NORTH CANADIAN OILS LIMITED

ANNUAL REPORT 1984

COMPANY PROFILE

North Canadian Oils Limited is a Canadian company founded in 1947. The Company is engaged in the exploration for hydrocarbons, the development and production of these resources and the transmission of natural gas. Producing properties and prospective exploration lands are located in western Canada and in various areas in the United States.

The Company's shares have been listed on the Toronto and American Stock Exchanges since 1952.

CORPORATE OFFICE

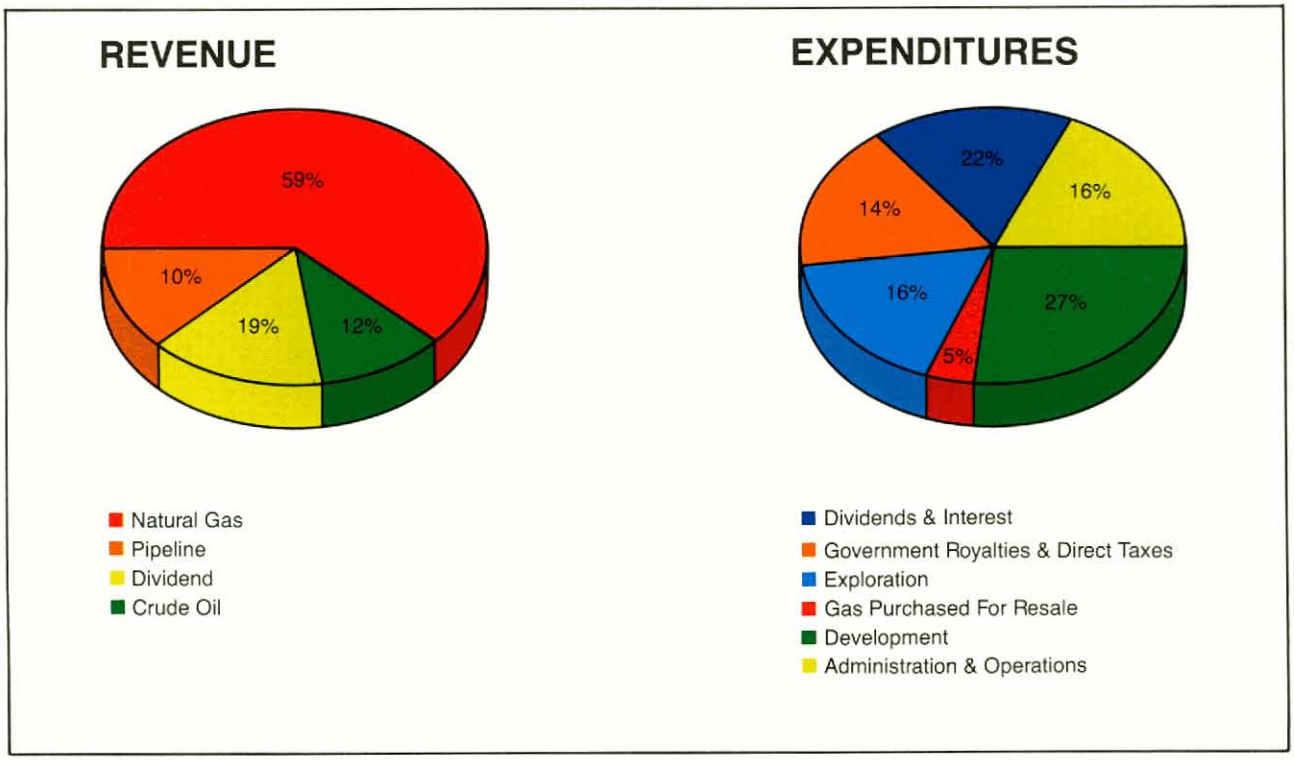
Tenth Floor, Bradie Building
630 Sixth Avenue Southwest
Calgary, Alberta T2P 0S8

ANNUAL MEETING

The 1985 Annual Meeting of shareholders will be held Monday, July 8, 1985, at 9:00 a.m. local time, Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta, Canada.

THE YEAR AT A GLANCE

	1984	1983
Financial		
Gross Revenue (after royalty)	$ 80,449,000	$ 46,741,000
Funds Provided from Operations	41,753,000	23,103,000
Net Income	24,010,000	16,577,000
Exploration Expenditures	13,095,000	5,599,000
Development Expenditures	23,580,000	9,652,000
Investments	188,774,000	135,946,000
Shareholders' Equity	256,262,000	101,952,000
Income per Common Share — Fully Diluted	$2.39	$2.35
Operating		
Natural Gas Production — billion cubic feet	26.4	17.5
Average per day — million cubic feet	72.3	48.0
Oil and Natural Gas Liquids (NGL) — barrels	295,000	152,000
Pipeline —		
Annual throughput, billion cubic feet	8.8	9.2
Reserves		
Consolidated Proved and Probable Reserves		
Natural Gas (billion cubic feet)	1,132	600
Crude Oil & NGL (thousands of barrels)	6,619	1,897
Undeveloped Acreage		
Gross	2,234,509	1,735,453
Net	929,697	430,358



TO THE SHAREHOLDERS:

Fiscal 1984 was a year of progress for North Canadian with gross revenues, net income and cash flow all improving over 1983. In addition, a substantial acquisition was completed and the Company's equity base increased by $155 million.

