000
Note receivable	**1,890,000**	—
Increase in long-term debt	**357,000**	465,000
Deferred revenue	**65,000**	(612,000)
Proceeds on sale of resource properties	—	4,900,000
	8,124,000	11,246,000
Application of Funds:		
Purchase of property & equipment (net of grants)	**821,000**	2,124,000
Investments	**1,500,000**	6,000,000
Repayment of long-term debt	**3,685,000**	—
Preferred share dividends	—	322,000
Debenture issue costs	**15,000**	—
Preferred share dividends - subsidiary	**105,000**	—
	6,126,000	8,446,000
Increase in working capital	**1,998,000**	2,800,000
Working capital (deficit), beginning of period	**479,000**	(1,146,000)
Working capital, end of period	**$ 2,477,000**	$ 1,654,000

Northstar Resources Ltd. and its subsidiary companies are engaged in oil and natural gas exploration and production, and contract drilling in Canada, the United States and Australia. In Canada, 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. In the United States the common shares are traded on NASDAQ under the symbol NTHRF.

Northstar Resources Ltd.
2000 Ford Tower
633 - 6 Avenue S.W.
Calgary, Alberta T2P 2Y5
Telephone (403) 261-4830

Gane Energy Corporation Ltd.
800 - 640 - 8 Avenue S.W.
Calgary, Alberta
T2P 1G7
Telephone (403) 233-8282

Northstar Resources Inc.
Suite 850
1010 Lamar Building
Houston, Texas 77002
Telephone (713) 654-9238

S & T Drilling (Northern) Ltd.
P.O. Box 4890
Edmonton, Alberta
T6E 5G7
Telephone (403) 955-7011

NORTHSTAR RESOURCES

NORTHSTAR RESOURCES LTD.

THIRD QUARTER REPORT TO THE SHAREHOLDERS

For the nine months ended September 30, 1983

published November 24, 1983

U.S. Exploration Highlights

Salinas Valley, California

The first exploratory well to be drilled on the Salinas propsect, Sohio Petroleum Co. Upton Canyon No. 1, was spudded in late July. The well was drilled in the shallow south-easterly part of the basin and, based upon an evaluation of the electric logs, had been cased to a total depth of 6,201 feet. Although attempts to complete the well were not successful in recovering commercial quantities of hydrocarbons, the results provide substantial encouragement concerning the oil producing potential of the Monterey formation in the region.

To date Sohio has spent in excess of $30 million on land, an extensive 600 mile seismic program and the first exploratory well. The 1984 exploration program is budgeted to exceed $15 million. It is anticipated that a further six exploratory wells will be drilled on various prospects during the next twelve months.

The Salinas Valley project encompasses over 187,000 leased acres in an approximate 1,000 square mile area in San Luis Obispo and Monterey counties in south central California. Northstar has a net interest of 4.2% in 157,000 acres and 21% in an additional 30,000 acres.

La Garita, Colorado

Northstar and its partners have entered into a Joint Venture in which an 80% interest in the La Garita Project has been sold to a large U.S. based independent. The sale involves approximately 250,000 acres of land located in southwest Colorado. Northstar retains a royalty interest of 2.5% and a net working interest of 9.5% in the project.

The oil producing potential of the La Garita Project is premised geologically on a northeast extension of the San Juan Basin of New Mexico into a region concealed by surface volcanics. This area has been the focus of greatly increased industry leasing activity since the Northstar project was initiated two years ago.

The complex geology of this volcanic region has necessitated the use of innovative geological, geophysical and geochemical techniques to test the potential of the area. These tests indicate that rocks beneath the San Juan volcanic field have the potential to contain major reserves of oil and associated gas in a virtually unexplored cretaceous sedimentary basin.

It is expected that exploration drilling will commence by mid 1984.

Canadian Exploration Highlights

During the first nine months of 1983, Northstar's Canadian operating subsidiary Gane Energy participated in the drilling of sixty-two wells, resulting in fourteen oil wells, eighteen gas wells and thirty dry holes. This drilling activity consisted of:

1. Twenty-one or 34% drilled on farmouts at no cost to the Company (48% successful).
2. Twenty-six wells drilled in the Birch-Wavy Gas Contract Area (46% successful).
3. Fifteen wells drilled on other Alberta prospects (67% successful).

Delia

At Delia in southern Alberta, production facilities were installed and the gas plant expanded enabling five of the eight gas wells to be placed on stream. It is anticipated that aggregate production will average 3.4 MMcf/d. Gane Energy has an average working interest of 10.7% in the thirteen wells in the area; ten of which are now on stream.

Garrington

At Garrington in south-western Alberta, a third well has recently been drilled and cased to total depth. The well will be completed in two zones as an oil and gas well. The first two wells on this prospect were both completed as oil wells. Two further development wells are planned on this property in the next six months. Gane Energy's interest in this prospect varies from 8.1% to 16.2%.

Simonette East

At Simonette East, the Aberford well in 4-15-63-25 W5M has been plugged and abandoned. The results of this well have not detracted from the Company's primary drilling location, but have reduced the aerial extent of the prospect.

Fourth quarter activity

During the fourth quarter two development wells will be drilled at Esther and one infill well at Buick Creek South. Two farmout wells will be drilled at Crush and Peejay in British Columbia and Gane Energy will participate in one exploratory well at Seal in northern Alberta.

