OAKWOOD PETROLEUMS LTD. 1984 ANNUAL REPORT

CORPORATE PROFILE

Oakwood Petroleums Ltd. is a Canadian owned and controlled public company with a Canadian Ownership Rate ("COR") of 92%. The Company was incorporated under the laws of Canada on November 28, 1925.

The Company's principal business is the acquisition of, exploration for and development and production of oil and natural gas, primarily in Alberta, Saskatchewan, British Columbia and certain Canadian frontier regions. Through subsidiaries, the Company also has interests in various other parts of the world, including the United States, Australia and offshore Spain.

The Company continued its pattern of growth by acquisition in 1984. In the first half of the year, it increased its ownership of Conventures Limited from 28% to 83% and acquired 75% of New York Oils Limited, for which it issued as consideration a total of 3,254,310 Class A Non-Voting Shares and 1,084,083 Class A Non-Voting Share purchase warrants valued at $26.0 million. In October and November, Conventures acquired 99% of Encounter Energy Resources Limited for $8.6 million cash. In December, Oakwood acquired 31% (43% of the voting rights) of Durham Resources Inc. for $7.7 million in preferred shares of a wholly owned subsidiary company, and thus added mining to its scope of activities.

In addition to its investment in Durham, the Company also has long-term investments in Alberta Natural Gas Company Ltd and American Oakwood Energy Ltd.

The number of outstanding shares of the Company was reduced in 1984 by repurchases by the Company of both Class A Non-Voting and Common Shares. The repurchase program, which is continuing in 1985, was implemented in response to the reduced market prices of the shares and will be continued as long as the Directors determine it to be a worthwhile investment of the Company's funds. Both the repurchase program and a donation of shares to the Company in 1984 have enhanced the investment of the Company's continuing shareholders.

The Company presently employs 162 people at its head office in Calgary, Alberta, its five field offices in Alberta and British Columbia, and its office in Sydney, Australia.

Shares of the Company are listed on the Toronto, Alberta and Montreal Stock Exchanges and trade under the symbol OAK.

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ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

An Annual and Special Meeting of Shareholders of the Company will be held in Macleod Hall "B" at the Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta at 10:00 a.m., Calgary Time, on May 28, 1985.

FINANCIAL REPORTING

All amounts are in Canadian dollars, unless stated otherwise.

VOLUME REPORTING

All production and reserve statistics are before royalties, unless stated otherwise.

WELL SYMBOLS

The following standard petroleum industry well symbols are used on the maps in this Annual Report.

- • *Oil*
- ☼ *Gas*
- ✧ *Dry and abandoned*
- ∀ *Service*
- ◊ *Suspended*
- ○ *Location*

METRIC CONVERSION

The petroleum industry in Canada has officially converted to the International System of Units for measuring and reporting. The following table notes conversion factors relevant to the industry.

To Convert from	***To***	***Divide By***
Thousand cubic feet (mcf) gas	*Thousand cubic metres (10^3m^3)*	*35.4937*
Barrels (bbls) oil	*Cubic metres (m^3)*	*6.2898*
Feet (well depths)	*Metres (m)*	*3.2808*
Miles (distance)	*Kilometres (km)*	*0.6214*
Acres (land)	*Hectares (ha)*	*2.4710*

HIGHLIGHTS

OPERATIONS

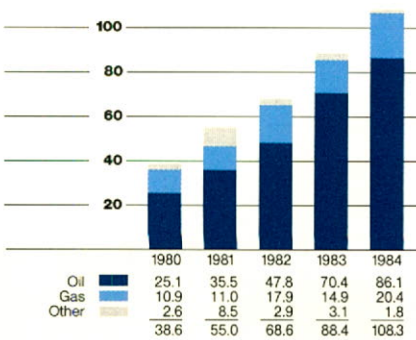
	1984	1983
Canadian proved reserves as at July 1 (1)		
Crude oil (million of barrels)	**38.2**	35.4
Natural gas (Bcf)	**305**	252
Daily production		
Crude oil (barrels)	**9,948**	9,248
Natural gas (Mmcf)	**25.5**	20.5
Canadian land holdings (thousands of acres)		
Gross	**13,197**	10,093
Net	**1,286**	1,030
Wells drilled		
Gross	**138**	108
Net	**37.8**	36.5

(1) Excluding reserves in the Beaufort Sea-Mackenzie Delta region

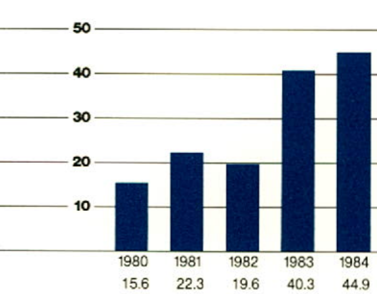
FINANCIAL (thousands of dollars except per share amounts)

	1984	1983
Revenue	**$108,317**	$ 88,443
Cash flow from operations	**44,855**	40,310
Per share	**3.08**	3.96
Discretionary cash flow	**33,921**	27,494
Per share	**2.33**	2.70
Earnings before extraordinary item	**6,219**	5,665
Per Class A Non-Voting Share	**0.13**	0.11
Per Common Share	**0.05**	0.06
Net earnings	**6,219**	6,693
Per Class A Non-Voting Share	**0.13**	0.21
Per Common Share	**0.05**	0.16
Total assets	**546,317**	426,228
Shareholders' equity	**124,592**	103,923
Capital expenditures	**45,945**	44,781

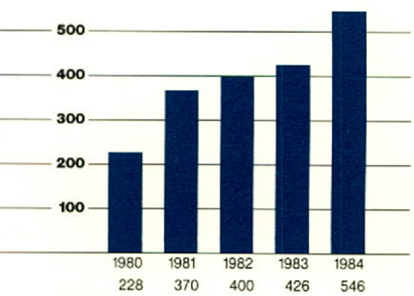
Revenue
Millions of Dollars



Cash Flow From Operations
Millions of Dollars



Total Assets
Millions of Dollars



Oakwood's Executive Committee of the Board of Directors
Seated: *Brian S. Ekstrom, President and Chief Executive Officer (left), Dallas E. Hawkins, Chairman of the Board and Edward G. McMullan*
Standing: *R. Ross Hamilton (left) and George W. Oughtred*

REPORT TO THE SHAREHOLDERS

We are pleased to present the accompanying Annual Report to you, covering your Company's operations and activities for the year 1984. During 1984, the Company undertook to provide to our shareholders and the financial community a detailed yet concise reference guide to your Company's history, operating status and corporate strategy for the future. That information was presented in the 1984 Corporate Profile, wherein your management outlined Oakwood's strategy of continuing to pursue a policy of growth and expansion—by developing our land holdings through exploration and development and thereby enhancing our oil and gas reserves base, yet still maintaining an active but selective acquisition program.

The financial and operating results outlined herein attest to the successes your Company has achieved in adhering to this policy, and include:

- Several exploration successes in northern Alberta and in the Beaufort Sea-Mackenzie Delta region.
- A very favourable finding cost for conventional reserves in western Canada, $3.22 per equivalent barrel, for the five year exploration and development program through June 30, 1984.
- Additions to proved reserves of both crude oil and natural gas (net of reserves added through acquisitions) in excess of the record levels of production attained during 1984.
- Record levels of cash flow from operations and discretionary cash flow.
- Continued development of our managerial team and support staff, taking maximum advantage of technological advances to improve our productivity.

1984 saw Oakwood involved in a number of exciting corporate developments. Your Company completed take-over bids for and now owns approximately 84% of Conventures Limited, 76% of New York Oils Limited and 100% of Encounter Energy Resources Limited. Oakwood also acquired 31% (43% voting control) of Durham Resources Inc., an investment which provides diversification into the mining sector as well as additional and unique opportunities in the petroleum and natural gas sector of our natural resource economy. By virtue of the acquisition of control of Conventures Limited, as well as additional investments in the open market, your Company's ownership in Alberta Natural Gas Company Ltd increased to 33% at the end of 1984.

The primary focus of your Company's activities is the oil and gas exploration and production industry. Your management is indeed encouraged by the dramatic change in the approach of the Federal Government, as evidenced by the Western Accord announced in late March 1985 which eliminated most of the remaining provisions of the infamous National Energy Program. The Western Accord heralds a much more rational and business-like approach to government involvement with our industry and seems to recognize the economic importance of this industry to our country, its development and well-being. The longer term impact of the provisions of the Western Accord points to significantly enhanced opportunities both for our Company and the industry in general. We look forward to the challenges presented by this new era and believe that our Company is strategically positioned to exploit these opportunities.

In accordance with earlier undertakings by the Board of Directors, your management intends to present to the shareholders, at our Annual Meeting on May 28, 1985, a proposal which will add take-over bid protective provisions for our Class A Non-Voting Shareholders, thereby ensuring equitable treatment to both the holders of our Common and Class A Non-Voting Shares in the event of a take-over bid by an outside party at any time.

Our management team has undergone several changes during the past year. Mr. Kenneth W. Germond has retired as Executive Vice-President, having served the Company most capably and professionally in an Officer role since 1977. We are deeply appreciative of his contribution to our Company's growth and success and are pleased to announce that he will continue to provide his invaluable counsel to the Company, both as a Director and also as Special Assistant to the President's Office. Mr. D. Nolan Blades, formerly Senior Vice-President, succeeds Mr. Germond as Executive Vice-President of the Company. Also during 1984, three new Officers were appointed—Mr. George W. Faulkner to the office of Vice-President, Corporate Development, Mr. Lloyd D. Mann as Vice-President, Production and Operations, and Mr. John G. Fletcher as Vice-President, Finance.

As we look into 1985 and the exciting period ahead of us in our industry, we realize that our success in facing the challenges ahead of us is dependent on the dedication and commitment of our employees. Their efforts, and those of our management team, have materially benefitted both Oakwood and its shareholders in the past, and will continue to do so in the future. We take this opportunity to express our sincere gratitude to them for their efforts.

A special tribute is due to Mr. Carl O. Nickle who will be retiring from our Board this year. We would like to thank him for his contribution, not only to Oakwood during the past year since our acquisition of Conventures, but more importantly for his life-long dedication and commitment to the business, political and cultural environment of Canada. Mr. Nickle will be asked to serve as a Director Emeritus of your Company at our upcoming Shareholders' Meeting and we look forward to ongoing benefits for the Company from his wise counsel and input.

We look forward to 1985 and beyond with optimism. Given the implementation of the provisions of the Western Accord, the abilities and dedication of our staff, and your continued support and encouragement, we anticipate continued growth and success for your Company.

Dallas E. Hawkins
Chairman of the Board

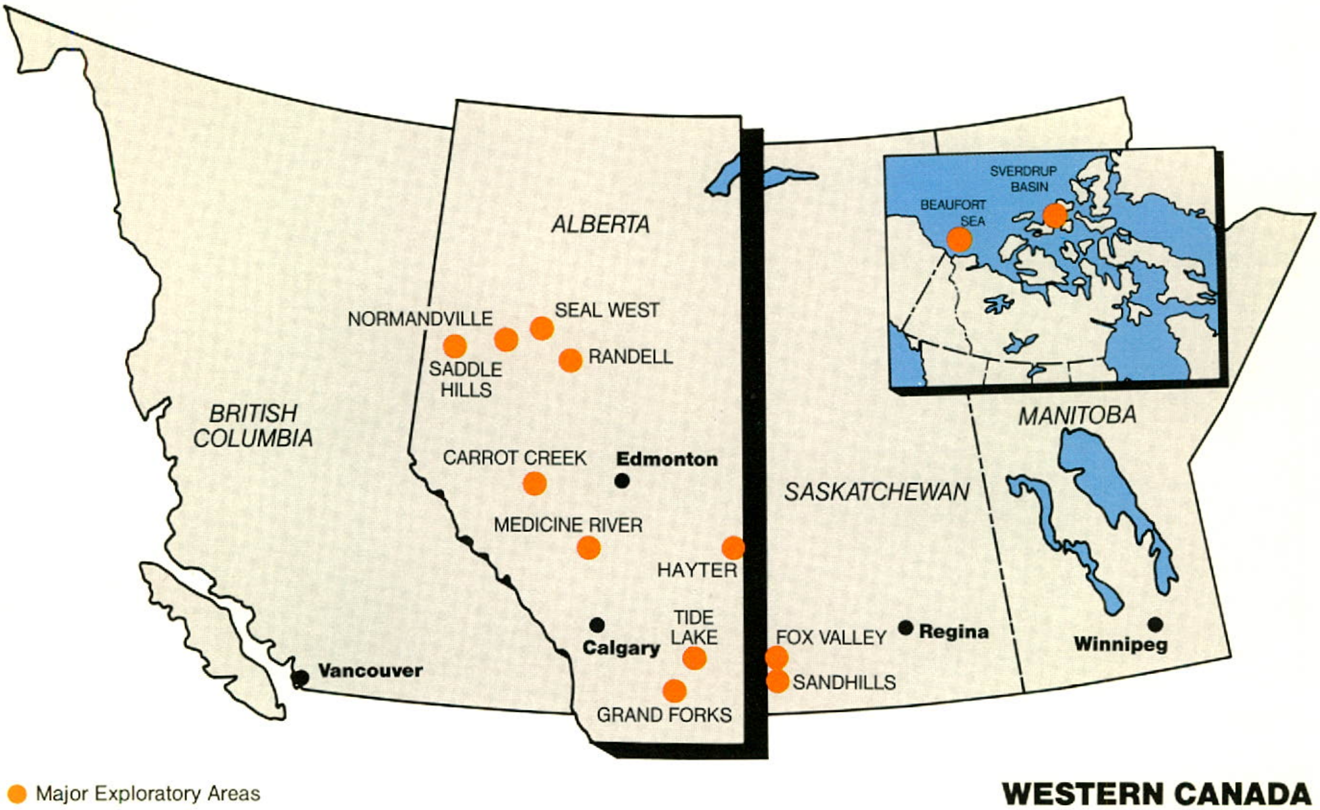
Brian S. Ekstrom
President and
Chief Executive Officer

EXPLORATION

SUMMARY

In 1984, Oakwood concentrated its Canadian exploration programs in Alberta and the Beaufort Sea-Mackenzie Delta area. Direct exploration expenditures in Canada, before Petroleum Incentives Program Credits, increased 15% over the previous year, to $21.7 million. International exploration expenditures, concentrated in Australia, also increased by 15%. Canadian exploratory drilling activity increased slightly to 36 wells, the second highest figure in the Company's history, from 34 wells in 1983, and yielded seven oil wells and eleven gas wells. Outside of Canada, nine exploratory wells were drilled yielding one gas well in Papua New Guinea. The Company's Canadian gross and net land holdings increased by 31% and 25%, respectively, due to the acquisitions of Conventures, New York Oils and Encounter, while the Company's international land holdings also increased significantly, primarily offshore Australia.