During the year, the Company acquired a 96.6% interest in Bankeno Mines Limited. The purchase price was satisfied by the issue of $70.1 million in 10% ten year debentures and $64.8 million in Class B convertible preferred shares. Bankeno's major assets are its 54.1% interest in Merland Explorations Limited, a company with substantial oil and gas assets, a 25% royalty in Polaris mine, one of the world's richest zinc and lead mines, plus producing oil and gas properties. The financial results of Bankeno for the fourth quarter of 1984 are consolidated with those of the Company in the accompanying financial statements.

Net income for the year was $24.0 million, compared to $16.6 million earned in 1983. Income per common share, on a fully diluted basis and after preferred share dividends was $2.39, compared to $2.35 in 1983. Cash flow from operations amounted to $41.7 million, compared to $23.1 million in the previous year. Cash flow per common share on a fully diluted basis and after preferred share dividends and minority interests was $4.21, compared to $3.23 in 1983. As a result of the acquisition and consolidation of Bankeno, capital expenditures on exploration and development were $38.0 million, up from the 1983 level of $15.2 million. During the year the Company raised $134.8 million of equity through the issuance of $50 million of Class A preferred shares and $84.8 million from the issue of Class B convertible preferred shares. At December 31, 1984, shareholders' equity amounted to $256 million. Subsequent to the year end the Company called its convertible debentures for redemption and as a result of conversions, shareholders' equity increased by an additional $21.3 million.

Operationally the Company had an active year. Exploration activities were concentrated in Alberta and Saskatchewan and a major development drilling program was carried out in the Hatton gas field in southwest Saskatchewan. This development program, combined with the results of Bankeno for the final quarter of the year, accounted for substantial gains reported in the production of crude oil and natural gas. Natural gas production averaged 72 million cubic feet per day, compared to 48 million cubic feet per day in 1983. Crude oil and natural gas liquids production for the year was 295,000 barrels for an average of 806 barrels per day up from an average of 416 barrels per day produced in 1983. An extensive winter drilling program in northwest Alberta will be carried out during the first quarter of 1985 on land acquired in 1984. Also a minimum 10 well program is planned to develop a heavy oil discovery made in Saskatchewan.

North Canadian has been strengthened with the acquisition of Bankeno and it is well positioned to participate in the oil and gas industry. The Company's equity base, including securities convertible into common shares has been increased from $102 million at December 31, 1983 to $256 million at December 31, 1984. Consolidated energy reserves, including minority interests, exceed 1.1 trillion cubic feet of gas, 6.6 million barrels of crude oil and natural gas liquids, approximately 1 million net acres of exploratory lands and $188 million in cash and short term investments. For the future, emphasis will be placed on total return comprising increases in underlying asset values as well as reported cash flow and earnings. This will be achieved through direct and indirect investment in the natural resource industry with major emphasis directed towards the oil and gas segment.