Financial Review

The financial statements include the results of the Company's wholly owned subsidiary, Northstar Resources, Inc., and its 51% owned subsidiary, Gane Energy Corporation Ltd., for the nine months ended September 30, 1983. The Company no longer consolidates its investment in S & T Drilling (Northern) Ltd. and, therefore, the 1982 comparative figures have been restated to account for S & T on an equity basis.

The net loss for the period amounted to $333,000 compared to a loss of $352,000 in 1982. The net loss per share is calculated after deduction of accrued dividends payable and results in a loss of 10 cents per share in 1983 compared to 11 cents in 1982. Cash flow from operations was $333,000 or 4 cents per share compared to $1,540,000 or 21 cents in 1982.

Consolidated Statement of Earnings

Nine Months Ended September 30, 1983
(with comparative figures for the nine months
ended August 31, 1982)
(Unaudited)

	1983	1982 (restated)
Revenue		
Oil and gas - net	**$1,948,000**	$1,985,000
Prospect and study sales	**1,246,000**	—
Management fees	**720,000**	2,181,000
Interest and other	**73,000**	217,000
	3,987,000	4,383,000
Expenses		
Cost of prospect sales	**896,000**	—
Operating	**374,000**	306,000
General and administrative	**1,665,000**	1,664,000
Interest	**904,000**	916,000
Depreciation and depletion	**720,000**	622,000
	4,559,000	3,508,000
Earnings (loss) before income taxes	**(572,000)**	875,000
Income Taxes		
Current	**(185,000)**	(43,000)
Deferred	**17,000**	693,000
	(168,000)	650,000
Earnings (loss) before the undernoted	**(404,000)**	225,000
Minority interest	**71,000**	(91,000)
Equity share of loss of S & T Drilling (Northern) Ltd.	**—**	(486,000)
Net earnings (loss)	**$ (333,000)**	$ (352,000)
Net loss per share	**$ (0.10)**	$ (0.11)
Cash flow from operations	**$ 333,000**	$1,540,000
Cash flow per share	**$ 0.04**	$ 0.21

Consolidated Statement of Changes in Financial Position

Nine Months Ended September 30, 1983
(with comparative figures for the nine months
ended August 31, 1982)
(Unaudited)

	1983	1982 (restated)
Funds Provided:		
From operations	**$ 333,000**	$ 1,540,000
Debentures issued	**6,000,000**	—
Common shares issued	**78,000**	6,000,000
Note receivable	**1,890,000**	—
Long-term debt	**388,000**	963,000
Deferred revenue	**119,000**	(612,000)
Sale of resource properties	**—**	22,501,000
	8,808,000	30,392,000
Funds Used:		
Property and equipment	**1,715,000**	2,960,000
Investments	**1,500,000**	6,000,000
Repayment of long-term debt	**3,685,000**	1,501,000
Debenture issue costs	**84,000**	—
Dividends paid by subsidiary	**103,000**	—
Conversion of debentures	**78,000**	—
Acquisition of Gane Energy	**—**	11,732,000
Dividends declared	**—**	482,000
Note receivable	**—**	1,776,000
	7,165,000	24,451,000
Increase in working capital	**1,643,000**	5,941,000
Working capital (deficit), beginning of period	**479,000**	(1,146,000)
Working capital, end of period	**$2,122,000**	$ 4,795,000

Northstar Resources Ltd. and its subsidiary companies are engaged in oil and natural gas exploration and production, and contract drilling in Canada, the United States and Australia. In Canada, 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. In the United States the common shares are traded on NASDAQ under the symbol NTHRF.

Northstar Resources Ltd.
2000 Ford Tower
633 - 6 Avenue S.W.
Calgary, Alberta T2P 2Y5
Telephone (403) 261-4830

Gane Energy Corporation Ltd.
800 - 640 - 8 Avenue S.W.
Calgary, Alberta
T2P 1G7
Telephone (403) 233-8282

Northstar Resources, Inc.
Suite 850
1010 Lamar Building
Houston, Texas 77002
Telephone (713) 654-9238

S & T Drilling (Northern) Ltd.
P.O. Box 4890
Edmonton, Alberta
T6E 5G7
Telephone (403) 955-7011

NORTHSTAR RESOURCES

“A conservative approach was taken in reviewing the value of the Company’s assets”

1983 In Review

The petroleum industry throughout North America experienced a slow year in 1983 as oil and gas prices remained flat and natural gas markets continued to soften.

Northstar’s efforts were concentrated during the year in consolidating and simplifying the business operations of the Company in order to develop maximum values from the existing asset base over time. Some difficult questions have been addressed in the process but we are confident the positive results of these necessary but difficult decisions taken in recent months will be reflected in the 1984 operating results.

Financial Results

Operating earnings before unusual or extraordinary items declined from $403,000 to a loss of $693,000 in 1983 due to a significant decline in prospect sale profits from the U.S. operation. Management’s own concern about these clearly unsatisfactory results led to a comprehensive review of the Company’s overall financial position and the book carrying costs of the asset base.

By industry standards, a conservative approach was taken in reviewing the value of the Company’s oil and gas assets and investments and provision was made for a write-down of $10.7 million with respect to the oil and gas assets of the Company’s Canadian oil and gas subsidiary, Gane Energy, and $9.2 million related to Northstar’s own oil and gas assets and other investments.