Of particular note is the Company's cost of finding reserves in western Canada. For the five year period ended June 30, 1984, and based on the July 1, 1984 independent reserves report, Oakwood's finding cost was $3.22 per equivalent barrel, a figure significantly below the industry average.



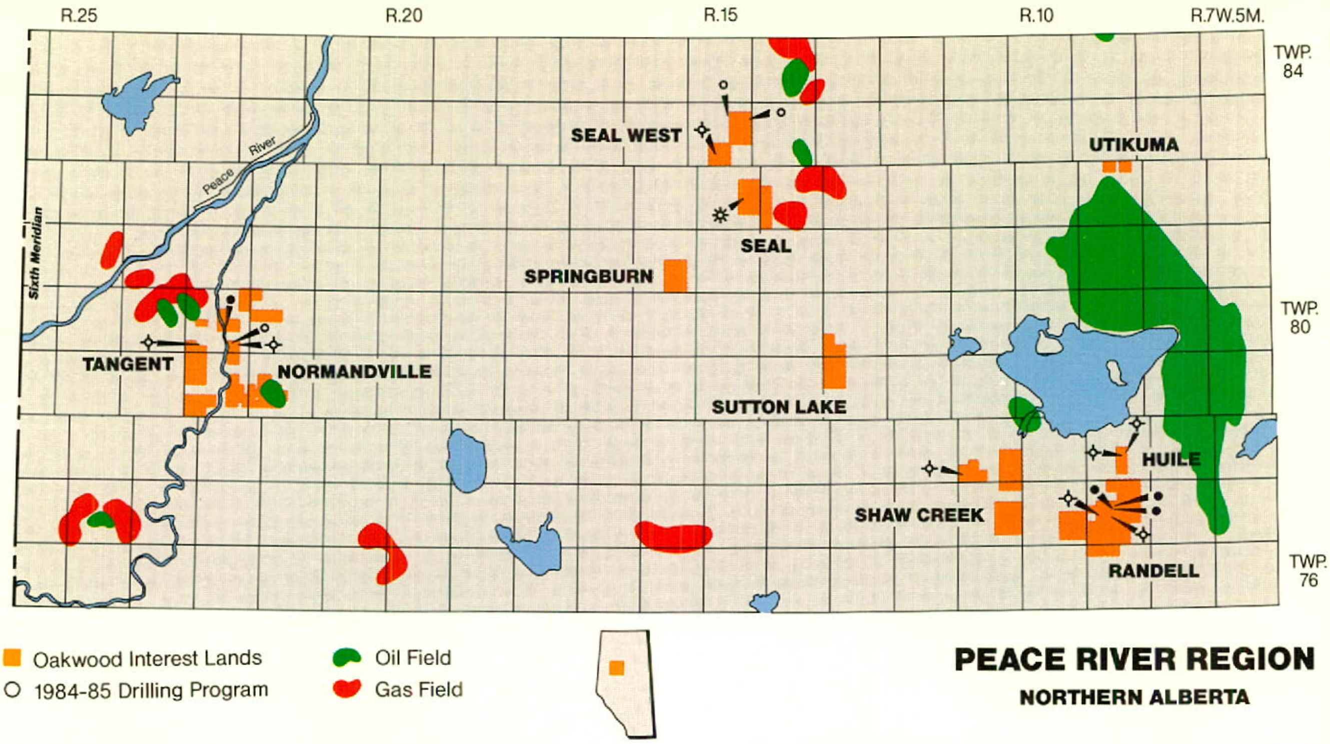
WESTERN CANADA

NORTHERN ALBERTA

The Company has significantly expanded its exploration activities in northern Alberta, particularly in oil prone areas. Thirty-one wells, of which 17 were exploratory in nature, were drilled in 1984 compared to only 13 wells in 1983. Nine additional wells have been drilled in the first quarter of 1985. The exploratory tests in 1984 yielded five oil wells and two gas wells. As a prelude to increased future activity in this region, in 1984 the Company acquired land interests in the Randell, Normandville and Seal West areas and also acquired an additional 1,000 miles of seismic data.

In the Randell area, approximately 160 miles northwest of Edmonton, Oakwood now has a 20% interest in almost 20,000 acres. The original interest was acquired through a farm-in which covered 11,520 acres. In 1984, the Company added 8,160 acres acquired at two Crown land sales. The discovery oil well was drilled in March 1984 at a location determined by seismic programs conducted in 1983 and 1984. Three of the four wells drilled since that discovery have been oil wells, with two producing from two formations. These results, and the fact that three oil discoveries have been drilled by other operators on offsetting acreage, provide encouragement as to the ultimate development potential of the area. The Company is currently upgrading an access road to allow summer testing and production activity. Additional acreage has been obtained in the surrounding area - at Shaw Creek, where the Company has a 6.25% interest in 13,120 acres, and at Sutton Lake, where the Company has purchased a 33.33% interest in 5,760 acres.

The Normandville area, approximately 230 miles northwest of Edmonton, has been an area of significant exploration by the industry during the past three years in the search for oil reserves primarily in the Wabamun



PEACE RIVER REGION
NORTHERN ALBERTA

Formation. In 1984, the Company increased its original land holdings in this area, obtained in an earlier corporate acquisition, by purchases at Crown land sales. During the year and the first quarter of 1985, the Company participated as to its working interest in three wells in the area and farmed out the drilling of a fourth well, which was an oil discovery. The Company is precluded from releasing information pertaining to the other wells at this time, in view of forthcoming Crown land sales.

In the Seal West area, 200 miles northwest of Edmonton, Oakwood's exploration program originally involved participation in a seismic option. This was followed by the drilling of a well in 1984 which earned a 12.5% interest in 2,560 acres and the drilling of two wells in 1985 which earned a 17.5% interest in an additional 3,840 acres. Once again, the results of that drilling remain confidential at this time, given the Company's interest in pursuing future opportunities in this area.

In the Saddle Hills area, the Company drilled one exploratory and eight development oil wells in 1984 in the development of a new Doe Creek oil pool. It also increased its interest in the area from 3.5% to 4.3%.

Bob Stuart, Geophysical Manager (left), Andy Blashyn, Vice-President, Exploration, Harry Young, Geological Manager and Ken Morrison, Land Manager discussing Oakwood's exploration plans in northern Alberta.

SOUTHERN ALBERTA

A measure of the importance of southern Alberta to the Company, not only from a production standpoint but also with respect to exploration potential, is the fact that 13 exploratory wells were drilled in the area in 1984, yielding two oil wells and five gas wells.

A major exploration success in this area was the 1983 discovery of the Lower Mannville II Pool at Grand Forks, approximately 140 miles southeast of Calgary. A total of 22 producing wells have been drilled to date in this Pool, including ten wells drilled in 1984 and three in 1985. Recent drilling has significantly extended the Pool, in which the Company has a 45% working interest.

Oakwood plans to continue its aggressive exploration program of land acquisition, seismic data generation, geological studies and step-out drilling in the Grand Forks and surrounding areas, with a view not only to expanding the boundaries of the seven major oil Pools in which it now has an interest but also to locating additional Pools. Oakwood's working interests in the area vary from 25% to 100%, with the major portion of such interests, in lands originally owned by Basset Oil, being 94%.

In the Tide Lake area, approximately 120 miles southeast of Calgary, the Company's working interest is 23.44%. Subsequent to the drilling of the dual Bow Island gas and Lower Mannville oil discovery well in 1981, an extensive exploratory and development drilling program of more than 40 deep zone wells has resulted in the delineation of five Bow Island gas pools, three Basal Colorado gas pools and five Lower Mannville oil pools. The 11 well drilling program in 1984, of which two were exploratory gas wells, yielded four oil wells and four gas wells.

In the Carrot Creek area, approximately 90 miles west of Edmonton, the Company acquired 42 miles of seismic data in 1984 and an additional 32 miles in 1985. Four of the five wells drilled in the Cardium K Pool in 1984 and the first quarter of 1985 were successful oil wells. The Company's working interests vary from 4.375% to 10%.

A successful exploratory test was drilled in 1984 in the Medicine River area, where the Company has a 10% interest. This well and a follow-up development well both encountered 45 feet of oil pay in the Pekisko Formation.

SASKATCHEWAN

In the Fox Valley area of southwestern Saskatchewan, Oakwood participated in an 80 mile seismic program in 1984, which was followed, early in 1985 by an unsuccessful deep test. The drilling of this well did, however, earn the Company an interest in 16,000 acres and the well was successfully completed uphole in the Milk River Formation.

At Sandhills, south of Fox Valley, the Company participated in a 99 mile seismic program in 1984, in order to evaluate not only its substantial acreage in the area but also forthcoming Crown land sale blocks and potential postings for Crown sales. Two exploratory and three development gas wells were drilled in this area in 1984.

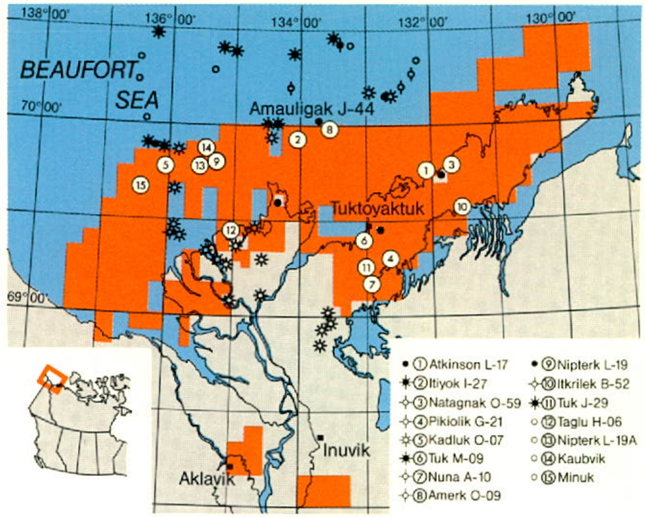
BRITISH COLUMBIA

Given the flat market conditions existing for B.C. gas, the Company has opted to minimize its exploration and development activities in this province. Activity in 1984 was limited to the shooting of a six mile seismic line at North Grizzly, to detail a known structure for future drilling, and the drilling of two wells in the Peejay area. The Company is, however, continuing to maintain its interest in highly prospective acreage, in order to optimize its position when gas markets improve.

BEAUFORT SEA-MACKENZIE DELTA

The five year Beaufort Sea-Mackenzie Delta exploratory program includes the drilling of 13 wells and the conduct of 16 seismic crew seasons, in an exploration area covering approximately 5.9 million acres extending from the onshore Mackenzie Delta and Tuk Peninsula to the nearshore of less than 65 feet of water depth. Oakwood's share of the cost of the program, as one of a 13 company consortium, is 8.6%, which earns a 4.3% net interest.

In 1984, two marine and two land crew seismic



Oakwood Interest Lands

BEAUFORT SEA – MACKENZIE DELTA REGION

seasons were completed, to provide additional detail over the program lands. Four seismic crew seasons remain to be conducted in 1985 and 1986.

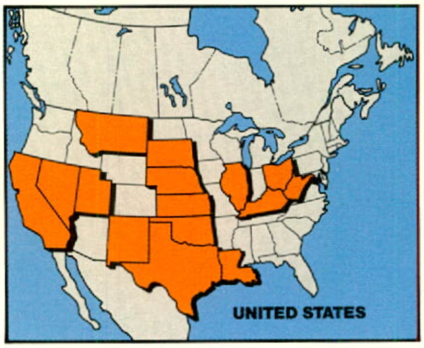
To date, 10 of the 13 commitment wells have been drilled, one is currently drilling, and two offshore wells, Kaubvik and Minuk, will be spudded this fall. In addition, two delineation wells have also been drilled. Seven wells have been drilled since January 1984, including offshore locations at Kadluk 0-07, a gas well with minor oil shows; at Amerk 0-09, which tested 20 Mmcf of gas per day with only a trace of condensate; and at Nipterk L-19, which tested 8,090 barrels per day of 18° to 20° API gravity crude with good flow potential. The Nipterk results, the most encouraging test to date under the program, caused the consortium to spud a delineation well in April 1985, which will be directionally drilled from the artificial island constructed for the L-19 well to targets identified by seismic south of that well.

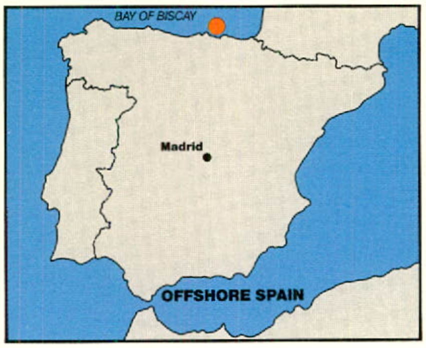
Onshore, the Nuna A-10 well was completed early in 1984 and abandoned without any tests being conducted. The Tuk M-09 well, completed in March 1984, was a significant gas and condensate discovery, with cumulative flow rates of 49.2 Mmcf of gas and 2,662 barrels of 51° API gravity condensate per day. The drilling of a well delineating this discovery, Tuk J-29, was completed in April 1985, and discovered both oil and gas. The Itkrilek B-52 well was dry and abandoned in April 1985. The well currently drilling onshore, Taglu H-06, was spudded in March 1985.

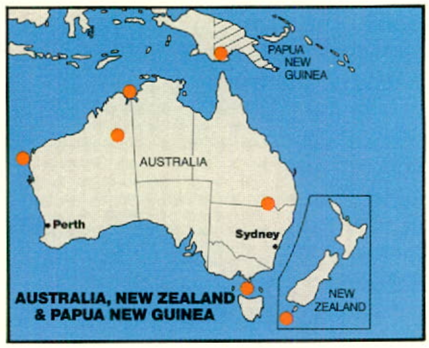
The consortium is reviewing plans to drill additional option wells prior to 1987, in accordance with the farm-in agreement with Esso Resources Canada Limited. The Western Accord provides that Petroleum Incentives Program Credits will be available in respect of the costs incurred to the end of the program.