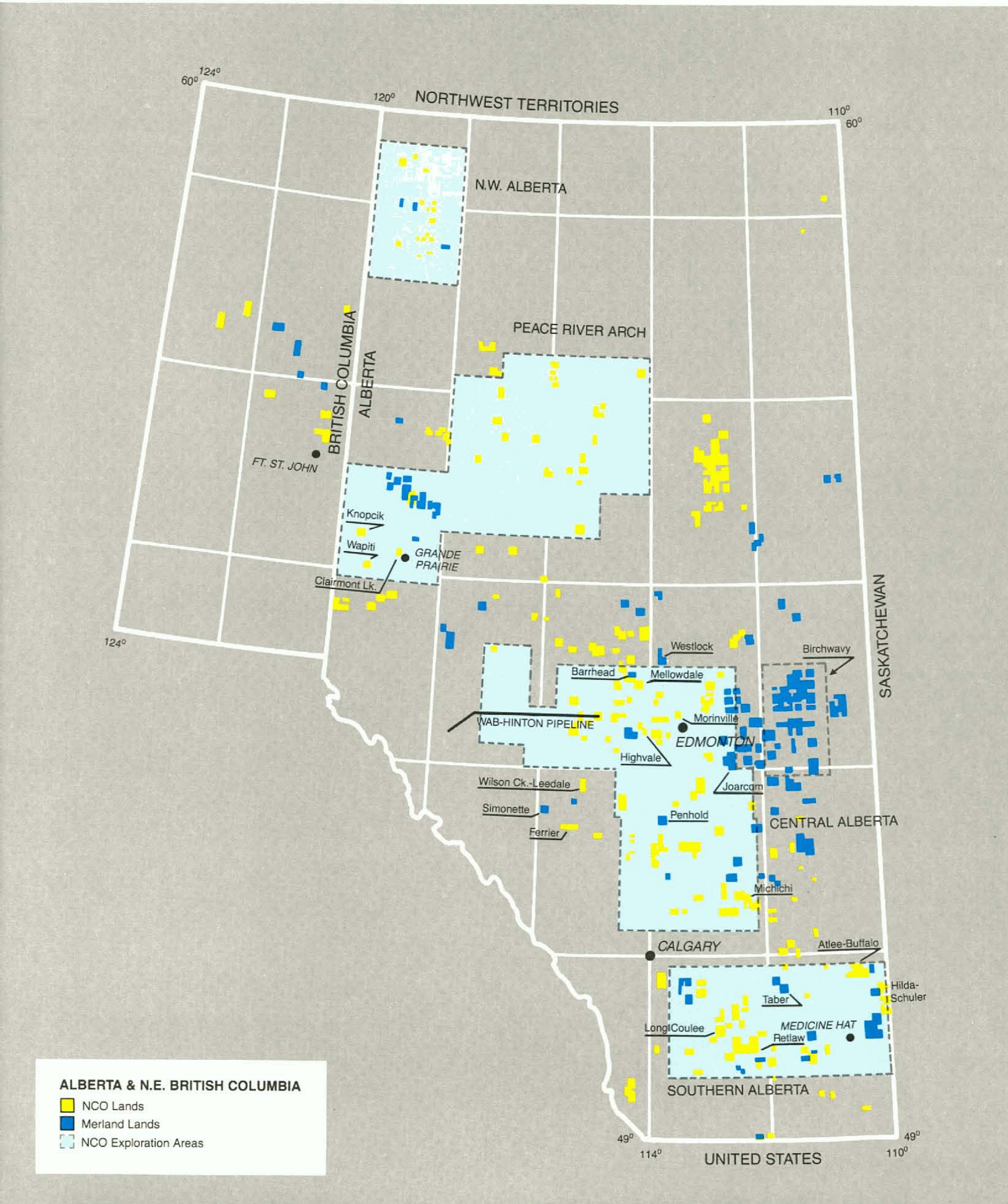
On March 25, 1985 the Board of Directors elected David W. Kerr as President and Chief Executive Officer and Charles K. Lough and Donald F. Christensen Senior Vice Presidents of the Company assumed the additional position of Chief Operating Officers.

We take this opportunity to thank three directors of the Company who are not standing for re-election to the Board. Messrs. Harold Milavsky, Frederic Y. McCutcheon and Michael A. Cornelissen have contributed to the success and growth of the Company and on behalf of the shareholders, we extend to them our sincere appreciation for their efforts.