The restatement of current values will have the positive effect in future of reducing the necessary provisions for depletion, thereby improving the Company’s earnings. However, in the current year, the result has been a loss after extraordinary and unusual items of $15.5 million as opposed to a loss of $3.4 million in 1982.

Corporate Restructuring

The Board of Directors and the major shareholders of the Company have been closely involved in the development of a plan to bring the Company back to a sound financial position from which improved earnings and asset values may be developed in future:

- Subject to shareholders’ approval, Northstar’s short-term requirements will be met through a proposed private placement of $3.5 million of convertible debentures to our two major shareholders, GLN Investments Limited and HKNH Investment Holdings Inc., to be followed up with a similar $3.5 million issue to minority shareholders in order to allow them to fully maintain their positions in the Company. The proceeds of these issues will allow Northstar to develop the operations of its related companies and to seek other investment opportunities for value.

- The Company has not been in a position to pay dividends to its preferred shareholders for close to two years and the Company is not presently in a position to reinstate dividend payments. In these circumstances it may be in the best interest of all shareholders to have the Company propose an exchange of the preferred shares for common shares of Northstar. Any such proposal would be submitted for prior approval to both the common and the preferred shareholders of each class.

- The operations of the Company have been consolidated and overheads reduced through a number of significant steps taken during the past year. Northstar’s senior officers have become closely involved in the day-to-day operations of each of the companies in the group in order to instill a cost effective approach to operations and work toward the realization of maximum asset values.

- In developing the business plan for the Company, the senior management has worked closely with Hees International, a public corporate finance and management services company.

Three Month Results – 1984

The first quarter results for the three months ended March 31, 1984 provide evidence that the Company is slowly embarking on the road to recovery. A profit was achieved for the first time in two years of $72,000 versus a loss in the previous year of $141,000. Cash flow was $660,000, or $0.08 per share, compared to $117,000 for the comparable period in 1983.

“The next Salinas Valley well should spud in July”

Oil and Gas Operations

Although staffing levels were reduced considerably in the United States during the year, the Company continued to successfully generate prospects for resale to the industry. The most significant was the La Garita Project in southern Colorado on which Champlin Petroleum, as operator, is expected to commence drilling later this year. The Salinas Valley Project in California is expected to see additional exploratory drilling in 1984 with the spudding of the first test well on the Hames Valley prospect some time in July.

In Canada a great deal of effort has been expended in maximizing production from existing properties, which resulted in the increase of Canadian oil and gas revenues to $1.9 million in 1983. In addition, 20 wells, most of which were exploratory, were drilled on farmouts of Company lands.

During the coming year the Company will maintain a balance of risk in its exploration activities, utilizing its own capital for the development drilling of cash flow generating projects and "promoting" its higher risk exploration drilling to other oil companies.

Northstar intends to continue to strongly support the operations of Gane Energy and will maintain or increase its 51.3% position through the purchase of a minimum of 5.25 million treasury shares at $0.40 per share. Gane is presently seeking approval from regulatory authorities to proceed with its financing plans.

Drilling Operations

The past year was the most difficult in recent memory for the contract drilling industry in Alberta. The survival of many companies was in doubt and, in fact, some did not weather the storm. Through the extensive assistance of Hees International, S&T expects to successfully complete a major financial restructuring and reduction in long-term debt, which will ensure the drilling company's future viability.

As the largest shareholder, Northstar will acquire new equity in S&T for $2.6 million and in addition, provide up to $1.4 million of secured working capital to S&T during the next five years. The restructuring will provide the opportunity for Northstar to recover its full investment in S&T that had been previously written off.

Investments

Northstar currently owns 20% of GLN Investments Limited in conjunction with Great Lakes Power Investments Limited, one of the Brascan group of companies. GLN's most significant investment is its 17% interest in Union Gas Limited. At Northstar we believe that the funds committed to this investment can be most effectively utilized in other situations and we will continue to pursue opportunities to realize the maximum value for our holdings over the short term.

Northstar currently owns a controlling position in Northgane Minerals Ltd., which has recently filed a final prospectus for the issue of $750,000 of treasury shares. The proceeds will be used to develop Northgane's proven gold reserves at Germansen River, B.C.

"The Company can develop and maintain a steady future pattern of growth in earnings and asset value per share"

Outlook for 1984

The petroleum industry in North America is showing a number of signs of improvement and drilling activity levels are expected to generally increase in 1984. As time passes it is becoming apparent the so-called U.S. natural gas surplus, is really a short-term deliverability surplus only. More widespread realization of this fact, particularly in the U.S., will give a boost to the industry in both countries.

In Canada, the politics of energy have swung in the direction of recognizing the failings of the National Energy Program. Less intervention can be expected from future governments, whether Conservative or Liberal, and this will lead to increased investor confidence and interest in the industry.

The immediate objective for Northstar is to complete the financial and operational restructuring of each of the companies in the group in order to satisfy their current financial needs and enhance the Company's ability to continue showing the improved financial results that commenced in the first quarter.

The Board of Directors is committed to working with management to access new opportunities which can build on the strengths of the current organization. We are grateful to have their experience and support. We believe a cautious approach to growth, combined with the skills and continued dedication of our employee group and the support of our major shareholders will ensure the Company can develop and maintain a steady future pattern of growth in earnings and asset value per share.