Based on interpretation of the geological structures encountered by the successful wells drilled, the Company has estimated its share of potential reserves on a preliminary basis to be 5 million barrels of crude oil and condensate and 50 Bcf of natural gas. This estimate will be subject to the results of further delineation drilling and the assessment of the overall economic viability of producing such reserves.

The success of this program to date, coupled with that of other operators in the area, particularly Gulf Canada Limited with its Amauligak oil discovery in 1984, raises the possibility of a pipeline from Norman Wells in the Northwest Territories to the Beaufort Sea, to bring Beaufort oil to southern markets. The pipeline from Norman Wells to Zama in northern Alberta became operational in April 1985, thus making this concept feasible. It would require approximately five years to extend that pipeline to the Beaufort.







State/Area in which Oakwood has an interest

INTERNATIONAL

The main thrust of the Company's international exploration efforts in 1984 was in Australia. Unfortunately, the seven tests drilled both onshore and offshore were unsuccessful. The Company increased its Australian land inventory to 16.1 million acres in 1984 and participated in a number of seismic surveys in various of its areas of interest in Australia and offshore New Zealand.

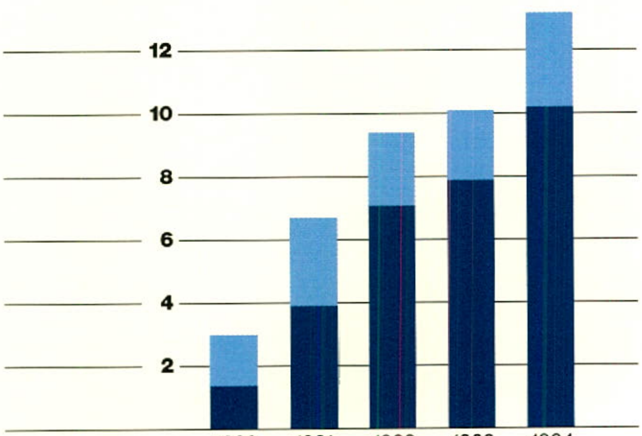
The Company paid 2% of the costs to earn a 1% interest in the Juna No. 2 appraisal well in Papua New Guinea, which tested 24.1 Mmcf of gas and 1680 barrels of 51.5° API gravity condensate per day early in 1984. The results of a seismic program completed thereafter will be used to locate a second appraisal well to be drilled in 1985.

In the two Vizcaya Permits covering 245,300 acres in the Bay of Biscay off the north coast of Spain, the Company conducted a 750 mile detail seismic program in 1984, as well as a sea bottom survey and geological and geochemical studies. The second earning well, Santander C-1, was spudded in April 1985. The drilling of this well will complete the Company's requirements to earn a 2% interest in the Permits by paying 4% of the cost of two wells. The first well was abandoned in 1983, after testing failed to confirm the presence of gas detected in the drilling operations.

In the three Vasconia Permits adjacent to the north boundary of the Vizcaya Permits, the Company retains a 16% interest in approximately 160,000 acres, after surrendering 155,000 acres to the Spanish government in 1984 in exchange for a one year extension of its work commitments. Analysis of a 330 mile seismic program shot in the fall of 1983 was completed in 1984 and the Company may conduct additional seismic work in 1985, depending on the results of the Santander C-1 well.

Canadian Gross Land Holdings

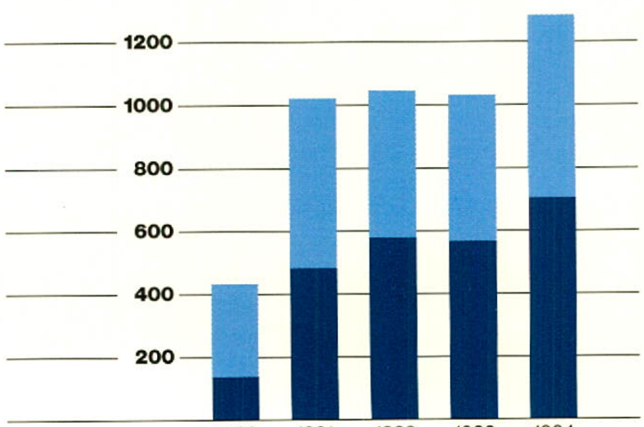
Millions of Acres



	1980	1981	1982	1983	1984
Canada	1.4	3.9	7.1	7.9	10.1
Provincial	1.6	2.8	2.3	2.2	3.1
	3.0	6.7	9.4	10.1	13.2

Canadian Net Land Holdings

Thousands of Acres



	1980	1981	1982	1983	1984
Canada	131	483	582	566	704
Provincial	301	540	466	464	582
	432	1,023	1,048	1,030	1,286

PRODUCTION, OPERATIONS AND MARKETING

SUMMARY

In 1984, Oakwood realized record levels of production of and revenue from both crude oil and natural gas. The Company drilled 93 development wells, also a record number, of which 81 were drilled in Canada. That development drilling activity yielded 56 oil wells and 6 gas wells in Canada and ten gas wells in the United States.

Of particular note are the increases in Canadian proved reserves of both crude oil and natural gas for the year ended June 30, 1984, based on independent reserves reports prepared for Oakwood, Conventures and New York Oils as at July 1, 1984. Proved crude oil reserves increased 6.4 million barrels, including 1.6 million barrels obtained on the acquisitions of Conventures and New York Oils, while production totalled 3.6 million barrels in that period. Proved natural gas reserves increased 61 Bcf, including 28 Bcf for Conventures and New York Oils, before production of 8 Bcf.

Lloyd Mann, Vice-President, Production and Operations (left), Ken Cheryba, Operations Manager and Norm Boyse, Vice-President, Gas Marketing and Special Projects reviewing the Company's gas producing operations in southern Alberta.

RESERVES

At July 1, 1984, Canadian proved and probable oil and gas reserves of Oakwood, Conventures and New York Oils totalled 43.3 million barrels of crude oil and 495 Bcf of natural gas, compared to reserves of 39.5 million barrels and 433 Bcf for Oakwood a year earlier. The reserves attributable to Conventures and New York Oils in 1984 were 2.2 million barrels and 37 Bcf.

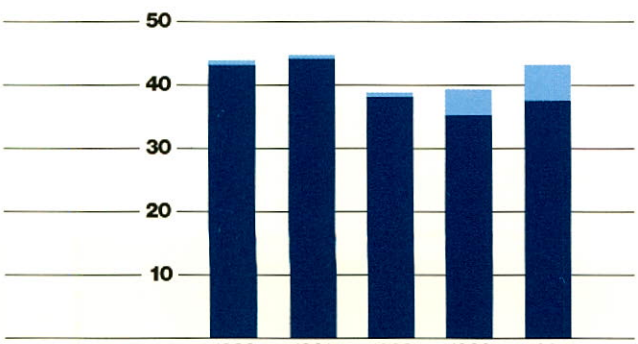
The largest increases in crude oil reserves occurred in the Grand Forks and Hayter, Alberta areas, with the largest increase in natural gas reserves occurring in the Sandhills, Saskatchewan area.

DRILLING ACTIVITY

The Company's combined exploration and development drilling program totalled 138 wells, of which 45 were exploratory and 93 were development. The majority of the wells, 117 in total, were drilled in Canada, while 13 were drilled in the United States, seven in Australia and one in Papua New Guinea. The overall results, 63 oil wells and 28 gas wells, reflected the Company's emphasis, particularly in Canada, on the search for oil, and represented the highest number of oil wells drilled in the Company's history and the lowest number of gas wells drilled in the last five years.

Crude Oil
Canadian Reserves as at July 1

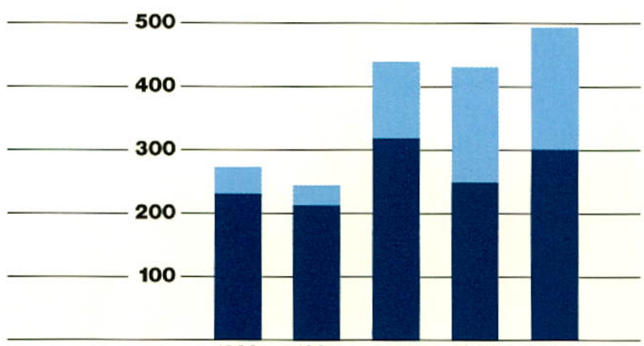
Millions of Barrels



	1980	1981	1982	1983	1984
Proved	43.2	44.5	38.3	35.4	38.2
Probable	0.7	0.4	0.7	4.1	5.1
	43.9	44.9	39.0	39.5	43.3

Natural Gas
Canadian Reserves as at July 1

Billions of Cubic Feet



	1980	1981	1982	1983	1984
Proved	233	215	322	252	305
Probable	42	31	118	181	190
	275	246	440	433	495

PRODUCTION AND REVENUE

The Company achieved record production levels in 1984 of 3.6 million barrels of oil and 9.3 Bcf of natural gas, or 9,948 barrels and 25.5 Mmcf per day, respectively. Crude oil production was 9% higher than in 1983, while natural gas production increased 24%. The contribution to these production figures by Conventures, New York Oils and Encounter totalled 168,000 barrels and 1.4 Bcf. Crude oil production in 1984 was not subject to the market restrictions which had existed in prior years. However, natural gas production continued to be severely restricted for the better part of 1984. In the last four months of the year, in response to the market responsive pricing policy announced by the Federal government in July 1984, gas production volumes did increase under most contracts as export sales to the U.S. market began to increase significantly. That trend should persist in 1985. It is expected that Oakwood's gas sales in Canada will also increase this year, by approximately 10%.

Oakwood's share of production at Grand Forks increased by 87,000 barrels to 2.75 million barrels, or approximately 7,500 barrels per day, due to new production from the Lower Mannville II Pool. The Company's share of production at its major non-operated oil property, at Meekwap, Alberta, increased 13% to approximately 400 barrels per day and in the Hayter-Chauvin, Alberta area, its share increased 56% to an average of approximately 250 barrels per day.

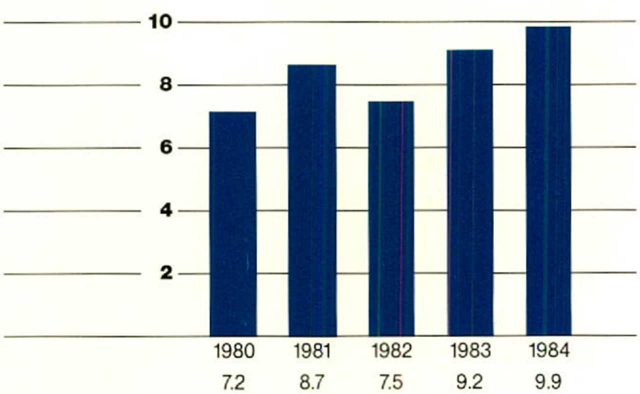
The Company's single largest gas producing property at Grizzly Valley in British Columbia suffered a 17% decline in production in 1984, to 2.7 Mmcf per day to Oakwood's account, as a result of operating problems. However, production from the Company's major properties located in the shallow gas environment of southeastern Alberta at Verger, Matziwin, Jenner, Princess and Tide Lake increased 32% to 6.2 Mmcf per day. In central Alberta, production at Saddle Lake increased 124% to 2.6 Mmcf per day by virtue of the acquisition of Conventures and production at Big Bend increased 28% to 2.3 Mmcf per day. In the United States, production increased 78% to 1.2 Mmcf per day, primarily due to the acquisition of the U.S. subsidiary of Conventures.

The increased production levels together with higher prices resulted in a 22% increase in revenue from the sale of oil, to $86.1 million, and a 37% increase in revenue from the sale of natural gas, to $20.4 million. The average price received by the Company for its crude oil increased 11%, while for natural gas, the increase was 8%.

There were no substantive changes in the regulated system of prices implemented under the National Energy Program, in contrast to the experience of recent years. The crude oil price increase realized by the Company was due to the strength of the U.S. dollar vis-a-vis the Canadian dollar in 1984 and the fact that the price of NORP oil, which constituted approximately 75% of the Company's crude oil production in 1984, was based on the world price of oil denominated in U.S. dollars.

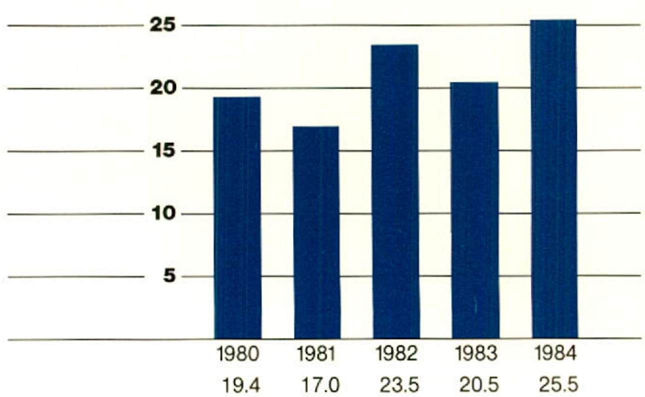
Crude Oil
Average Daily Production

Thousands of Barrels



Natural Gas
Average Daily Production

Millions of Cubic Feet



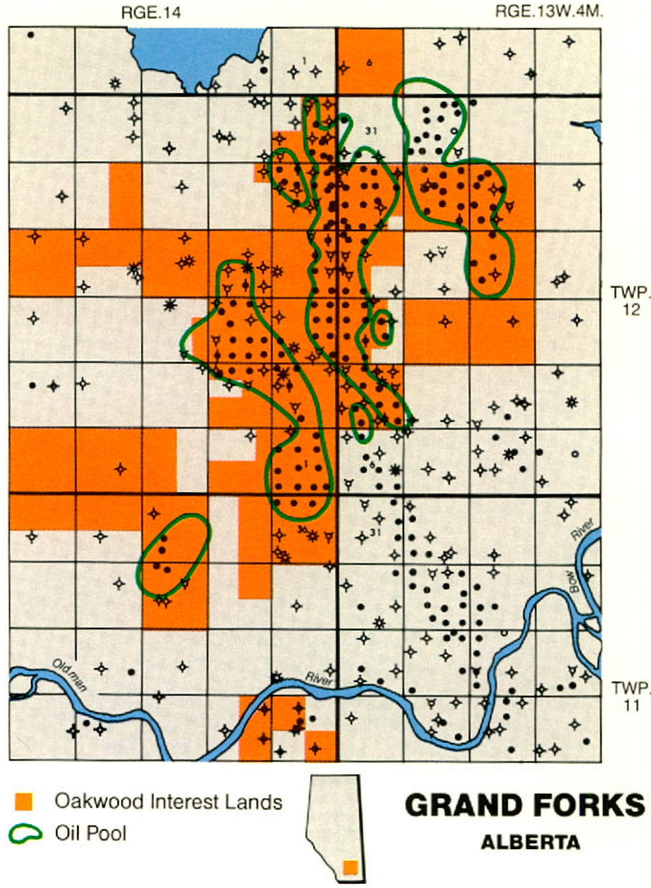
In the Western Accord agreed to in March 1985, it was announced that oil deregulation would occur effective June 1, 1985. This will result in a decrease in the NORP price which the Company receives for its mostly heavy oil production; however, this revenue loss should be offset in large measure by a larger increase in the COOP price received by the Company for its "old oil" production, which is mostly lighter and medium oil. The Accord requires that the provincial governments ensure that they do not increase their share of revenues at the expense of the industry. It remains to be seen what measures will be adopted in this regard.