James F. Kay
Chairman of the Board

David W. Kerr
President and Chief Executive Officer

April 26, 1985


NORTHWEST TERRITORIES
N.W. ALBERTA
PEACE RIVER ARCH
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
FT. ST. JOHN
Knopcik
Wapiti
GRANDE PRAIRIE
Clairmont Lk.
Westlock
Birchwavy
Barrhead
Mellowdale
WAB-HINTON PIPELINE
Morinville
EDMONTON
Highvale
Joarcom
Wilson Ck.-Leedale
Simonette
Penhold
Ferrier
CENTRAL ALBERTA
Michichi
CALGARY
Atlee-Buffalo
Hilda-Schuler
Taber
Long Coulee
MEDICINE HAT
Retlaw
SOUTHERN ALBERTA
UNITED STATES
60°
124°
120°
110°
60°
124°
49°
114°
49°
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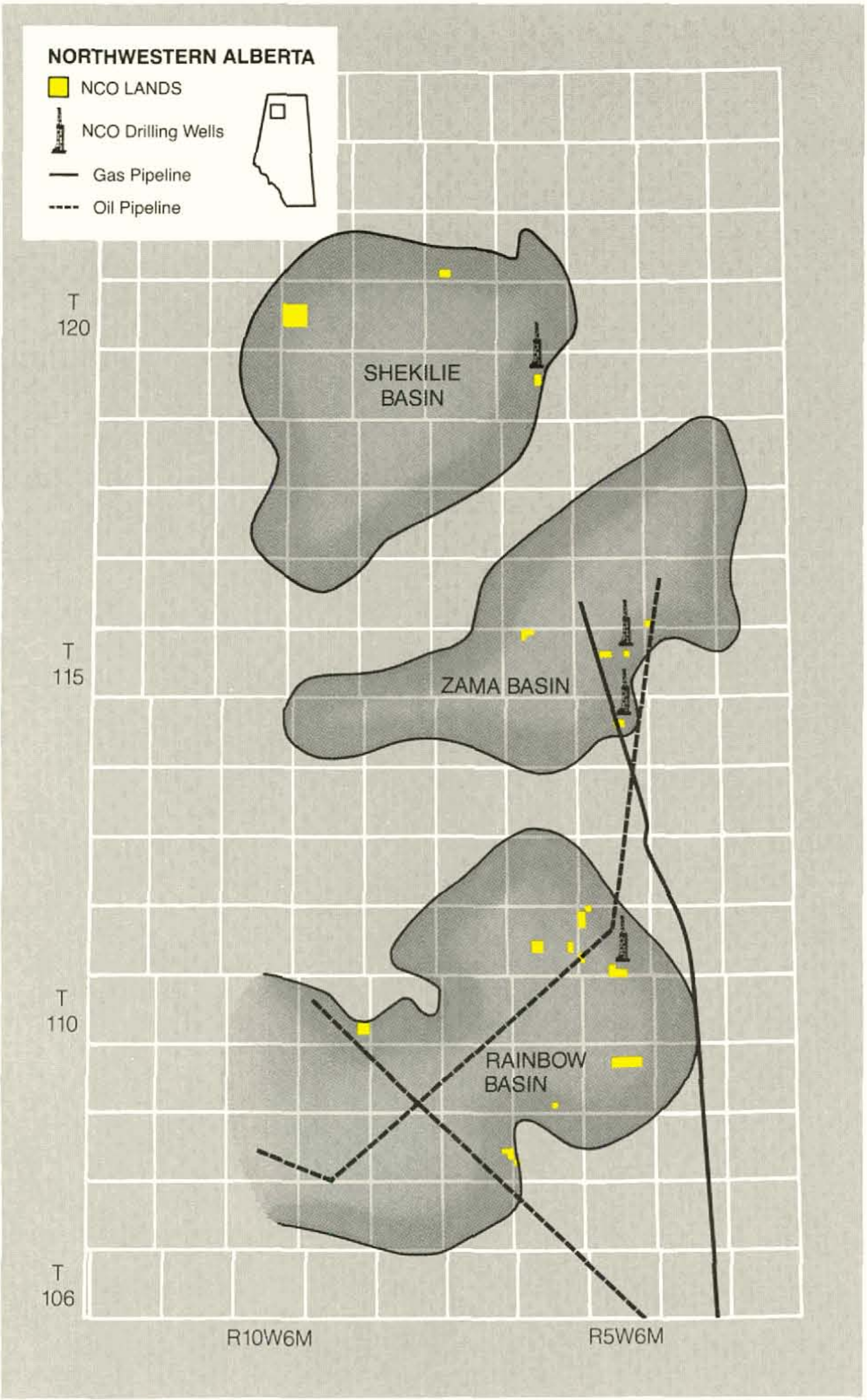
ALBERTA & N.E. BRITISH COLUMBIA
NCO Lands
Merland Lands
NCO Exploration Areas