On behalf of the Board of Directors,

John A. Hagg
Chairman

Michael M. Kanovsky
President

May 15, 1984

United States

The Company's exploration and prospect development activity yielded mixed results in 1983. Nevertheless, relative to the negative experience of many Canadian companies that expanded into the U.S. prior to the recession, Northstar has achieved exceptional success through the in-house development of major exploration projects for resale to the industry.

La Garita, Colorado

During the year 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 and drilling is expected to commence in the latter part of the year.

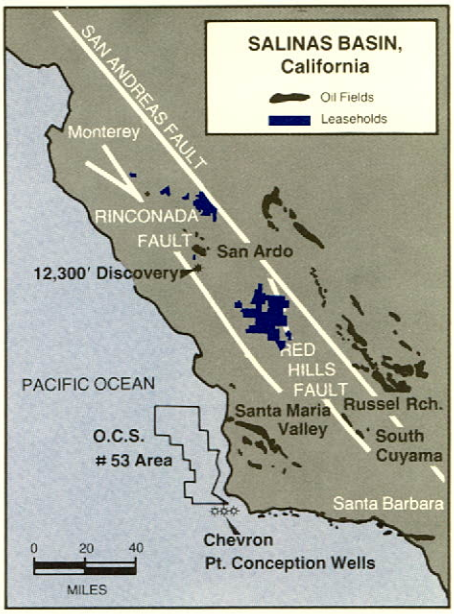
Salinas, California

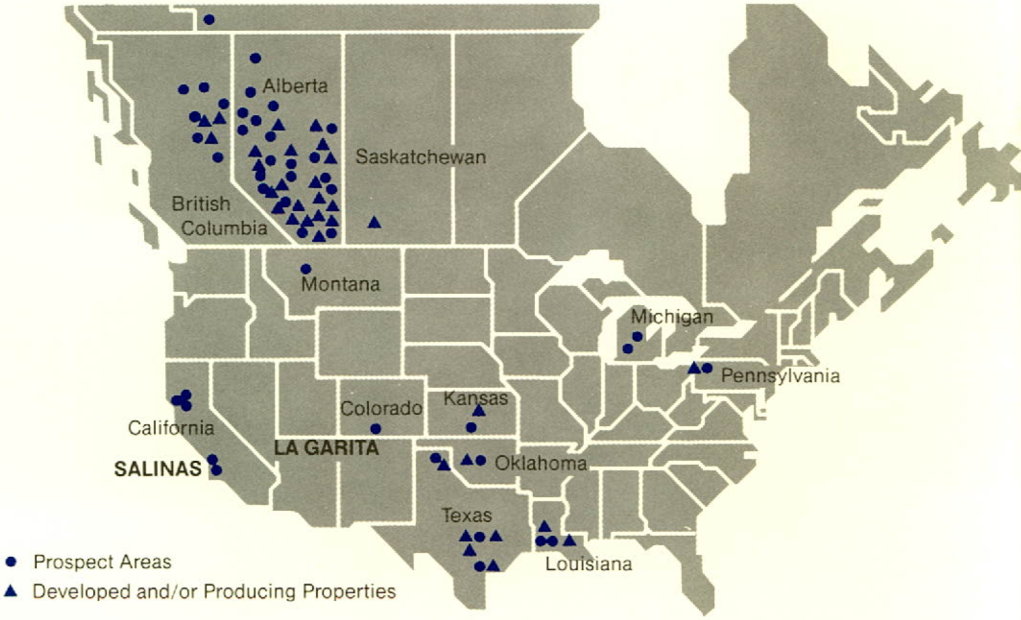
The first exploratory well to be drilled on the Salinas prospect, Sohio Petroleum Co. Upton Canyon No. 1, was spudded in late July, 1983. The well was drilled in the shallow south-easterly part of the basin and, based upon an evaluation of the electric logs, had been cased to a total depth of 6,201 feet. Although attempts to complete the well were not successful in recovering commercial quantities of hydrocarbons, the results provide substantial encouragement concerning the oil producing potential of the Monterey formation in the region.

The major emphasis by the operator in 1983 and into 1984 was an extensive seismic program involving the shooting and processing of over 600 miles of seismic data. To date, Sohio has expended in excess of $30 million on this project, with over 97% related to lease and seismic costs. The project is now moving into the more active exploration phase.

The drilling of the project will commence in earnest during the latter part of 1984. The primary well locations are currently being permitted and the initial well in the Hames Valley area is expected to spud in July. Target depths of 11,000 feet - 12,000 feet are expected in this area.

The Salinas Valley project encompasses over 187,000 leased acres in an approximate 1,000 square mile area in San Luis Obispo and Monterey counties in south central California. Northstar has a net interest of 4.2% in 157,000 acres and 21% in an additional 30,000 acres.





Other U.S. Exploration

In the Sacramento Valley of Northern California, the Company has been consistently successful in "promoting" prospects to the industry. Although drilling success rates in the area have been generally low, significant reserve potential exists relative to the costs of exploration. Three prospects are expected to be drilled in 1984 at no cost to Northstar.

The remaining major area of interest to the Company continues to be the Gulf Coast region of Texas and Louisiana where multiple objective horizons for both oil and gas production may be found. Four or five new prospects are expected to be developed to the drilling stage this year.

Land Holdings

	Gross Acres	Net Acres
Canada	470,000	90,000
United States	494,000	72,000
Total	964,000	162,000

The Company's undeveloped land holdings have an estimated replacement value of approximately $5.0 million in Canada and $4.0 million in the United States.