The Alberta border price for natural gas increased February 1, 1984 by approximately $0.16 to $2.99 per Mcf and by less than $0.01 on August 1, 1984, in accordance with the terms of the June 30, 1983 interim pricing agreement between the Federal and Alberta governments. On the other hand, the export adjustment decreased dramatically in 1984, from $0.54 per Mcf in January to $0.18 per Mcf in December, due to lower revenues from the export of gas. In British Columbia, the government failed to implement its new natural gas marketing policy during 1984; however, it is expected that this will occur in 1985. The adoption of the recommendation to allow the wholesale price of B.C. gas to increase to 65% of the energy equivalent price of crude oil in the province, together with the adoption of a royalty system, should provide for improved netbacks to gas producers in the province and establish a more predictable environment in which to invest and operate.

GRAND FORKS, ALBERTA

As the map indicates, the Company produces oil from seven major oil Pools in this area, including five Lower Mannville Pools and one Upper Mannville Pool in the Cretaceous Formation and the Sawtooth Pool in the Jurassic Formation. In certain of these Pools, there are a number of low risk infill drilling locations required to complete either forty acre or proposed twenty acre spacing patterns. There are also a number of medium risk step-out locations required to further delineate certain of the Pools. Virtually all of the production in this area is from Pools operated under waterflood which have been placed on Good Production Practices ("GPP") status, thus enabling Oakwood to produce the Pools to maximum advantage, subject to maintaining stipulated pressure and operating conditions.

A total of 27 wells were drilled in this area in 1984, of which 25 were development wells. Besides the ten successful wells drilled into the Lower Mannville II Pool, the Company drilled nine other oil wells.



The development project in the Lower Mannville II Pool received approval to be operated under waterflood in the summer of 1984 and the Pool was placed on GPP status October 1, 1984. The construction of a new battery and injection plant had been completed earlier in 1984 to provide for processing of the oil and for water injection. Gross production levels in March 1985 exceeded 2,600 barrels of oil per day, with the Company's share being approximately 1,200 barrels, a significant increase from the 1984 average production of approximately 450 barrels per day. Two development oil wells were drilled into the Pool in the first quarter of 1985, with additional drilling planned for the balance of this year.

Approvals for a waterflood scheme and for GPP status were granted for the Lower Mannville H Pool effective October 1, 1984, which has resulted in increased production of approximately 500 barrels per day. The Company has a 94% working interest in this Pool.

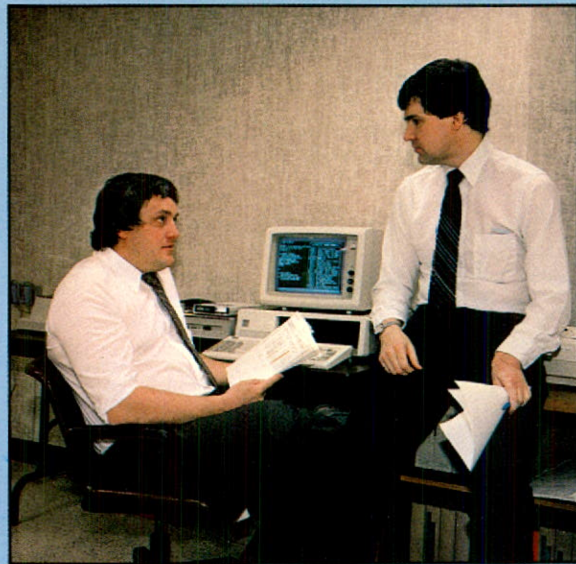
Other operating improvements effected in the area in 1984 included the installation of specialized downhole pumping equipment in several wells and a number of successful recompletions, both of which have enhanced oil production. Operating expenses increased in 1984 due to the increased number of wells and higher volumes of fluids handled, but still averaged a very respectable $1.38 per barrel.

Deregulation will provide the Company with the opportunity to enter into direct negotiations with purchasers for the sale of its crude oil production. Oakwood has already begun such negotiations with a view to obtaining alternative markets and alternative modes of access to such markets.

HAYTER-CHAUVIN, ALBERTA

Three successful development oil wells were drilled in the Dina Pool in the Hayter area in 1984. A waterflood pressure maintenance scheme commenced in early 1984 and GPP status was granted effective August 1 for that Pool, in which Oakwood's interest is 28.8%. Additional development drilling is planned for the remainder of 1985.

The acquisition of Encounter in October 1984 added daily production of approximately 475 barrels per day in the Chauvin area to the Company's production base. Subsequent to the acquisition, two oil wells were drilled. Approximately 50 wells are operated in the area by Encounter, with production from the Dina and Sparky zones. Given the close proximity of the Hayter and Chauvin areas, which are located very close to the Alberta-Saskatchewan border, the Company has combined its field staff and operating capabilities to effect operating efficiencies.



Bud Sheppard, Chief Reservoir Engineer (left) and Bob Mayes, Senior Petroleum Engineer discussing a waterflood program to be implemented at one of Oakwood's oil producing properties.

GAS DEVELOPMENT PROJECTS

The Company is pursuing a number of gas development projects. A new domestic gas pricing regime will be in place by next November, which will likely have a significant effect on future market opportunities. In the interim, the Company is planning to increase its gas production at Grand Forks and Tide Lake, Alberta and is reviewing a proposal for a 65 well drilling program to develop the Milk River gas reserves in the Sandhills, Saskatchewan area. The implementation of this proposal will ultimately be dependent upon obtaining a sales contract. At Grand Forks, the Company intends to commence design and construction of a gas processing facility to conserve and process virtually 100% of the solution gas which is now being flared. And at Tide Lake, the successful negotiation of a gas contract resulted in a decision to construct an 8 Mmcf per day gas plant facility which should be completed by November 1, 1985.

CORPORATE AND FINANCIAL

SUMMARY

Oakwood continued its strong financial performance in 1984, achieving record levels of revenues and cash flow. The Company experienced a significant increase in assets, resulting primarily from the acquisition of three new subsidiaries, Conventures Limited, New York Oils Limited and Encounter Energy Resources Limited. Also contributing to that increase were additional long-term investments in Alberta Natural Gas Company Ltd and Durham Resources Inc.

Of particular note is the 23% increase in discretionary cash flow to $33.9 million. This favorable trend in available cash flow enabled the Company to engage in an active exploration and development program with only a small increase in its long-term debt.

RESULTS OF OPERATIONS

Cash flow from operations increased by 11% to $44.9 million or $3.08 per share compared to $40.3 million or $3.96 per share in 1983. The decrease per share resulted from the higher weighted average number of shares outstanding in 1984, 14.6 million compared to 10.2 million in 1983. Discretionary cash flow, which is cash flow from operations less preferred dividends and capitalized interest and administrative costs, was $2.33 per share compared to $2.70 per share in 1983.

Net earnings decreased 7% to $6.2 million from $6.7 million in 1983. Net earnings applicable to Class A Non-Voting ("Class A") and Common Shares amounted to $1.5 million compared to $1.9 million the previous year, or $0.13 per Class A Share and $0.05 per Common Share as compared to $0.21 per Class A Share and $0.16 per Common Share in 1983. The decreases per share mostly resulted from the increase in outstanding shares.

Revenue from oil and gas sales in 1984 increased 25% to $106.5 million due to increased production, higher prices and inclusion of the results of Conventures (11 months), New York Oils (8 months) and Encounter (2 months) for the periods indicated.

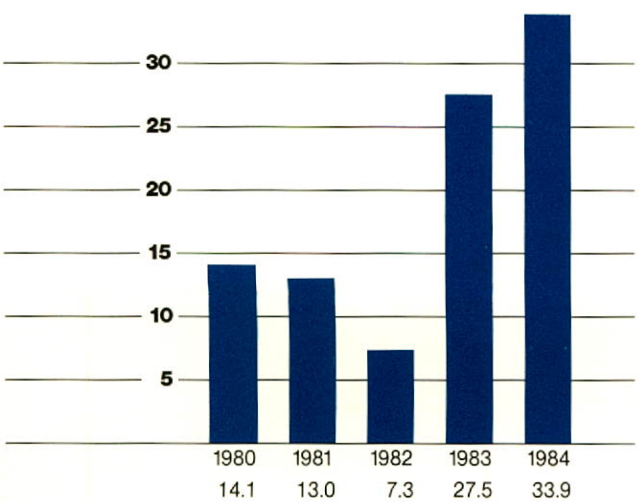
John Partridge, Manager of Corporate Planning and Taxation (left), George Faulkner, Vice-President, Corporate Development and Nolan Blades, Executive Vice-President discussing an acquisition proposal.

Oil and gas production costs rose to $12.2 million from $8.7 million in 1983, reflecting $1.8 million in costs of the acquired subsidiaries as well as higher costs resulting from operating an increased number of wells. General and administrative costs increased as a result of the progressive growth of the Company and the associated costs of the acquisitions.

Interest on long-term debt rose to $35.4 million from $26.5 million, mainly due to the consolidation of the debt of acquired subsidiaries and a reduction in the amount of interest capitalized. The Company's overall annualized borrowing cost as at December 31, 1984, based on interest rates and debt at that date, was 11.5%. Depletion and depreciation increased to $21.0 million from $15.1 million due primarily to the increase in oil and gas production.

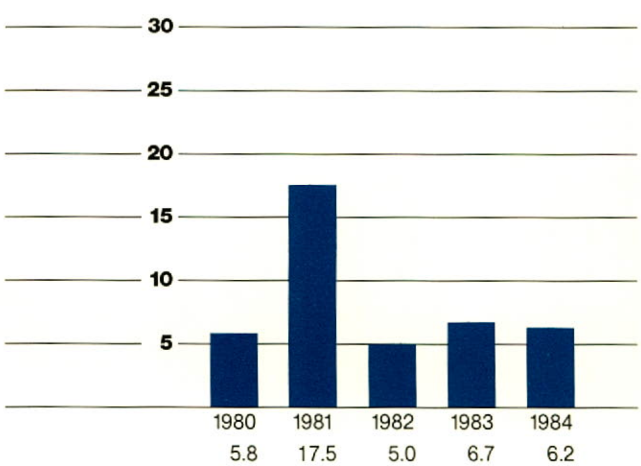
Discretionary Cash Flow

Millions of Dollars



Net Earnings

Millions of Dollars



The increase in corporate taxes to $31.9 million from $22.2 million was largely the result of negative factors introduced by the National Energy Program ("NEP"). Income taxes increased $5.1 million due primarily to the phasing out of earned depletion, while the PGRT, the most negative element of the NEP, rose $3.1 million, due to higher operating revenues and a higher effective rate of tax. That rate had increased June 1, 1983 to 16% from 14%. The elimination of PGRT announced in the Western Accord should prove beneficial to Oakwood. The Alberta Royalty Tax Credit ("ARTC") was halved in 1984 to $2 million, another change influenced by the NEP and the Alberta government's response thereto. The amount earned by the Company of $2.4 million exceeded that ceiling, as Conventures and New York Oils, being owned less than 90% by Oakwood, are not associated with Oakwood for ARTC purposes and are therefore able to earn the ARTC in their own right.

Alan Knowles, Manager, Budgets and Financial Planning (left), John Fletcher, Vice-President, Finance, Jim Maldaner, Controller and Marlene Nieradka, Manager of Treasury reviewing the Company's 1984 financial statements.

FINANCIAL POSITION

The working capital position of the Company increased to $6.2 million from $5.3 million in 1983. The acquisition of subsidiaries resulted in a net increase in working capital of $1.9 million.

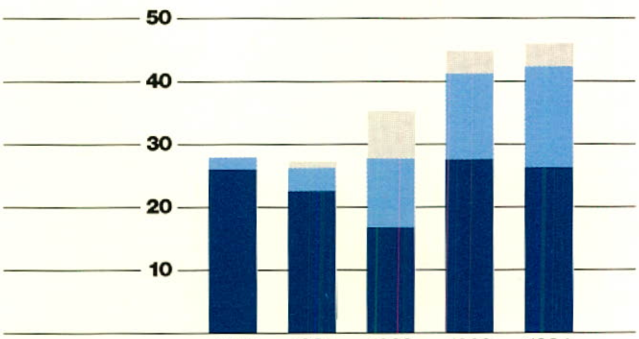
Capital expenditures of $45.9 million were up slightly. Direct expenditures for the Beaufort Sea-Mackenzie Delta exploratory program were $17.4 million compared to $15.3 million. That increase accounted for a major portion of the increase in PIP credits to $16.2 million from $13.6 million, as expenditures on Canada Lands receive PIP credits of 80%. Direct expenditures on oil and gas properties in western Canada declined to $16.2 million from $19.8 million, with $2.5 million of the decrease due to reduced spending on equipment and production facilities. Increased proceeds on disposal of property and equipment resulted from a program to dispose of a number of small oil and gas interests no longer providing an acceptable rate of return.