EXPLORATION

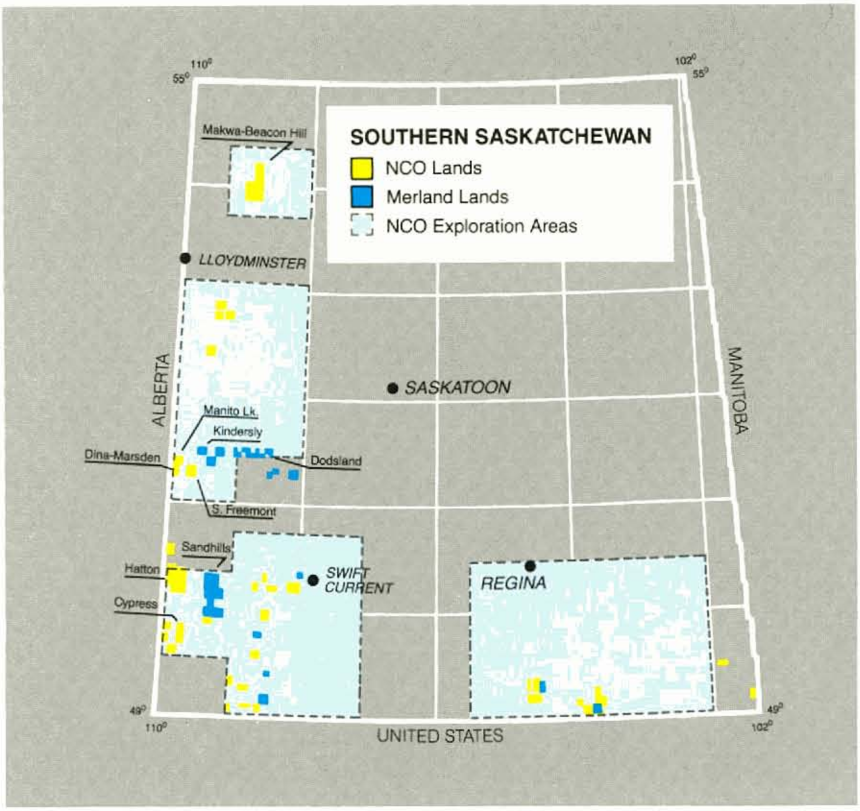


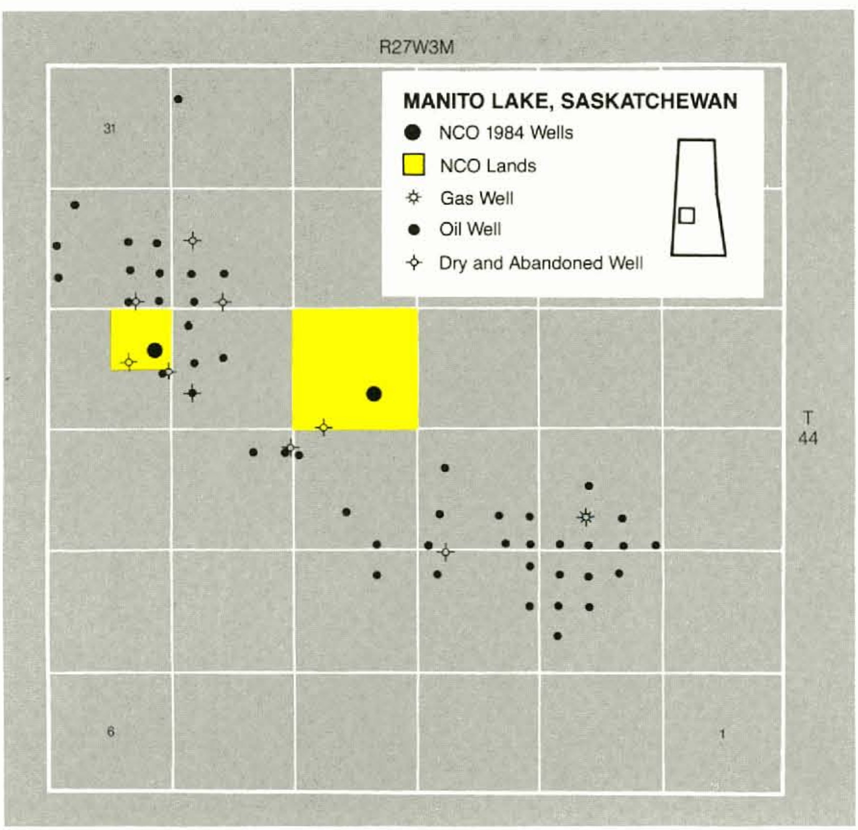
North Canadian participated in a broad spectrum of exploration projects throughout Alberta, southern Saskatchewan and midwestern United States during 1984. Exploration activity led to the drilling of 58 wells resulting in 10 gas and 12 oil discoveries. 165,924 gross acres of new exploratory lands were purchased and 3,700 miles of new seismic data was acquired during the year. Through its acquisition of Bankeno Mines Limited, North Canadian participated in the drilling of an additional 8 exploratory wells which resulted in 4 gas wells and 1 oil well.

The Company continued its aggressive exploration of the Devonian Keg River Reef basins located in northwestern Alberta. Acquisition of 900 miles of high resolution seismic data defined numerous prospects and specific reef anomalies, and provided the basis for acquisition of fourteen Crown land parcels and negotiation of several farm in deals. North Canadian will participate in a minimum of 4 exploratory tests in these basins prior to spring break-up and continue geophysical exploration, land acquisition and further exploratory drilling in geophysically favorable portions of the basins throughout 1985.

During the year North Canadian carried out a large exploration program in north central and central Alberta. Integration of 750 miles of seismic data with geological mapping of the Devonian Reef complexes extending throughout the general Drumheller, Bashaw and Redwater areas led to the acquisition of 20,536 acres of freehold and Crown lands during the year. A geophysical and land acquisition program, along with the drilling on specific geophysical anomalies is budgeted for the coming year.

In southern Alberta, participation in 10 exploratory wells resulted in 5 gas wells and 1 oil well. The main effort was directed at building the Company's selective land base in





areas where Cretaceous channel sands were defined by geophysical interpretation. 14,720 acres of land were acquired during the year in this area.

Exploration in Saskatchewan was largely concentrated in the south-western portion of the province.