Production and Reserves

	Oil (Barrels)	Gas (MMcf)
Production		
total	61,000	477
per day	167	1.3
Reserves		
Canada	625,000	37,000
U.S.	170,000	2,500

The reserves have been estimated before provision for royalty and include both proved and probable reserves.

Canada

In 1983 the Company participated in the drilling of 86 wells in Canada resulting in 21 oil wells, 28 gas wells and 37 dry holes. This drilling activity consists of three major components:

1. 20 of the wells were drilled on farmouts at no cost to the Company and 35% of these wells were successful.
2. 44 of the wells were drilled in the Birch-Wavy Contract Area Joint Venture and 57% of these wells were successful.
3. The remaining 22 wells were drilled by the Company with a 77% success rate.

Gane Energy's exploration group was successful in generating $207,000 in management fees in 1983 through the sale of prospects and the sale of its east-central Alberta Leduc regional geological study. This figure has already been surpassed in the first quarter of 1984 and we anticipate a very successful year in this area of our business with new projects underway on the D-3 in western Alberta and on the Slave Point in northern Alberta.

The unique abilities of the group are further demonstrated by the following project:

Senex

In early 1983 the exploration group undertook the preparation of a regional geological study of the Keg River formation. The study encompasses a large portion of northern Alberta.

A considerable amount of land activity and a new discovery by Amoco which is on production at rates exceeding 750 barrels of oil per day have assisted in making this project a major success. To date the Company has sold 15 copies of the study for $180,000 and has arranged for the shooting of 256 miles of seismic data at no cost to the Company in consideration for our work expertise in the area.

In addition, the Company is negotiating the formation of a land acquisition joint venture in which the Company will receive a 25% carried working interest in exchange for its technical data.

Few other junior oil and gas companies have the capacity to generate and coordinate a program of this nature in which a geological concept can be translated into hundreds of thousands of dollars of cash, technical information and carried interests into land sales.

Delia

Development of our property at Delia was accelerated during 1983 with the drilling of six additional wells. The Company has varying interests (average of 6.5%) in six gas wells producing 5.4 million cubic feet per day and four oil wells (average interest 6.7%) producing 90 barrels of oil per day. During 1984 we will tie-in a new well which is expected to add 1 million cubic feet per day (105 Mcf/day net to the Company).

Misty Lake

This is the type of project on which the Company will continue to concentrate its efforts in order to develop near term cash flow. The wells are inexpensive to drill, have average reserves of 75,000 barrels per well and have good initial production rates of 30 to 50 barrels of oil per day. The Company holds a meaningful interest, 35% in 8,320 gross acres (2,944 net acres) in this area of southern Alberta. During 1983 several events significantly increased the potential of this property.

1. Seven of the eight oil wells were reclassified as NORP production.
2. The spacing was reduced from 80 acres to 40 acres.
3. The minimum allowable was increased from 30 BOPD to 50 BOPD.

There are now eight productive oil wells on the property, two of these were drilled in 1983. We are currently budgeting for six additional development step-out locations and depending upon the outcome of a seismic program, which is currently being shot over the acreage, may add one or two exploratory wells.

Drilling Operations

1983 Drilling Rig Utilization

	S&T	Alberta Industry
No. of Rigs	9	380
January	34.8%	51.3%
February	60.0	48.0
March	55.9	40.6
April	8.9	11.9
May	10.8	13.6
June	49.6	29.2
July	58.8	35.8
August	79.2	48.7
September	48.9	36.3
October	27.2	35.0
November	61.5	44.1
December	61.3	54.0
Total	46.4%	37.4%

Utilization is the percentage determined by dividing actual rig operating days by total available rig days.

Background

Northstar became actively involved in the oilwell drilling business through the purchase of a 65% interest in S&T Drilling (Northern) Ltd. in January, 1981. Northstar's interest was subsequently reduced to 50%.

Northstar is actively involved in managing and supporting the business operations of S&T Drilling. In September, 1982, John Hagg, Northstar's Chairman, was appointed President of S&T Drilling.

S&T History

S&T Drilling is one of the longest established private drilling contractors in Canada. The Company was founded in 1952 and, commencing in the mid-1960's, it was run under the general management of Jim Davidson for many years. Mr. Davidson bought the Company in 1975 and built S&T to an 11 rig operation before selling control to Northstar in January, 1981. He has retained an equity interest in the drilling company and remains on the Board of Directors.

Operations Summary

S&T Drilling achieved a creditable rig utilization rate of 46% during 1983 as compared to the total industry rate of 37% throughout Alberta. Nevertheless, there is not sufficient demand in the present economic environment for the number of available rigs. Consequently, contract rates and operating margins remain seriously eroded. The Company's head office has been moved to Calgary so that the senior management may maintain close contact with S&T's oil company customers.

In September, 1982, when it became apparent that the contract drilling industry in Oklahoma was going to continue to sustain generally unprofitable operations, S&T Drilling elected to discontinue its operations. Rigs #1 and #6 were moved back to Alberta. Rigs #8 and #11 remain stacked in Oklahoma City, awaiting more profitable drilling opportunities in the U.S. or elsewhere. Current indications are that drilling for deep gas in Oklahoma will experience an increase in 1984, affording opportunities to S&T to put these rigs back to work.

Outlook for 1984

The contract drilling industry in North America continues to experience the most severe underutilization of its capacity in many years.