Excluding the long-term debt of $45.3 million added by virtue of the acquisition of subsidiaries, the increase in long-debt during the year was only $5.3 million. The financing of the acquisitions of Conventures and New York with equity capital maintained the ratio of long-term debt to equity at 2.4, as depicted in the graph. In 1985, the Company has obtained more favorable terms for its bank loans, through the amendment of existing loan arrangements and the introduction of new lenders.

In 1984, the Company repurchased 26,100 Retractable Preferred Shares, Series B as required by the terms of issue of such shares. It also repurchased 165,000 Class A Non-Voting Shares and 173,900

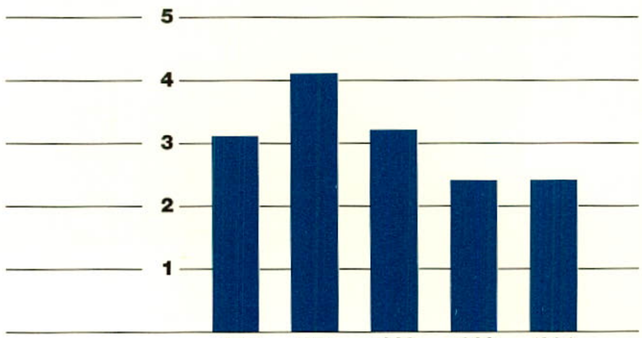
Capital Expenditures

Millions of Dollars



	1980	1981	1982	1983	1984
Canadian	26.3	22.5	16.8	27.6	26.2
PIP Credits	–	3.9	11.2	13.6	16.2
International	1.9	0.9	7.4	3.6	3.6
	28.2	27.3	35.4	44.8	46.0

Long-Term Debt/Equity Ratio



1980	1981	1982	1983	1984
3.1	4.1	3.2	2.4	2.4

Jack Senakovicz, Manager of Information Systems (left), Neil Powell, Chief Accountant—Operations and Wayne Cooper, Office Manager discussing the on-going development of the Company's computer system.

Common Shares, at an average cost of $4.80 and $5.40, respectively, under a Normal Course Issuer Bid. The total cost of these repurchases was $2.4 million. To date in 1985, Oakwood has repurchased additional shares under the aforementioned Normal Course Issuer Bid as well as under another Bid which commenced immediately after the expiry of the initial Bid, and has also repurchased 654,235 Class A Non-Voting Shares, at an average cost of $3.77, under a Substantial Issuer Bid. The Company believes that its program of repurchasing its Common and Class A Non-Voting Shares is an economic and advantageous application of a portion of its cash reserves compared to other possible investments.

LONG-TERM INVESTMENTS

In 1984, the Company increased its ownership in Alberta Natural to 33%. This company owns and operates an extraction plant which removes propane and heavier liquids (NGL) and ethane from the gas stream, as well as pipeline facilities transporting gas primarily to the California market and nitroparaffin production facilities in the United States and West Germany. In 1984, its net income increased to $24.2 million from $22.8 million and its dividend rate increased 27%. That had a favorable impact on Oakwood's financial results, through the contribution of $6.6 million to earnings and $3.3 million in dividends to cash flow.

The Company's investment in Alberta Natural is subject to reduction on the exercise of warrants. To reduce that exposure, the Company repurchased a number of these warrants in 1984 under a Normal Course Issuer Bid, and has approval to repurchase additional warrants this year. The exercise of warrants in 1984 generated cash of $2.8 million. Less than 25% of the Company's Alberta Natural shareholdings are now subject to the exercise of warrants.

Oakwood invested $7.7 million to acquire a 31% ownership in Durham Resources Inc., for which a wholly owned subsidiary issued preferred shares that are retractable annually until 1990. The major asset of Durham, which is a public company, is an antimony mine in New Brunswick. In 1984, Durham initiated a program of reactivating this mine, as a result of a firming in the world price for antimony, and mining operations should commence later this year. Durham also owns some oil and gas and hard-rock mining properties.

TECHNOLOGICAL ADVANCEMENTS

The Company is using increasingly sophisticated geophysical analysis and other exploration techniques in its search for oil and gas. It has been able to achieve significant gains in production through the use of more advanced reservoir engineering analyses and recovery techniques as well as optimization of its production equipment and facilities. With respect to administrative matters, the Company is increasing its effective use of computer and other information processing technology. In 1984, it continued its program of developing a fully integrated on-line data base for its land, production, accounting and financial modelling activities.

PERSONNEL

The number of personnel employed by the Company has increased almost threefold from 1980, and now includes more than 50 personnel in the field. The acquisition of Encounter added three persons to the Hayter, Alberta field staff, with additions also having been made at the Taber field office to accommodate increased operations in the Grand Forks area. At head office, the exploration department has been expanded to accommodate the Company's increased exploration programs, and the production and operations staff has also been enlarged, to accommodate the ever increasing scope of the Company's drilling and producing operations.

Bonny Love, Corporate Relations and Executive Reception.

Management's Report

To the Shareholders of
Oakwood Petroleums Ltd.

Management is responsible for the preparation and presentation of financial information contained in this Annual Report. The financial statements of Oakwood have been prepared in accordance with generally accepted accounting principles in Canada and with international accounting standards which have been consistently applied in all material respects. The financial statements include amounts that are based on informed judgments and management's estimates.

Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records properly maintained to provide reliable information in the preparation of financial statements and other data.

The Board of Directors appoints an Audit Committee of which the majority of the members are not officers or employees of Oakwood. The Audit Committee reviews the financial statements in detail with management prior to their issue, and also meets periodically with the Company's independent auditors and with management to consider matters relating to the system of internal controls, accounting principles adopted and financial reporting.

Thorne Riddell, Chartered Accountants, have been appointed by the shareholders of Oakwood to examine the financial statements in accordance with generally accepted auditing standards in Canada and their report to the shareholders is included in this Annual Report.

Calgary, Canada
March 8, 1985

Brian S. Ekstrom
President and Chief Executive Officer

John G. Fletcher
Vice-President, Finance

Auditors' Report

To the Shareholders of
Oakwood Petroleums Ltd.

We have examined the consolidated balance sheet of Oakwood Petroleums Ltd. as at December 31, 1984 and the consolidated statements of earnings, contributed surplus, 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 the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for foreign currency translation described in note 2, on a basis consistent with that of the preceding year.

Calgary, Canada
March 8, 1985

Thorne Riddell
Chartered Accountants

Consolidated Statement of Earnings

Year Ended December 31, 1984
(in thousands of dollars)

	1984	1983
Revenue		
Sale of oil and gas	$106,535	$85,330
Interest and other	1,782	3,113
	108,317	88,443
Expenses		
Production	12,159	8,657
General and administrative	7,309	5,502
Interest on long-term debt (note 9)	35,360	26,511
Depletion and depreciation	21,003	15,143
	75,831	55,813
Earnings before corporate taxes and undernoted items	32,486	32,630
Corporate taxes		
Income taxes (note 10)	19,364	14,249
Petroleum and Gas Revenue Tax	14,966	11,877
Alberta Royalty Tax Credit	(2,413)	(3,931)
	31,917	22,195
Earnings before undernoted items	569	10,435
Equity in earnings of Alberta Natural Gas Company Ltd	6,631	–
Share of loss of American Oakwood Energy Ltd.	–	(4,575)
Minority interest	(981)	(195)
Earnings before extraordinary item	6,219	5,665
Extraordinary item		
Income tax reduction on realization of tax deductions of acquired subsidiary company	–	1,028
NET EARNINGS	6,219	6,693
Provision for dividends on preferred shares	4,714	4,771
NET EARNINGS APPLICABLE TO CLASS A NON-VOTING AND COMMON SHARES	$ 1,505	$ 1,922
EARNINGS PER SHARE (note 11)		

Consolidated Statement of Retained Earnings

Year ended December 31, 1984
(in thousands of dollars)

	1984	1983
RETAINED EARNINGS AT BEGINNING OF YEAR	$13,975	$13,807
Net earnings	6,219	6,693
	20,194	20,500
Dividends		
Convertible Preferred Shares, Series A	2,822	2,822
Retractable Preferred Shares, Series B	1,892	1,966
Class A Non-Voting Shares	737	254
Shares of American Oakwood Energy Ltd.	–	1,483
	5,451	6,525
Repurchase of capital stock		
Retractable Preferred Shares, Series B	27	–
Class A Non-Voting Shares	632	–
Common Shares	2,115	–
	2,774	–
RETAINED EARNINGS AT END OF YEAR	$11,969	$13,975

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1984
(in thousands of dollars)

	1984	1983
SOURCE OF WORKING CAPITAL		
Operations	**$44,855**	$40,310
Petroleum Incentives Program credits	**16,174**	13,594
Increase in long-term debt	**5,264**	–
Issue of Class A Non-Voting Shares	**–**	19,699
Issue of Common Shares	**–**	2,745
Proceeds on exercise of ANG warrants (note 4(a))	**2,768**	31
Acquisition of subsidiary companies	**1,931**	–
	70,992	76,379
USE OF WORKING CAPITAL		
Long-term investments	**24,338**	13,884
Issue of preferred shares of subsidiary company (note 4(c))	**5,734**	–
	18,604	13,884
Acquisition of subsidiary companies	**–**	4,017
Additions to property and equipment	**43,442**	42,959
Reduction of long-term debt	**–**	3,010
Dividends	**5,451**	5,042
Repurchase of capital stock	**2,424**	–
Other	**168**	6,014
	70,089	74,926
INCREASE IN WORKING CAPITAL	**903**	1,453
WORKING CAPITAL AT BEGINNING OF YEAR	**5,263**	3,810
WORKING CAPITAL AT END OF YEAR	**$ 6,166**	$ 5,263

Consolidated Statement of Contributed Surplus

Year ended December 31, 1984
(in thousands of dollars)

	1984	1983
CONTRIBUTED SURPLUS AT BEGINNING OF YEAR	**$ –**	$ –
Donation of Class A Non-Voting Shares (note 13)	**1,532**	–
Repurchase of Class A Non-Voting Shares	**32**	–
CONTRIBUTED SURPLUS AT END OF YEAR	**$ 1,564**	$ –

Consolidated Balance Sheet

As at December 31, 1984
(in thousands of dollars)

ASSETS	1984	1983
CURRENT ASSETS		
Cash	**$ 17,269**	$ 17,062
Marketable securities, at lower of cost or market (cost $6,943)	**6,872**	–
Accounts receivable	**27,057**	21,724
	51,198	38,786
LONG-TERM INVESTMENTS (note 4)	**111,974**	86,707
PROPERTY AND EQUIPMENT (note 5)	**375,941**	286,262
OTHER ASSETS	**7,204**	14,473
	$546,317	$426,228
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 37,016**	$ 20,422
Corporate taxes payable	**4,375**	1,437
Current maturities on long-term debt	**3,641**	11,664
	45,032	33,523
PREPAYMENTS UNDER GAS SALES CONTRACTS	**9,264**	7,187
LONG-TERM DEBT (note 6)	**301,586**	251,051
DEFERRED INCOME TAXES	**44,526**	23,303
MINORITY INTEREST	**15,583**	7,241
PREFERRED SHARES OF SUBSIDIARY COMPANY (note 7)	**5,734**	–
COMMITMENTS AND CONTINGENT LIABILITIES (note 14)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Convertible Preferred Shares, Series A	**35,976**	35,979
Retractable Preferred Shares, Series B	**17,019**	17,749
Class A Non-Voting Shares	**50,858**	28,067
Common Shares	**7,601**	8,153
	111,454	89,948
CONTRIBUTED SURPLUS	**1,564**	–
RETAINED EARNINGS (note 8(i))	**11,969**	13,975
CUMULATIVE TRANSLATION ADJUSTMENTS	**(395)**	–
	124,592	103,923
	$546,317	$426,228

Approved by the Board

Dallas E. Hawkins, Director

Brian S. Ekstrom, Director

Notes to Consolidated Financial Statements

Year ended December 31, 1984

(Tabular amounts in thousands of dollars except share and per share amounts)

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada applied, except for the change in the method of accounting for foreign currency translation described in note 2, on a basis consistent with that of the preceding year.

(a) Consolidation

The consolidated financial statements include the accounts of Oakwood Petroleums Ltd. and all of its subsidiary companies.

(b) Long-Term Investments

Investments in companies over which Oakwood exercises influence through its ownership interest in voting shares are accounted for on the equity basis. The excess of the consideration paid for shares of Alberta Natural Gas Company Ltd over the book value of its net assets at date of acquisition has been assigned to goodwill and is amortized on a straight-line basis over 40 years. Other long-term investments are accounted for on the cost basis.

(c) Petroleum and Natural Gas Operations

Oakwood follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, and related overhead expenses. Such costs, net of proceeds from minor disposals of property, are accumulated in five cost centres (Canada, United States, frontier areas of Canada, Australia and all other areas of the world) and depleted using the revenue method based upon estimated proved reserves as determined by Oakwood's and independent consulting engineers. In the Canadian and United States cost centres, capitalized costs, net of accumulated depletion and depreciation, are limited to future net revenues from estimated production of proved reserves at current prices and costs, plus the lower of cost or estimated fair value of unproved property.

Costs incurred in Australia and frontier areas of Canada in which exploration and development activities are underway, together with related interest costs, are capitalized until the economic viability of the cost centre can be determined. If the cost centre is determined to be economically viable, accumulated costs are depleted using the revenue method; if it is determined not to be economically viable, accumulated costs are charged to earnings.

Costs incurred in exploration and development activities outside North America and Australia are capitalized in a separate cost centre and amortized on a straight-line basis over 10 years. If the existence of economically recoverable reserves is established in this cost centre, the balance of unamortized costs will be depleted using the revenue method. If exploration is unsuccessful and discontinued in the cost centre, the balance of unamortized costs will be charged to earnings.

Gains or losses are recognized upon the sale or disposition of properties when the petroleum and natural gas reserves of those properties are significant in relation to Oakwood's total reserves in the particular cost centre.

Substantially all of Oakwood's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only Oakwood's proportionate interest in such activities.

(d) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided using the revenue method based upon estimated proved reserves.