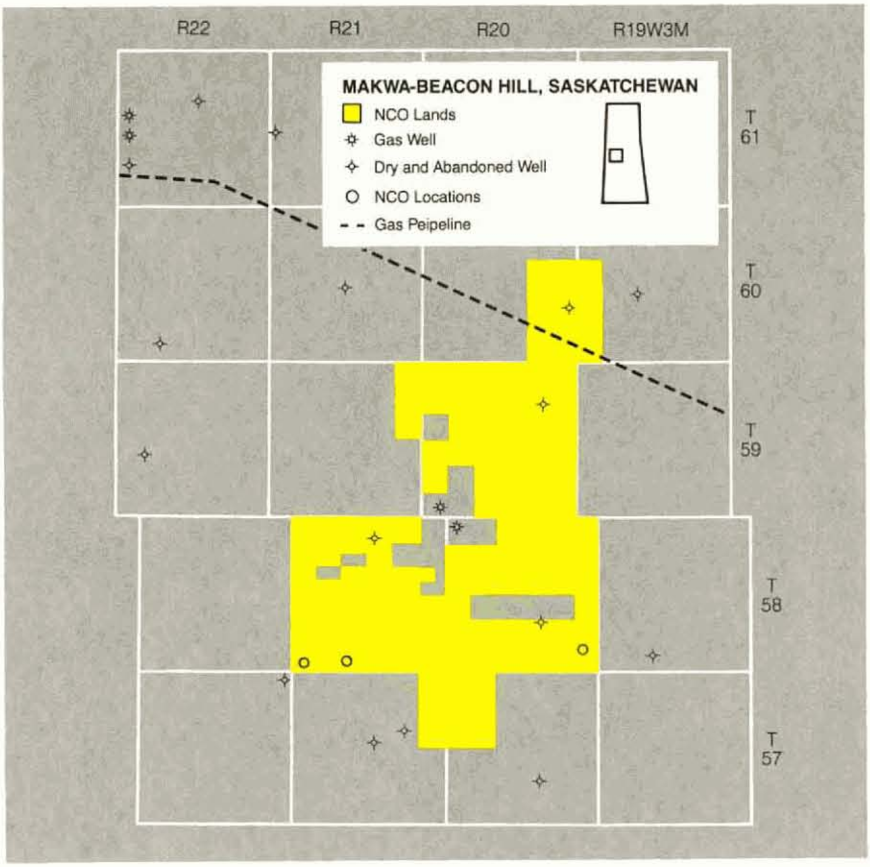
In the heavy oil belt extending between Coleville and Lloydminster, the Company participated in 11 exploratory tests resulting in 5 oil wells and 1 gas well.

At Manito Lake 2 oil discoveries were drilled on one hundred percent North Canadian owned properties. Seismic has confirmed ten to twelve development locations offsetting the oil discoveries. Development drilling which commenced in February 1985 with the drilling of 4 oil wells, is to be completed in the summer of 1985.

At South Freemont where the Company owns a fifty percent interest in approximately 18,960 acres of Crown leases, two heavy oil wells and a significant gas discovery were drilled in 1984. Additional land will be acquired on the gas trend throughout the coming year. Development drilling related to the heavy oil finds is subject to production testing in 1985.

At Makwa-Beacon Hill, located approximately 65 miles northeast of Lloydminster, a geophysical program to evaluate the gas potential of the Cretaceous reservoirs was initiated. In December, the Company as a 43% interest holder, acquired 76,300 gross acres of Crown permit lands. Detailed geophysical work and stratigraphic testing of this land commenced in February of 1985. A major gas transmission line extends southeast-ward through the northern end of the presently leased lands.

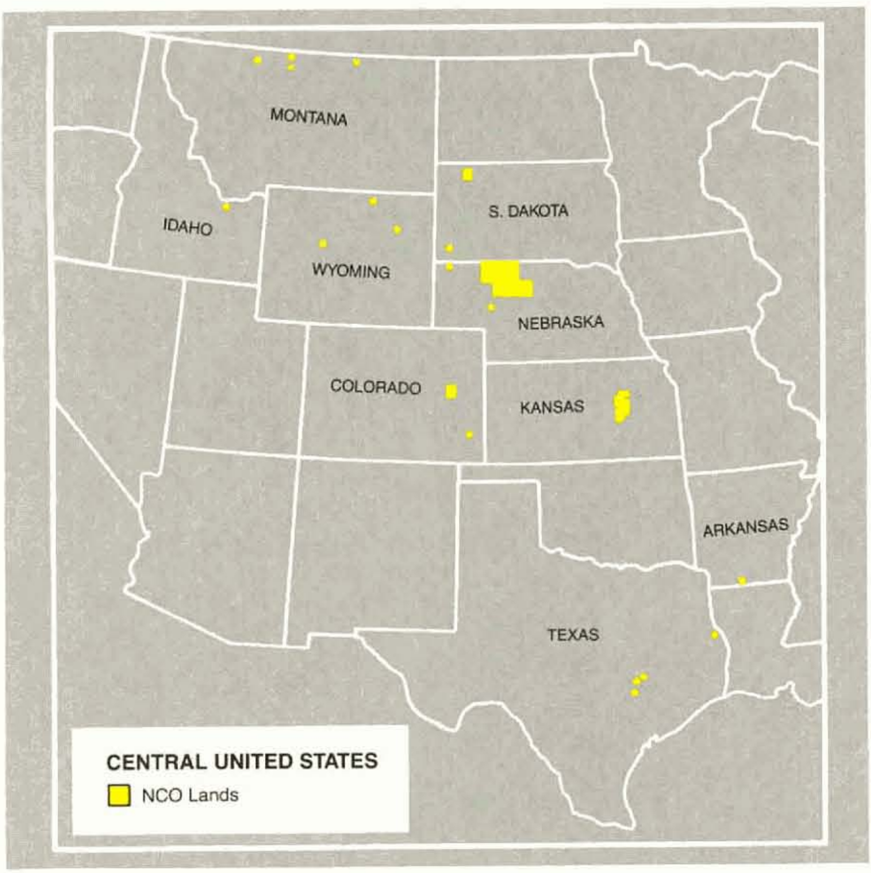
In the Hatton-Cypress area in south-western Saskatchewan a twenty well exploratory program was conducted within and adjacent to the Company's