Management believes S&T will be able to maintain above average performance levels in the months ahead. Nevertheless, despite the Company's established reputation, S&T will continue to be affected by conditions that are expected to generate further industry losses well into 1984.

Corporate Restructuring

Intensive efforts by the shareholders of S&T to work closely with the Company in the restructuring of its long-term debt are expected to be positively concluded in the very near future ensuring the future viability of S&T and providing Northstar with an opportunity to recover its full investment in the drilling company which had been previously written off.

As part of the restructuring, new equity will be raised in S&T of which Northstar's share will be $2.6 million. In addition, Northstar will provide up to $1.4 million of secured working capital to S&T for a period of five years.

Consolidated Balance Sheet

December 31, 1983

Assets

	1983	1982
Current assets		
Cash	$ 2,738,000	574,000
Accounts and notes receivable	5,416,000	7,467,000
Marketable securities - at market value	–	380,000
Inventory - at cost	–	1,275,000
	8,154,000	9,696,000
Investments (Note 2)	4,195,000	7,901,000
Property and equipment (Note 3)	26,533,000	41,517,000
Organization costs	–	401,000
	$ 38,882,000	59,515,000

Liabilities and Shareholders' Equity

	1983	1982
Current liabilities		
Accounts payable	$ 2,448,000	3,152,000
Bank loan	2,000,000	–
Current portion of long-term debt	1,678,000	3,061,000
Current portion of deferred income taxes	–	404,000
Due to associated company (Note 4)	2,600,000	2,600,000
	8,726,000	9,217,000
Deferred revenue	243,000	124,000
Long-term debt (Note 5)	5,647,000	9,811,000
Deferred income taxes	–	820,000
Minority interest	9,567,000	14,960,000
Convertible debentures (Note 6)	5,923,000	–
Shareholders' equity		
Share capital (Note 7)	28,495,000	28,418,000
Deficit	(19,719,000)	(3,835,000)
	8,776,000	24,583,000
	$ 38,882,000	59,515,000

On behalf of the Board: John A. Hagg, Director Michael M. Kanovsky, Director

Consolidated Statement of Earnings

Year ended December 31, 1983 (with figures for 13 months ended December 31, 1982)

	1983	1982
Revenue		
Oil and gas sales	$ 3,036,000	3,107,000
Prospect sales	1,173,000	5,250,000
Management fees	795,000	943,000
Interest and other	124,000	623,000
	5,128,000	9,923,000
Expenses		
Operating	663,000	589,000
Cost of prospect sales	1,033,000	1,752,000
General and administrative	2,624,000	3,133,000
Interest on long-term debt	1,141,000	1,199,000
Depreciation and depletion	793,000	1,254,000
Loss on marketable securities	—	610,000
Income taxes (Note 8)	(433,000)	983,000
	5,821,000	9,520,000
Operating (loss) earnings before the following	(693,000)	403,000
Unusual items (Note 9)	(19,894,000)	—
Minority interest	5,257,000	64,000
Equity in loss of subsidiaries	(153,000)	(943,000)
Loss before extraordinary items	(15,483,000)	(476,000)
Extraordinary items	—	(2,883,000)
Net loss after extraordinary items	$(15,483,000)	(3,359,000)
Per common share		
Loss before extraordinary items	$ (1.96)	(0.17)
Net loss after extraordinary items	$ (1.96)	(0.55)

Consolidated Statement of Retained Earnings

Year ended December 31, 1983 (with figures for 13 months ended December 31, 1982)

	1983	1982
Retained earnings (deficit), beginning of year	$(3,835,000)	50,000
Net loss after extraordinary items	(15,483,000)	(3,359,000)
Less:		
Preferred share dividends	—	(482,000)
Writeoff of share issue costs	(401,000)	(44,000)
Deficit, end of year	$(19,719,000)	(3,835,000)

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1983 (with figures for 13 months ended December 31, 1982)

	1983	1982
Funds provided		
Operations	$ 78,000	2,795,000
Common shares issued	77,000	6,000,000
Debentures issued	6,000,000	–
Long-term debt	–	3,148,000
Note receivable	1,890,000	–
Deferred revenue	119,000	(551,000)
Petroleum incentive grants	1,034,000	1,458,000
Share capital issued (cancelled) by subsidiaries	(10,000)	650,000
Sale of property and equipment	123,000	4,912,000
Transfer of resource properties and investments	–	14,752,000
Sale of investments	–	449,000
	9,311,000	33,613,000
Funds used		
Repayment of long-term debt	4,164,000	2,328,000
Property and equipment	4,091,000	6,618,000
Investments	1,927,000	7,901,000
Conversion of debentures	77,000	–
Dividends – paid by subsidiary	103,000	98,000
– paid by Company	–	482,000
Due to associated company	–	2,600,000
Acquisition of subsidiary	–	11,951,000
Organization costs	–	10,000
	10,362,000	31,988,000
(Decrease) increase in working capital	(1,051,000)	1,625,000
Working capital (deficiency), beginning of year	479,000	(1,146,000)
Working capital (deficiency), end of year	$ (572,000)	479,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Northstar Resources Ltd. as at December 31, 1983 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, 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 period.