Depreciation of other property and equipment is provided using a straight-line basis over the estimated life of each asset at annual rates varying from 10% to 20%.

(e) Foreign Currency Translation

Oakwood uses two methods in the translation of its accounts into Canadian dollars, the temporal method for its integrated foreign subsidiaries and foreign currency transactions and the current rate method for its financially and operationally independent foreign subsidiaries.

Under the temporal method, monetary items are translated at the rates of exchange in effect at the balance sheet date and non-monetary items are translated at the rates of exchange in effect when the assets were acquired or the liabilities incurred. Revenue and expenses, other than depletion and depreciation which are translated at the same rates of exchange as the related assets, are translated at the average rates of exchange in effect during the year. The resulting foreign exchange gains or losses are reflected in earnings except for unrealized gains or losses related to monetary items with a fixed or ascertainable life extending beyond the end of the fiscal year. Such unrealized gains or losses are deferred and amortized over the remaining term of the related monetary item with the exception of unrealized losses relating to Oakwood's U.S. dollar debt which are hedged by future revenue streams denominated in U.S. dollars and therefore not reflected in Oakwood's accounts.

Under the current rate method, all assets and liabilities are translated at the rates of exchange in effect at the balance sheet date and revenue and expenses (including depletion and depreciation) are translated at the average rates of exchange in effect during the year. The resulting foreign exchange gains or losses are deferred and reflected as a separate component of shareholders' equity in the balance sheet.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1984, Oakwood adopted, on a prospective basis, the method of accounting for foreign currency translation described in note 1(e). Previously Oakwood followed the current, non-current method of accounting for the translation of the accounts of its foreign subsidiaries and its foreign currency transactions. The effect of this change in accounting policy on the consolidated financial statements is not significant.

3. ACQUISITION OF SUBSIDIARY COMPANIES

During the year Oakwood made the following acquisitions:

(a) Conventures Limited

Prior to January, 1984, Oakwood accounted for its long-term investment in Conventures Limited on the cost basis (reference is made to note 4). In January and May, 1984, Oakwood acquired additional common shares of Conventures, increasing its ownership interest to 52.6% and 83.1%, respectively. The aggregate ascribed consideration for the Conventures shares purchased in 1984 was $21,146,000 comprising 2,566,377 Class A Non-Voting Shares, 854,977 Class A Non-Voting Share purchase warrants and costs of acquisition.

(b) New York Oils Limited

In February, 1984, Oakwood acquired 32.4% of the outstanding common shares of New York Oils Limited from a director and officer of Oakwood in consideration for 297,753 Class A Non-Voting Shares and 99,251 Class A Non-Voting Share purchase warrants. In April, 1984, Oakwood acquired additional common shares of New York Oils from non-related parties in consideration for 390,180 Class A Non-Voting Shares and 129,855 Class A Non-Voting Share purchase warrants, increasing Oakwood's ownership interest to 74.8%. The aggregate ascribed consideration for the New York Oils shares purchased, including costs of acquisition, was $5,757,000.

(c) Encounter Energy Resources Limited

In October and November, 1984, Oakwood acquired 98.7% of the outstanding common shares of Encounter Energy Resources Limited for cash consideration, including costs of acquisition, of $8,556,000.

A summary of the net assets acquired at assigned values and the consideration paid on the acquisitions is as follows:

	Conventures Limited	New York Oils Limited	Encounter Energy Resources Limited	Total
Working capital (deficiency)	$ 10,941	$ (63)	$ 478	$ 11,356
Investment in Alberta Natural Gas Company Ltd (note 4(a))	38,109	–	–	38,109
Property and equipment	52,292	16,131	10,621	79,044
Other assets	103	–	–	103
	101,445	16,068	11,099	128,612
Long-term debt	36,040	8,131	1,100	45,271
Deferred income taxes	–	894	1,395	2,289
Other liabilities	512	392	–	904
Minority interest in acquired net assets	6,760	894	48	7,702
	43,312	10,311	2,543	56,166
Purchase price of net assets acquired	$ 58,133	$ 5,757	$ 8,556	$ 72,446

Consideration	
Carrying value of shares of Conventures Limited acquired prior to December 31, 1983 (note 4)	$ 36,987
Issue of Class A Non-Voting Shares and Class A Non-Voting Share purchase warrants	26,034
Cash consideration paid in 1984 including costs of acquisition	9,425
	$ 72,446

All acquisitions have been accounted for by the purchase method and accordingly the operating results of each acquired subsidiary are included in the consolidated earnings statement from the effective date of acquisition.

The excess of the consideration paid for shares of Conventures, New York Oils and Encounter over the book value of their net assets at date of acquisition has been assigned as follows:

Investment in Alberta Natural Gas Company Ltd (note 4(a))	$ 16,113
Property and equipment	13,616
Marketable securities (included in working capital)	1,289
	$ 31,018

4. LONG-TERM INVESTMENTS

	1984	1983
Alberta Natural Gas Company Ltd (quoted market value 1984, $82,834,000; 1983, $18,062,000)		
Investment in common shares, at cost	**$ 62,734**	$20,967
Equity in undistributed earnings	**3,307**	–
	66,041	20,967
American Oakwood Energy Ltd.		
Investment in convertible preferred shares, Series A	**28,472**	28,472
Demand notes receivable, non-interest bearing (1984, $7,616,000 U.S.; 1983, $228,000 U.S.)	**9,727**	281
	38,199	28,753
Durham Resources Inc. (quoted market value $8,934,000)		
Investment in Class C and subordinate voting shares	**7,734**	–
Conventures Limited		
Investment in common shares	**–**	36,987
	$111,974	$86,707

(a) Alberta Natural Gas Company Ltd

Prior to January, 1984, Oakwood's investment in Alberta Natural was recorded on the cost basis. In January, 1984, concurrent with its acquisition of the controlling interest in Conventures, Oakwood commenced to account for its investment in Alberta Natural on the equity basis. Oakwood owns 33% of the outstanding common shares of Alberta Natural. The excess of the consideration paid for shares of Alberta Natural over the book value of its net assets at date of acquisition aggregates $30,118,000 (including $16,113,000 relating to the acquisition of Conventures).

Holders of Oakwood's Retractable Preferred Shares, Series B (reference is made to note 8(c)(ii)) on April 1, 1983 received, for each share held, one warrant ("ANG warrant") entitling the holder to purchase three of the 2,160,000 common shares of Alberta Natural then owned by Oakwood (as adjusted for the May, 1984 three for one split of Alberta Natural shares). A corresponding number of Alberta Natural shares are held in trust pending exercise of the ANG warrants that remain outstanding. Upon exercise of an ANG warrant Oakwood will either receive $26.50 cash or receive and redeem one Retractable Preferred Share, Series B as consideration. During 1984, 106,960 ANG warrants were exercised. 518,270 ANG warrants remain outstanding as at December 31, 1984 (64,800 of which are held by American Oakwood Energy Ltd.). Based on the December 31, 1984 carrying value of its investment in Alberta Natural, Oakwood will be subject to an after-tax loss of $3.21 per ANG warrant exercised. If the ANG warrants that remain outstanding as at December 31, 1984 had been exercised effective January 1, 1984, Oakwood's equity in the earnings of Alberta Natural for the year ended December 31, 1984 would have decreased $1,742,000.

(b) American Oakwood Energy Ltd.

Oakwood's investment in American Oakwood convertible preferred shares, Series A is accounted for on the cost basis. Each of the 2,847,192 preferred shares has a stated value of $10.00 and is convertible into 20 common shares of American Oakwood. All the directors and officers of American Oakwood are directors and officers of Oakwood. The recovery of Oakwood's investment in American Oakwood is primarily dependent upon the results of American Oakwood's future operations. Management anticipates that, based upon American Oakwood's future net revenues from estimated production of proved and probable reserves at escalated prices and costs, as determined by independent consulting engineers, Oakwood will fully recover its investment in American Oakwood.

At December 31, 1984, outstanding advances to American Oakwood under a Revolving Credit Agreement were $15,750,000 U.S. American Oakwood has been advised by its banker that such advances are $9,650,000 U.S. in excess of its borrowing base as defined under the Agreement. Oakwood has undertaken to provide, subject to receiving consent from its Canadian bankers, an unsecured corporate guarantee limited in amount to American Oakwood's borrowing base deficiency existing from time to time. Oakwood has also agreed to support American Oakwood's payment of interest and principal under the Agreement (scheduled principal payments are: 1985, $5,250,000 U.S.; 1986, $10,500,000 U.S.).

(c) Durham Resources Inc.

In December, 1984, Oakwood acquired 600,000 Class C shares and 4,315,766 subordinate voting shares of Durham Resources Inc. comprising 42.8% of the voting rights and a 30.6% ownership interest in the net assets of Durham. Oakwood accounts for its investment in Durham on the equity basis.

Consideration paid on the acquisition of the Durham shares aggregated $7,734,000 in preferred shares of a wholly owned subsidiary company (reference is made to note 7), which approximated the book value of the net assets acquired.

5. PROPERTY AND EQUIPMENT

	1984			1983
	Cost	**Accumulated Depletion and Depreciation**	**Net**	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon				
Canada	**$398,530**	**$78,014**	**$320,516**	$253,342
United States	**26,279**	**5,442**	**20,837**	9,919
Frontier and other	**29,281**	**203**	**29,078**	18,448
Other property and equipment	**8,215**	**2,705**	**5,510**	4,553
	$462,305	**$86,364**	**$375,941**	$286,262

6. LONG-TERM DEBT

	Interest Rate	Maturity Date	Payment Terms	1984	1983
Series A Secured Notes	11⅞%	June 15, 1995	$1,565,000 semi-annually to December 15, 1994 and $1,365,000 June 15, 1995	**$ 32,665**	$ 35,000
Series B Secured Notes ..... ($51,340,000 U.S.)	10.9%	June 15, 1995	$2,430,000 U.S. semi-annually to December 15, 1994 and $2,740,000 U.S. June 15, 1995	**59,811**	64,366
Series C Secured Notes ..... ($20,000,000 U.S.)	13¾%	June 15, 1996	$1,900,000 U.S. June 15 and December 15, 1987, $3,800,000 U.S. August 31, 1988, $775,000 U.S. December 15, 1988 and semi-annually thereafter	**24,596**	24,596
Demand bank loans ..	Prime + ¼%-1%			**164,320**	122,063
Promissory notes	Prime + 1¼%	October 7, 1988		**10,000**	10,000
Income debenture	½ Prime + 1¼%	October 1, 1986	$542,000 quarterly	**4,333**	6,500
Notes payable	7%	May 31, 1985		**9,400**	–
Other				**102**	190
				305,227	262,715
Less current maturities included in current liabilities				**3,641**	11,664
				$301,586	$251,051

Subsequent to December 31, 1984, Oakwood entered into agreements with its bankers for demand bank loans in the amount of $56,880,000, bearing interest at prime plus ¼%-½%. Such loans are to be used to refinance certain demand bank loans as at December 31, 1984 and fund a portion of the principal payments required on other debt in 1985. Accordingly, the refinanced and funded amounts have not been included in current liabilities.

After giving effect to the refinancing, the demand bank loans, the Secured Notes and the income debenture are secured by specific petroleum and natural gas properties. The demand bank loans are also secured by accounts receivable, marketable securities and a portion of the shares of Alberta Natural not held in trust pending the exercise of the ANG warrants. Upon repayment of the notes payable in May, 1985 (which are secured by additional Alberta Natural shares not held in trust), the demand bank loans will be secured by such additional Alberta Natural shares.

The demand bank loans, including those subsequent to December 31, 1984, are repayable out of future production proceeds and are not expected to require the use of existing working capital, subject to the bank's approval as to the application of proceeds on a sale of the marketable securities securing the demand bank loans. As long as estimated future production proceeds continue to exceed Oakwood's production loan lines of credit and the margin value of the Alberta Natural shares securing outstanding advances continues to exceed the related security requirements, as determined by the banks in accordance with their usual loan parameters, there are no repayment requirements on the demand bank loans other than for quarterly repayments of $540,000 during the period July, 1985 to October, 1991 (on the loans subsequent to December 31, 1984) and monthly repayments of $1,000,000 scheduled for the period January, 1986 to December, 1987. The bank has undertaken to review prior to December 31, 1985 the possible deferral of the scheduled monthly repayments for one year, provided that Oakwood continues to meet the bank's security requirements. Accordingly, no portion of the demand bank loans outstanding at December 31, 1984 has been included in current liabilities.

Estimated principal payments on long-term debt in the five years subsequent to 1984, giving effect to the refinancing outlined above and excluding any provision for the scheduled repayment of demand bank loans which is subject to review, are: 1985 – $4,709,000; 1986 – $13,188,000; 1987 – $15,875,000; 1988 – $27,004,000; 1989 – $12,928,000.

Oakwood's U.S. dollar debt is hedged by future revenue streams denominated in U.S. dollars. At December 31, 1984, the amount of the possible exchange loss on its U.S. dollar debt against which Oakwood is protected is $9,862,000, representing the additional long-term debt liability that would have resulted had Oakwood not recognized the effect of the hedge.

7. PREFERRED SHARES OF SUBSIDIARY COMPANY

	1984	1983
$9.00 Cumulative Redeemable Retractable Preferred Shares, Series A	**$7,134**	$ –
$9.00 Cumulative Redeemable Retractable Preferred Shares, Series B	**600**	–
	7,734	–
Less preferred shares retractable in 1985 included in current liabilities	**2,000**	–
	$5,734	$ –

The Cumulative Redeemable Retractable Preferred Shares, Series A and Series B were issued at $100 per share on the acquisition of the investment in Durham (reference is made to note 4(c)) and bear dividends of $9.00 per annum. The preferred shares are retractable at a price of $100 per share plus accrued and unpaid dividends at the option of the holder on the dates set forth in the table below. Any preferred shares that are not retracted by the holder on the dates set forth below are redeemable by the subsidiary company at a price of $100 per share plus accrued and unpaid dividends at any time after the specified retraction date.