shallow gas producing field. Large natural gas reserves were discovered in zones below the presently productive Medicine Hat and Milk River zones.

In southeastern Saskatchewan and southwestern Manitoba, the Company continued its geophysical exploration on the Mississippian oil producing trends. Approximately 5,280 acres of high grade Crown and freehold land was acquired during the year.

In the United States, North Canadian, as a 20% partner, participated in a search for oil in the Powder River Basin located in northeastern Wyoming and southeastern Montana. A significant geophysical data base was acquired during the year and 3 exploratory wells were drilled resulting in 1 oil discovery.



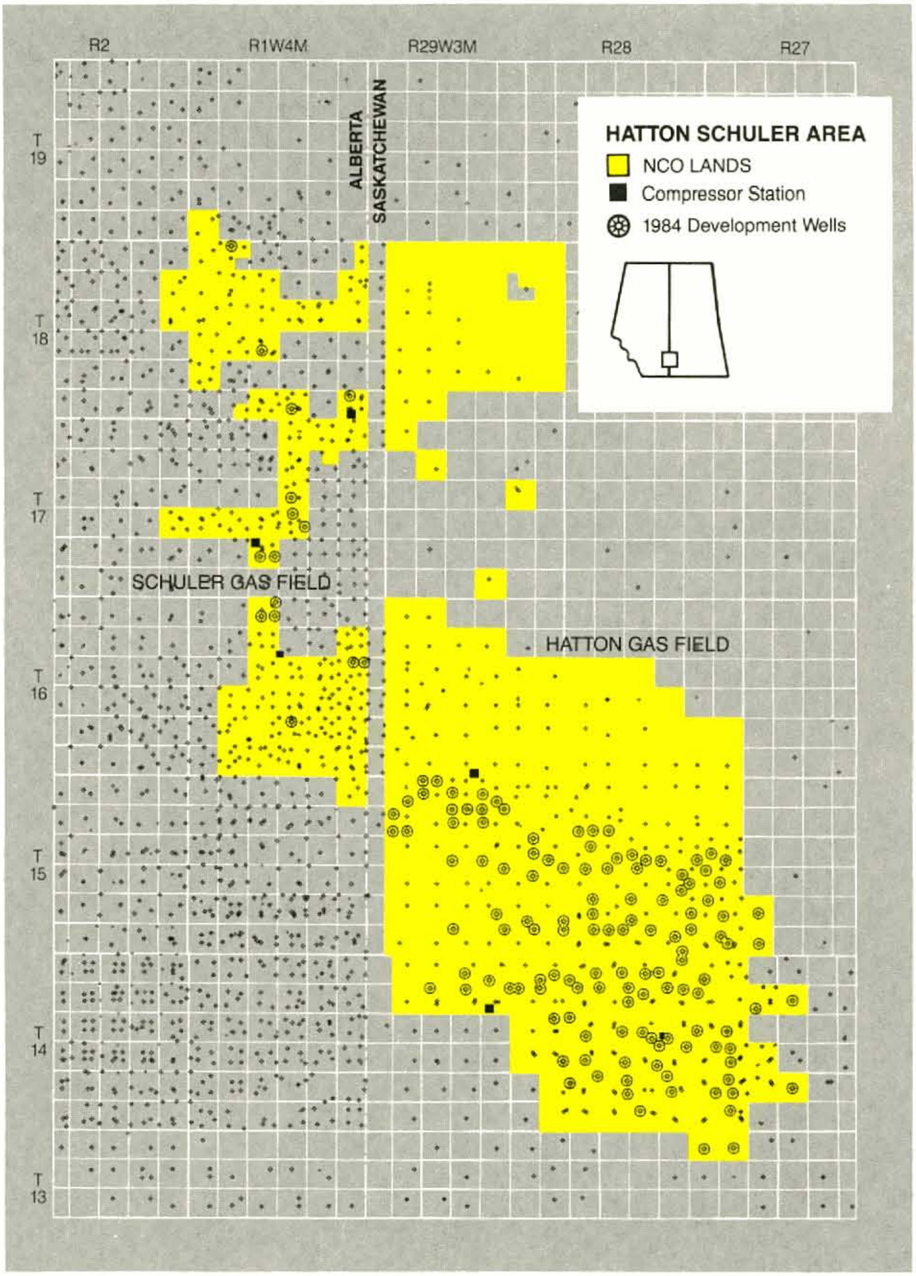
UNDEVELOPED ACREAGE
December 31, 1984

	GROSS	NET
Alberta	842,395	208,631
Saskatchewan	204,876	116,871
British Columbia	53,992	9,433
Manitoba	5,440	2,720
United States	1,127,806	592,042
	2,234,509	929,697