Calgary, Canada
April 27, 1984

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Significant Accounting Policies

December 31, 1983

The consolidated financial statements of the Company are stated in Canadian dollars and have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied, except for the change in method of foreign currency translation described in Note 1, and which conform in all material respects with International Accounting Standards. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and in light of information available up to April 27, 1984. Significant accounting policies are summarized below:

a) Principles of consolidation

(i) The consolidated financial statements include the accounts of the Company, its wholly owned subsidiary, Northstar Resources Inc., and its 51% owned subsidiary Gane Energy Corporation Ltd.

(ii) During the year the Company's interest in S&T Drilling (Northern) Ltd. ("S&T") was reduced to 49% as a result of the issue of shares of S&T to a company, the shares of which are held by certain directors of the Company in trust for future purchase by the employees of S&T.

The Company accounts for its investment in S&T using the equity method. The investment account has been reduced to nil; accordingly the Company's equity in the losses of S&T for the year ended December 31, 1983 are not reflected in these financial statements.

(iii) The Company's 78% owned subsidiary Northgane Minerals Ltd. is accounted for by the equity method, since the successful completion of a proposed public offering in 1984 will dilute the ownership to less than 50%.

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 leasehold acquisition costs, geological and geophysical expenses, 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. Proceeds on property sales and government grants are credited against costs. The costs are depleted on the unit-of-production method, based on estimated proven recoverable reserves.

c) 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.

d) 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.

e) Accounting for changing prices

These financial statements reflect neither the impact of specific price changes nor changes in the general level of prices.

f) Foreign currency translation

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, other assets and liabilities at historical rates, revenue and expense items, except for depreciation and depletion which is translated at the same rates as used for the related assets, at the average rate and resulting gains and losses are recognized in the statement of earnings.

g) Earnings per share

Earnings per common share have been calculated using the weighted average number of common shares outstanding during the year. The conversion of the preferred shares and debentures and the exercise of employee share options would not have a dilutive effect on the current year's loss per share.

h) Lease inventory

Lease inventory includes the acquisition cost of those petroleum and natural gas leases which have been purchased with the sole intention of resale at a later date. Amounts capitalized include lease acquisition costs and all other costs incurred in maintaining, promoting and selling the leases. The sale of an inventory lease is recognized through the statement of earnings, however the gain may be restricted if the Company retains significant future exploration commitments.

1. Change in accounting policy

Effective January 1, 1983, pursuant to recent recommendations issued by the Canadian Institute of Chartered Accountants, the Company retroactively adopted the temporal method for the translation of the financial statements of its U.S. subsidiaries. Previously, the Company had used the current, non-current method. This change has no material effect on the financial statements of current or prior years.

2. Investments

	1983	1982
Note receivable (maturity February 3, 1984)	$ —	1,890,000
Northgane Minerals Ltd., at equity	**79,000**	—
Investment in associated company, at written down value	**4,011,000**	6,011,000
Other, at cost or written down value	**105,000**	—
	$ 4,195,000	7,901,000

3. Property and equipment

	1983			1982
	Cost	**Accumulated Depreciation and Depletion**	**Net Book Value**	Net Book Value
Petroleum and natural gas properties	**$ 30,147,000**	**3,793,000**	**26,354,000**	41,248,000
Other	**518,000**	**339,000**	**179,000**	269,000
	$ 30,665,000	**4,132,000**	**26,533,000**	41,517,000

4. Due to associated company

A financial restructuring plan between S&T's shareholders and its bankers provides that the Company will contribute $2.6 million of new equity capital to S&T. The Company intends to fund this investment through the issue of new securities.

5. Long-term debt

	1983	1982
Bank indebtedness	**$ 7,325,000**	12,341,000
Notes and mortgage payable	—	531,000
	7,325,000	12,872,000
Less current portion	**1,678,000**	3,061,000
	$ 5,647,000	9,811,000

The bank indebtedness is secured by a first fixed charge on the Company's oil and gas properties and an assignment of accounts and notes receivable. The loans bear interest at rates which vary between prime rate plus 5/8% and prime rate plus 3/4%.

Included in bank indebtedness is U.S. $1,064,000 repayable on March 1, 1984 and Cdn. $4,000,000, repayable in equal quarterly instalments over the next 8 1/2 years commencing April 1, 1984. The balance is payable on demand, however the bank has indicated that no principal repayments will be required for this loan during 1984.

Minimum principal repayments over the next five years are as follows:

1984 — $1,678,000; 1985 — $470,000; 1986 — $470,000;
1987 — $ 470,000; 1988 — $470,000

6. Convertible debentures

The convertible debentures mature on June 30, 1988 and bear interest equal to the bank prime rate. The debentures are convertible at any time into common shares of the Company at $1.00 per share. The Company may redeem the outstanding convertible debentures at any time after March 1, 1985, on 30 days notice, providing the common shares have traded for 20 consecutive business days at a minimum average price of $1.60 per share.