	Retractable Preferred Shares	
Retraction Date	Series A	Series B
January 31, 1985	4,000	6,000
July 31, 1985	10,000	–
June 30, 1986	10,000	–
June 30, 1987	10,000	–
June 30, 1988	10,000	–
June 30, 1989	10,000	–
June 30, 1990	17,340	–
	71,340	6,000

The subsidiary company retracted 4,000 Retractable Preferred Shares, Series A and 6,000 Retractable Preferred Shares, Series B on January 31, 1985.

8. CAPITAL STOCK

(a) Authorized

The authorized share capital of Oakwood consists of an unlimited number of preferred shares issuable in series, an unlimited number of Class A Non-Voting Shares and an unlimited number of Common Shares.

(b) Issued

Changes in the issued capital stock for the two years ended December 31, 1984 are as follows (reference is made to notes 15(b) and (c)):

	Convertible Preferred Shares, Series A		Retractable Preferred Shares, Series B	
	Number of Shares	Carrying Value	Number of Shares	Carrying Value
Balance December 31, 1982	1,485,190	$35,979	720,000	$18,442
Additional expenses of issue	–	–	–	(54)
Redeemed on exercise of ANG warrants	–	–	(25,000)	(639)
	–	–	(25,000)	(693)
Balance December 31, 1983	1,485,190	35,979	695,000	17,749
Converted to Class A Non-Voting and Common Shares	**(100)**	**(3)**	**–**	**–**
Repurchased and cancelled	**–**	**–**	**(26,100)**	**(666)**
Redeemed on exercise of ANG warrants	**–**	**–**	**(2,500)**	**(64)**
	(100)	**(3)**	**(28,600)**	**(730)**
Balance December 31, 1984	**1,485,090**	**$35,976**	**666,400**	**$17,019**

	Class A Non-Voting Shares		Common Shares	
	Number of Shares	Carrying Value	Number of Shares	Carrying Value
Balance December 31, 1982	–	$ –	4,917,868	$13,172
Issued on acquisition of Quintus Leaseholds Limited from a director and officer	–	–	114,637	2,292
Issued on reclassification of Common Shares into Class A Non-Voting and Common Shares	5,032,505	7,732	–	(7,732)
Issued (cancelled) on conversion of Common Shares	20,791	32	(20,791)	(32)
Issued for cash pursuant to share option agreements	17,000	101	17,000	101
Additional proceeds pursuant to share purchase plan (note 8(g))	–	112	–	352
Issued for $7,600,000 cash pursuant to private placement, less expenses of issue, net of income tax reduction of $76,000	760,000	7,520	–	–
Issued for $13,125,000 cash, less expenses of issue, net of income tax reduction of $528,000	1,500,000	12,570	–	–
	7,330,296	28,067	110,846	(5,019)
Balance December 31, 1983	7,330,296	28,067	5,028,714	8,153
Issued on acquisition of subsidiary companies (note 3)	**3,254,310**	**26,034**	**–**	**–**
Issued on conversion of preferred shares	**110**	**1**	**110**	**1**
Issued (cancelled) on conversion of Common Shares	**2,121**	**4**	**(2,121)**	**(4)**
Repurchased and cancelled	**(165,000)**	**(824)**	**(173,900)**	**(281)**
Donated and cancelled (note 13)	**(300,000)**	**(1,532)**	**–**	**–**
Cancellation of share purchase plan (note 8(g))	**(162,251)**	**(828)**	**(165,000)**	**(268)**
Additional expenses of issue	**–**	**(64)**	**–**	**–**
	2,629,290	**22,791**	**(340,911)**	**(552)**
Balance December 31, 1984	**9,959,586**	**$50,858**	**4,687,803**	**$ 7,601**

(c) Preferred Shares

The following summarizes the material characteristics of the issued preferred shares:

(i) \$1.90 Cumulative Redeemable Convertible Preferred Shares, Series A

The Convertible Preferred Shares, Series A were issued at \$25.00 and bear dividends of \$1.90 per annum. Each share is convertible into one Class A Non-Voting and one Common Share on or prior to September 1, 1988. The shares are redeemable on or before September 1, 1985 at \$26.90 if the aggregate average trading price (for a specified period of time) of Oakwood's Class A Non-Voting and Common Shares on The Toronto Stock Exchange is not less than 125% of the conversion price, and are redeemable after September 1, 1985 at \$25.75 declining \$0.25 per year to \$25.00 after September 1, 1988. Upon conversion or redemption, the holder is also entitled to receive .22 of an American Oakwood common share for each share so converted or redeemed. Oakwood is obliged to purchase, in each calendar quarter commencing January 1, 1989, 1% of the total number of shares outstanding on a specified date at prices not exceeding \$25.00 per share plus costs of purchase, such obligation to carry over to succeeding calendar quarters in the same calendar year.

(ii) \$2.78 Cumulative Redeemable Retractable Preferred Shares, Series B

The Retractable Preferred Shares, Series B were issued at \$26.50 and bear dividends of \$2.78 per annum. The holder of the shares will have the option of requiring Oakwood to retract all or any of the shares held on April 1, 1988 at \$26.50. The shares are redeemable after March 31, 1988 at \$27.50, declining \$0.25 per year to \$26.50 after March 31, 1992. Oakwood is obliged to purchase 6,950 shares in each calendar quarter at prices not exceeding \$26.50 per share plus costs of purchase, such obligation to carry over to succeeding calendar quarters in the same calendar year.

Reference is made to note 4(a).

(d) Class A Non-Voting Shares

The Class A Non-Voting Shares are entitled to a non-cumulative preferential dividend of \$0.10 per share per annum, if, as and when declared by the directors; thereafter in any year, should any dividends be declared on the Common Shares, dividends of an equal amount must be declared on the Class A Non-Voting Shares.

(e) Common Shares

Common Shares are convertible into an equivalent number of Class A Non-Voting Shares at any time at the option of the holder.

(f) Class A Non-Voting Share Purchase Warrants

As at December 31, 1984, there are 1,834,083 Class A Non-Voting Share purchase warrants outstanding, each of which entitles the holder to purchase, for each warrant held, one Class A Non-Voting Share at \$10.20 on or before December 19, 1986.

(g) Share Purchase Plan

In 1981, a share purchase plan was established under which executive personnel were granted loans of \$2,747,000 by Oakwood to acquire 165,000 Common Shares of Oakwood. In January, 1982, the participating executives elected to withdraw from the share purchase plan and the related notes were cancelled. The 165,000 Class A Non-Voting and 165,000 Common Shares (after reclassification) were held in escrow and unallotted until July, 1983, when the shares were allocated to executive personnel who received loans from Oakwood aggregating \$3,211,000 to acquire the shares. Effective November 30, 1984, the directors cancelled the share purchase plan. The cancellation of the share purchase plan has been accounted for as a share repurchase.

(h) Shares Reserved

As at December 31, 1984, the following shares are reserved for issue:

	Class A Non-Voting Shares	Common Shares
On conversion of Convertible Preferred Shares, Series A	1,485,090	1,485,090
On exercise of Class A Non-Voting Share purchase warrants	1,834,083	–
On exercise of share options granted to directors, officers and employees	782,001	514,500
	4,101,174	1,999,590

The options to purchase Class A Non-Voting and Common Shares are exercisable at prices ranging from \$3.15 to \$6.19 and from \$3.15 to \$6.53, respectively, and expire on dates ranging from December, 1986 to December, 1989.

Reference is made to note 8(e).

(i) Dividend Restriction

The payment of dividends on the Retractable Preferred Shares, Series B, the Class A Non-Voting Shares and the Common Shares is subject to approval by holders of certain of Oakwood's long-term debt.

9. INTEREST ON LONG-TERM DEBT

	1984	1983
Interest incurred on long-term debt	$37,296	$31,021
Interest capitalized on long-term investments and property and equipment	(1,936)	(4,510)
	$35,360	$26,511

10. INCOME TAXES

The provisions for income tax in 1984 and 1983 differ from the amounts that would have resulted had the Canadian federal statutory tax rate been applied to earnings before corporate taxes and other items. The principal reasons are as follows:

	1984		1983	
	Amount	Percent of Pre-Tax Earnings	Amount	Percent of Pre-Tax Earnings
Computed income tax expense at statutory rate	$14,944	46%	$15,010	46%
Increase (decrease) in income taxes resulting from				
Non-deductible provincial royalties and rentals	18,682	58	17,103	52
Less related allowances and rebates	(15,777)	(49)	(13,756)	(42)
	2,905	9	3,347	10
Non-deductible depletion of excess consideration paid for shares of subsidiary companies	3,261	10	2,414	8
Allowance for earned depletion	(3,544)	(10)	(7,054)	(21)
Unrecognized tax benefit of losses of subsidiary companies	907	3	—	—
Incremental provincial taxes	462	1	457	1
Other	429	1	75	—
	4,420	14	(761)	(2)
Actual income tax expense	$19,364	60%	$14,249	44%
Comprising:				
Current income taxes (recovery)	$ 401		$ (45)	
Deferred income taxes	18,963		14,294	
	$19,364		$14,249	

11. EARNINGS PER SHARE

Basic earnings per Class A Non-Voting and Common Share are calculated in accordance with the preferential dividend attaching to the Class A Non-Voting Shares and the entitlement of Class A Non-Voting and Common Shares to participate equally in residual earnings.

	1984	1983
Net earnings	$6,219	$6,693
Provision for dividends on preferred shares	(4,714)	(4,771)
Preferential dividends paid on Class A Non-Voting Shares	(737)	(254)
Residual earnings applicable to Class A Non-Voting and Common Shares	$ 768	$1,668
Weighted average number of shares outstanding during the year		
Class A Non-Voting Shares	9,584,029	5,267,526
Common Shares	4,985,304	4,916,666
	14,569,333	10,184,192
Earnings per Class A Non-Voting Share		
Earnings before extraordinary item	$0.13	$0.11
Net earnings	$0.13	$0.21
Earnings per Common Share		
Earnings before extraordinary item	$0.05	$0.06
Net earnings	$0.05	$0.16

The differential between earnings per Class A Non-Voting Share and earnings per Common Share reflects the preferential dividends paid during the year per weighted average Class A Non-Voting Share outstanding (1984, $0.08; 1983, $0.05).

The potential effects of the conversion of the Convertible Preferred Shares, Series A and the exercise of the Class A Non-Voting Share purchase warrants and outstanding share options are not dilutive.

All share and per share amounts in the above tables give retroactive effect to the reclassification of Common Shares which occurred in April, 1983.

12. BUSINESS SEGMENTS

Oakwood is engaged in one industry, oil and gas exploration, development and production, primarily in Canada.

13. RELATED PARTY TRANSACTIONS

Certain employees of Oakwood are allowed to participate in Oakwood's acquisition of petroleum and natural gas properties on the same basis as if a third party had participated. As well, certain employees of Oakwood have the right to participate in exploration projects through a 5% net profits interest in the projects after payout.

During 1984, a director of Oakwood donated 300,000 Class A Non-Voting Shares to Oakwood. The donation has been accounted for as a share repurchase at nil cost.

Reference is made to notes 3, 4, 8(g) and 15(a).

14. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Beaufort Exploration

Oakwood has entered into a five year exploration agreement with Esso Resources Canada Limited in the Beaufort Sea-Mackenzie Delta region for which the future expenditures are currently estimated at $5,600,000 after deduction of Petroleum Incentives Program credits.

(b) New York Oils Limited

A Statement of Claim of $1,156,000 has been filed against New York Oils, a 74.8% owned subsidiary, pursuant to a promissory note issued by the subsidiary in connection with its investment in a limited partnership. No provision has been made for any amount which may be payable in respect of the note in that it is the opinion of management that all liabilities in respect of the note have been fulfilled.

(c) American Oakwood Energy Ltd.

Reference is made to note 4(b) for commitments and contingent liabilities of Oakwood relating to its investment in American Oakwood.

15. SUBSEQUENT EVENTS

(a) Purchase of Oakwood Petroleum Corporation

Effective January 1, 1985 Oakwood purchased from its 63.2% owned subsidiary, Oakwood International Petroleum N.L., all of the issued and outstanding shares of Oakwood Petroleum Corporation for cash consideration of $4,300,000 U.S.

(b) Substantial Issuer Bid

On January 15, 1985, Oakwood purchased, by way of a Substantial Issuer Bid through the facilities of The Toronto Stock Exchange, 654,235 Class A Non-Voting Shares at a total cost of $2,468,000.

(c) Repurchase of Shares and Warrants

In February, 1985, Oakwood received regulatory approval to enter into a program of purchasing, through the facilities of The Toronto and Alberta Stock Exchanges during the twelve months ending March 4, 1986, not more than 2% in a calendar month of its issued and outstanding Class A Non-Voting Shares, Common Shares and ANG warrants, to a maximum of 759,046 Class A Non-Voting Shares, 236,550 Common Shares and 50,797 ANG warrants.

(d) Long-Term Debt

Reference is made to note 6.

(e) Retraction of Preferred Shares of Subsidiary Company

Reference is made to note 7.