7. Share capital

The share capital at December 31, 1983, and 1982 was as follows:

	1983	1982
First preferred shares, par value $10 per share; authorized 10,000,000 shares issuable in one or more series; issued: 500,000 10% cumulative redeemable convertible Series A shares	**$ 5,000,000**	5,000,000
Second preferred shares, par value $10 per share; authorized 500,000 shares issuable in one or more series; issued: 40,000 8% cumulative redeemable Series A shares	**400,000**	400,000
issued: 139,058 8% cumulative redeemable Series B shares	**1,391,000**	1,391,000
Common shares, without nominal or par value; authorized 25,000,000 shares; issued: 8,222,656 shares (1982 - 8,144,956 shares)	**21,704,000**	21,627,000
	$ 28,495,000	28,418,000

The first preferred shares are convertible into 899,280 common shares at $5.56 per share at any time prior to April 30, 1991.
As at December 31, 1983, preferred share dividends in the amount of $965,000 were in arrears.
During the year, 77,700 common shares were issued as a result of the conversion of debentures in the principal amount of $77,700.
During the year, 20,000 options to purchase common shares of the Company at $1.00 per share were issued and 97,500 options expired. At December 31, 1983, 183,600 options were outstanding at prices which vary between $1.00 and $5.50 exercisable on varying dates to January 1, 1987.

8. Income taxes

The provision for income taxes consists of:	1983	1982
Current	**$ 7,000**	51,000
Deferred (recovery)	**(440,000)**	932,000
	$(433,000)	983,000

The taxes provided differ from the amount that would have been expected if the reported pre-tax earnings were subject to the combined Federal and Provincial tax rates for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided were as follows:

	Percent of Pre-tax Earnings	
	1983	1982
Computed "expected" income taxes (recovery)	**(47.9)**	48.8
Increases (decreases) resulting from:		
Non-deductibility of Crown payments	**14.7**	9.2
Depletion	**13.0**	12.5
Non-deductible portion of capital loss	**2.0**	7.0
Loss carry forward without virtual certainty of recovery	**10.1**	7.0
Other	**(5.0)**	3.7
	(13.1)	88.2
Rate adjustments:		
Foreign tax rate difference	**(1.2)**	(6.1)
Provincial tax credits	**(11.5)**	(6.1)
Resource allowance	**(12.7)**	(5.1)
	(38.5)	70.9

Property and equipment with a carrying value of approximately $12,000,000 has a nil cost for tax purposes.
The Company and its consolidated subsidiaries have unrecognized non-capital and capital loss carryforwards of approximately $9,000,000 and $6,000,000 respectively available for offset against future accounting income. The non-capital losses expire at various dates subsequent to December 31, 1987.

9. Unusual items

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

10. Remuneration of directors and senior officers

The aggregate remuneration paid to directors and senior officers of the Company for the year ended December 31, 1983 amounted to $287,000 (1982 - $381,000). No remuneration was paid to directors as such.

11. Segmented information

The company operates principally as an oil and gas exploration and development company. The Company's operations can be geographically segmented as follows:

	1983		
	Canada	**United States**	**Total**
Revenue	**$ 2,669,000**	**2,459,000**	**5,128,000**
Operating loss	**$ (374,000)**	**(319,000)**	**(693,000)**
Identifiable assets	**$ 30,776,000**	**8,106,000**	**38,882,000**

	1982		
	Canada	United States	Total
Revenue	$ 2,504,000	7,419,000	9,923,000
Operating income (loss)	$ (1,062,000)	1,465,000	403,000
Identifiable assets	$ 36,695,000	22,820,000	59,515,000

12. Related party transactions

a) At December 31, 1983 share purchase loans outstanding to senior officers of the Company and its subsidiaries aggregated $220,000.

b) During the year the Company charged management fees aggregating $226,000 to an associated company, all of which has been received.

13. Commitments and contingency

a) The Company is contingently liable under a letter of credit in the amount of $407,000 U.S. The Company has entered into an agreement whereby a third party has agreed to make any ultimate payments required. Therefore, it is management's belief that no liability exists.

b) The Company has the following approximate minimum annual lease commitments in respect of each of the next five years: 1984 — $295,000, 1985 — $210,000; 1986 — $15,000; 1987 — $10,000 and 1988 — $nil.

14. Comparative figures

Certain 1982 figures have been reclassified to conform with the current year's presentation.

Corporate Information

Northstar Resources Ltd.

2000 Ford Tower, 633 - 6th Avenue S.W.,
Calgary, Alberta T2P 2Y5 Telephone (403) 261-4830

Registrar

The Canada Trust Company, Calgary, Alberta

Transfer Agent

The Canada Trust Company, Calgary, Alberta; Toronto, Ontario

Shares Listed

The Toronto Stock Exchange; The Alberta Stock Exchange

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 (Northern) Ltd.

Robert A. Dunford[1], Toronto
Senior Vice-President
Brascan Limited

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

F. Warren Hurst[1 2], Toronto
Vice-Chairman
F.H. Deacon Hodgson, Inc.

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

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

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

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

Subsidiaries

Northstar Resources, Inc.
Suite 850
1010 Lamar
Houston, Texas 77002
Telephone (713) 654-9238

Gane Energy Corporation Ltd.
800 Western Union Building
640 - 8th Avenue S.W.
Calgary, Alberta T2P 1G7
Telephone (403) 233-8282

S&T Drilling (Northern) Ltd.
P.O. Box 4890
Edmonton, Alberta T6E 5G7
Telephone (403) 955-7011

20th Floor Ford Tower
633 - 6th Avenue S.W.
Calgary, Alberta T2P 2Y5
Telephone (403) 234-7361

GLN Investments Limited
Suite 4800
Commerce Court West
Toronto, Ontario M5L 1B1
Telephone (416) 363-9491

Northstar Resources Ltd.
2000 Ford Tower
633 - 6th Avenue S.W.
Calgary, Alberta T2P 2Y5
Telephone (403) 261-4830