FIVE YEAR OPERATIONS ANALYSIS

	1984	1983	1982	1981	1980
Canadian reserves as at July 1 (1)					
Crude oil (millions of barrels)					
Proved	38.2	35.4	38.3	44.5	43.2
Probable	5.1	4.1	0.7	0.4	0.7
Total	43.3	39.5	39.0	44.9	43.9
Natural gas (Bcf)					
Proved	305	252	322	215	233
Probable	190	181	118	31	42
Total	495	433	440	246	275

(1) Excluding reserves in the Beaufort Sea-Mackenzie Delta region

	1984	1983	1982	1981	1980
Daily production					
Crude oil (barrels)	9,948	9,248	7,548	8,656	7,241
Natural gas (Mmcf)	25.5	20.5	23.5	17.0	19.4
Land holdings					
Gross (millions of acres)					
Provincial	3.1	2.2	2.3	2.8	1.6
Canada Lands	10.1	7.9	7.1	3.9	1.4
Total Canadian	13.2	10.1	9.4	6.7	3.0
International	25.8	16.9	15.4	10.1	7.6
Total	39.0	27.0	24.8	16.8	10.6
Net (thousands of acres)					
Provincial	582	464	466	540	301
Canada Lands	704	566	582	483	131
Total Canadian	1,286	1,030	1,048	1,023	432
International	1,336	957	1,667	1,395	1,054
Total	2,622	1,987	2,715	2,418	1,486
Number of employees	162	146	138	89	59

Wells drilled

	1984		1983		1982		1981		1980	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory										
Oil	7	1.1	6	3.1	9	2.2	2	0.5	10	2.9
Gas	12	1.7	19	3.7	13	2.6	8	1.2	15	3.0
Abandoned	26	4.5	13	2.9	10	3.5	9	3.0	15	4.0
	45	7.3	38	9.7	32	8.3	19	4.7	40	9.9
Development										
Oil	56	19.2	38	15.6	18	7.5	35	17.7	35	15.2
Gas	16	2.3	22	7.8	25	2.9	36	9.3	41	10.7
Abandoned	21	9.0	10	3.4	13	8.4	6	2.4	3	0.6
	93	30.5	70	26.8	56	18.8	77	29.4	79	26.5
Total	138	37.8	108	36.5	88	27.1	96	34.1	119	36.4

	1984	1983	1982	1981	1980
Outstanding shares					
Convertible Preferred Shares, Series A	1,485,090	1,485,190	1,485,190	1,485,890	1,500,000
Retractable Preferred Shares, Series B	666,400	695,000	720,000	–	–
Class A Non-Voting Shares	9,959,586	7,330,296	–	–	–
Common Shares	4,687,803	5,028,714	4,917,868	5,238,298	5,007,377
Average number of Class A Non-Voting and Common Shares outstanding (1)	14,569,333	10,184,192	9,657,476	10,377,652	9,815,428

(1) Restated to reflect the reclassification of Common Shares which occurred in April 1983.

FIVE YEAR FINANCIAL ANALYSIS

	1984	1983	1982	1981	1980
	(thousands of dollars except per share amounts)				
Earnings					
Revenue					
Sale of oil, after royalties	$ 86,103	$ 70,423	$ 47,823	$ 35,516	$ 25,116
Sale of gas, after royalties	20,432	14,907	17,856	10,975	10,874
Interest and other	1,782	3,113	2,888	8,555	2,574
	108,317	88,443	68,567	55,046	38,564
Expenses					
Production	12,159	8,657	8,698	6,136	4,608
General and administrative	7,309	5,502	6,077	3,837	2,740
Interest on long-term debt	35,360	26,511	30,665	18,921	16,346
Depletion and depreciation	21,003	15,143	10,138	7,673	8,130
	75,831	55,813	55,578	36,567	31,824
Corporate taxes					
Income taxes	19,364	14,249	7,607	11,266	4,170
PGRT/IORT	14,966	11,877	9,395	4,767	–
Alberta Royalty Tax Credit	(2,413)	(3,931)	(4,732)	(1,340)	(1,000)
	31,917	22,195	12,270	14,693	3,170
Other					
Equity in earnings of Alberta Natural	6,631	–	–	–	–
Share of loss of American Oakwood	–	(4,575)	(3,926)	(100)	–
Minority interest	(981)	(195)	(462)	(29)	(194)
Extraordinary items	–	1,028	8,664	13,806	2,466
	5,650	(3,742)	4,276	13,677	2,272
Net earnings	$ 6,219	$ 6,693	$ 4,995	$ 17,463	$ 5,842
Cash flow					
Earnings (loss) before extraordinary items	$ 6,219	$ 5,665	$ (3,669)	$ 3,657	$ 3,376
Depletion and depreciation	21,003	15,143	10,138	7,673	8,130
Deferred income taxes	18,963	14,294	8,044	10,797	3,786
Minority interest	981	195	462	29	194
Equity in earnings of Alberta Natural, net of dividends	(3,307)	–	–	–	–
Share of loss of American Oakwood	–	4,575	3,926	100	
Other	996	438	726	36	132
Cash flow from operations	44,855	40,310	19,627	22,292	15,618
Preferred dividends	(4,714)	(4,788)	(2,822)	(2,840)	(1,243)
Capitalized interest and administrative costs	(6,220)	(8,028)	(9,530)	(6,456)	(309)
Discretionary cash flow	$ 33,921	$ 27,494	$ 7,275	$ 12,996	$ 14,066
Balance sheet					
Working capital	$ 6,166	$ 5,263	$ 3,810	$ 6,266	$ 21,080
Long-term investments	111,974	86,707	81,382	76,097	2,224
Property and equipment	375,941	286,262	267,636	259,433	186,323
Other assets	7,204	14,473	5,311	12,988	1,467
Long-term debt	301,586	251,051	254,061	265,953	142,408
Other liabilities	75,107	37,731	25,425	24,729	22,187
Shareholders' equity	124,592	103,923	78,653	64,102	46,499
Net capital expenditures					
Canadian	$ 42,369	$ 41,194	$ 27,938	$ 26,429	$ 26,297
International	3,576	3,587	7,412	851	1,934
Total additions	45,945	44,781	35,350	27,280	28,231
Proceeds from disposals	(2,503)	(1,822)	(574)	(20)	(112)
Net additions to property and equipment	43,442	42,959	34,776	27,260	28,119
Petroleum Incentives Program credits	(16,174)	(13,594)	(11,161)	(3,934)	–
Net capital expenditures	$ 27,268	$ 29,365	$ 23,615	$ 23,326	$ 28,119
Per share information					
Net earnings					
Per Class A Non-Voting Share	$0.13	$0.21	$0.22	$1.41	$0.44
Per Common Share	0.05	0.16	0.22	1.41	0.44
Cash flow from operations	3.08	3.96	2.03	2.15	1.59
Discretionary cash flow	2.33	2.70	0.75	1.25	1.43

CORPORATE INFORMATION

DIRECTORS

DALLAS E. HAWKINS(1)
Calgary, Alberta
Chairman of the Board

BRIAN S. EKSTROM(1)(2)
Calgary, Alberta
President and Chief Executive Officer

J. BRIAN AUNE
Montreal, Quebec
Chairman and Chief Executive Officer of Nesbitt Thomson Bongard Inc.

CARL E. BEIGIE(2)
Toronto, Ontario
Vice-President and Chief Economist of Dominion Securities Pitfield Limited

GEORGE A. FIERHELLER(2)
Vancouver, British Columbia
Vice-Chairman of Rogers Cablesystems Inc.

KENNETH W. GERMOND
Calgary, Alberta
Retired Executive

R. ROSS HAMILTON(1)(2)
Calgary, Alberta
President of Scoteire Exploration Ltd.

DAVID J. HENNIGAR
Bedford, Nova Scotia
Atlantic Regional Director of Burns Fry Limited

BRIAN G. McCOMBE
Calgary, Alberta
Partner, McCombe & Company

EDWARD G. McMULLAN(1)(2)
Calgary, Alberta
President of E. G. McMullan Ltd.

CARL O. NICKLE(2)
Calgary, Alberta
Retired Executive

GEORGE W. OUGHTRED(1)
Calgary, Alberta
Chairman of the Board of Commercial Oil and Gas Ltd.

(1) Member of the Executive Committee
(2) Member of the Audit Committee

OFFICERS

DALLAS E. HAWKINS
Chairman of the Board

BRIAN S. EKSTROM
President and Chief Executive Officer

D. NOLAN BLADES
Executive Vice-President

ANDY J. BLASHYN
Vice-President, Exploration

A. NORMAN BOYSE
Vice-President, Gas Marketing and Special Projects

GEORGE W. FAULKNER
Vice-President, Corporate Development

JOHN G. FLETCHER
Vice-President, Finance

LLOYD D. MANN
Vice-President, Production and Operations

BRIAN G. McCOMBE
Secretary

LEGAL COUNSEL

McCombe & Company
Calgary, Alberta

Aird & Berlis
Toronto, Ontario

HEAD OFFICE

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Calgary, Alberta T2P 3H2
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Telex 03-822846

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Hayter, Alberta
Telephone (403) 858-3768

Sylvan Lake, Alberta
Telephone (403) 887-2756

Taber, Alberta
Telephone (403) 223-9671

Dawson Creek, British Columbia
Telephone (604) 782-5971

AUSTRALIAN OFFICE

Oakwood International Petroleum N.L.
Suite 5210, Level 52
MLC Centre
19-29 Martin Place
Sydney, NSW 2000
Telephone 011-61-2-233-7899
Telex AA72484

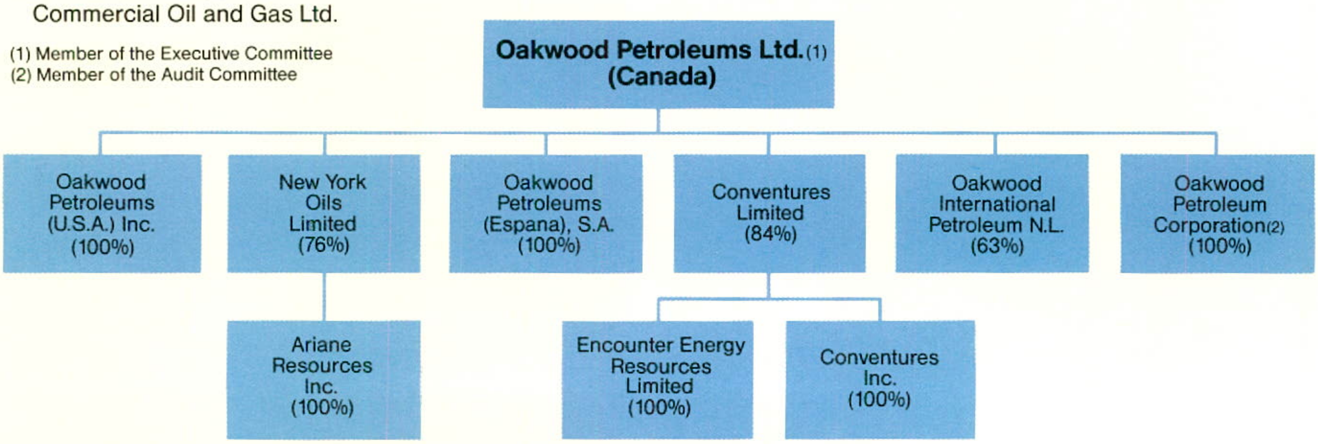
AUDITORS

Thorne Riddell
Calgary, Alberta

INVESTMENT IN OTHER COMPANIES(1)

	Ownership (%) Common Shares	Ownership (%) Preferred Shares	Voting Rights Held (%)
Alberta Natural Gas Company Ltd	32	–	32
American Oakwood Energy Ltd.	–	100	–
Durham Resources Inc.	31	–	43

(1) As at March 31, 1985



(1) Ownership of subsidiaries as at March 31, 1985.
(2) Acquired by Oakwood Petroleums Ltd. effective January 1, 1985, subject to approval by minority shareholders of Oakwood International Petroleum N.L.

SHAREHOLDER INFORMATION

INVESTOR RELATIONS

Shareholders and security analysts who desire further information about the Company should direct their queries, by phone or in writing, to the Vice-President, Corporate Development, Suite 1800, 311 Sixth Avenue S.W., Calgary, Alberta T2P 3H2 (403) 268-6100.

Changes of address or inquiries about shares and dividends should be directed to The Canada Trust Company, Corporate Trust Department, 505 Third Street S.W., Calgary, Alberta T2P 3E6 (403) 294-3333.

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Alberta Stock Exchange
Montreal Exchange

REGISTRAR

The Canada Trust Company
Calgary, Alberta

TRANSFER AGENTS

The Canada Trust Company
Calgary, Halifax, Montreal, Toronto, Winnipeg, Regina and Vancouver

Bank of Bermuda Limited
Hamilton, Bermuda

DIVIDENDS

The Company has paid the following cash dividends per share on its outstanding shares during the past two years.

	1984	1983
Convertible Preferred Shares, Series A	$1.90	$1.90
Retractable Preferred Shares, Series B,	2.78	2.11
Class A Non-Voting Shares	0.10	0.05

On May 7, 1984, the Company distributed a dividend in specie of all its common shares of American Oakwood Energy Ltd. to holders of its Class A Non-Voting and Common Shares on December 30, 1983, on the basis of one American Oakwood common share for each Class A Non-Voting and/or Common Share of Oakwood.

OUTSTANDING SHARES

The table below indicates the number of shareholders, including nominees, and their geographical distribution as recorded on the shareholders register maintained by The Canada Trust Company, as at December 31, 1984.

	Number of Shareholders	Number of Shares
Common Shares		
Canada	1,292	4,455,265
Foreign	913	232,538
	2,205	4,687,803
Class A Non-Voting Shares		
Canada	2,257	9,779,438
Foreign	927	180,148
	3,184	9,959,586
Convertible Preferred Shares, Series A		
Canada	1,182	1,474,360
Foreign	7	10,730
	1,189	1,485,090
Retractable Preferred Shares, Series B		
Canada	860	666,300
Foreign	1	100
	861	666,400

Dallas E. Hawkins and Brian S. Ekstrom are the major shareholders of the Company, owning 1,040,955 (22.2%) and 920,512 (19.6%) of the outstanding Common Shares and 1,033,205 (10.4%) and 474,725 (4.8%) of the Class A Non-Voting Shares, respectively, as at December 31, 1984. The other Directors and Officers of the Company collectively own an additional 2.3% and 2.0% of the outstanding Common and Class A Non-Voting Shares, respectively.

TRADING RANGE OF SHARES

The tables below indicate the trading range of the Common and Class A Non-Voting Shares during the past two years, as reported by The Toronto Stock Exchange.

	1984		1983	
	High	**Low**	High	Low
Common Shares				
1st quarter	**$9.63**	**$7.25**	$17.00	$12.25
2nd quarter (after reclassification in April 1983)	**8.88**	**6.00**	12.00	6.50
3rd quarter	**7.75**	**4.90**	13.00	10.50
4th quarter	**7.25**	**4.85**	11.38	7.38
Class A Non-Voting Shares (1)				
1st quarter	**7.38**	**5.88**	N/A	N/A
2nd quarter	**6.50**	**4.65**	10.25	6.38
3rd quarter	**5.25**	**3.60**	11.75	9.50
4th quarter	**4.80**	**3.00**	10.00	7.00

(1) The Class A Non-Voting Shares were listed for trading on The Toronto Stock Exchange on April 11, 1983.

Ronalds-Federated

OAKWOOD PETROLEUMS LTD.

Suite 1800, 311 Sixth Avenue S.W.
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T2P 3H2