DEVELOPMENT

The majority of development expenditure in 1984 was concentrated in the Company's Hatton field properties located in southwestern Saskatchewan. One hundred and thirty wells were drilled and completed as natural gas producers in the Medicine Hat and Milk River zones. This drilling was the second part of a two year program designed to restore gas production to original contract level of approximately 12 billion cubic feet per year, and to accommodate a new annual sales contract of 1 billion cubic feet. Modifications to the existing pipeline system, 100 miles of new interconnecting pipeline and a new compressor plant capable of handling 7 million cubic feet per day were added to facilitate the collection and processing of the gas from the new wells.

In southeastern Alberta fifteen gas wells were completed in Medicine Hat and Milk River zones at the Hilda Schuler field. Compressor modifications were made and minor additional facilities were installed at the Atlee Buffalo field.



PRODUCTION

Gross 1984 production of oil and natural gas including fourth quarter consolidated production of Bankeno was 295,000 barrels and 26.4 billion cubic feet respectively.

Consolidated average daily production of natural gas reached 72.3 million cubic feet per day in 1984. North Canadian's Hatton field in southwestern Saskatchewan showed a gain of 12 percent to 31.6 million cubic feet per day. Notably gas production from Hatton in the fourth quarter of the year reached 44.1 million cubic feet per day following tie-in of 130 infill wells drilled in the summer of 1984. Bankeno's gas production comes primarily from Knopcik, Wilson Creek-Leedale, Michichi and Wapiti areas, of Alberta.

Average daily oil and liquids production in 1984 for the consolidated account was 806 barrels. Increases are mainly from North Canadian's new production in Long Coulee with minor additions from Mellowdale, Retlaw, Ferrier and western Saskatchewan, and Bankeno's properties. Bankeno's main oil producing properties are Joarcam, Clairmont Lake, and Penhold in Alberta, and Dina Marsden in Saskatchewan.

MARKETING AND PIPELINE OPERATIONS

The Marketing and Pipeline Department which is responsible for selling natural gas and petroleum products, and for the operation of the Company's sales gas transmission facilities generated net operating revenue of $3.0 million, an increase of 42 % over 1983.

The total 1984 throughput of the 136 mile Wabamun to Hinton gas pipeline comprising sales to industrial customers, and Gas Alberta, and transportation of gas for a utility company, gas exporters and other companies was 8.8 billion cubic feet, approximately 4% less than the previous year.

Most of the Company's natural gas production is delivered to Saskatchewan Power Corporation, TransCanada Pipelines Limited and Pan-Alberta Gas Ltd. North Canadian also sells directly to customers in Alberta. During the year, the Company contracted to supply up to 8 million cubic feet per day of natural gas to an industrial customer north of Calgary. Deliveries commenced in November through a North Canadian constructed pipeline and will continue under a renewable contract having an initial term of five years.

Natural gas for direct sales is supplied from Company reserves as well as purchased from other producers at market responsive prices under contracts of short, medium and long term duration. The gas is transported through existing pipeline systems and where necessary, through facilities constructed by the Company.

PANARCTIC OILS LTD.

The Company through Bankeno owns 933,372 common shares of Panarctic Oils Ltd. ("Panarctic"), representing a 1.37% interest. Panarctic is a consortium, owned more than 50% by the Government of Canada through Petro-Canada Explorations, Inc. with the remainder of the shares held by 36 corporate or individual shareholders, most of whom are Canadian. Panarctic explores for oil and natural gas in the Canadian Arctic Islands. At December 31, 1984 total Arctic Island reserves and land holdings, in which Panarctic has varying interests, were reported as follows: recoverable crude oil and natural gas liquids reserves of 250 to 500 million barrels; and 17.3 trillion cubic feet of proved and probable natural gas reserves; land holdings of 14.7 million gross (1.9 million net) acres.

MINERALS

Through Bankeno the Company owns a 25% royalty interest in the total net proceeds of production from the Polaris lead/zinc mine ("Polaris Mine") located on Little Cornwallis Island in the Canadian Arctic.

The Polaris Mine, developed and operated by Cominco, is one of the richest lead/zinc producers in the world. The cost of developing the mine, the initial start-up costs, and the operating costs, net of sales, together with interest incurred on those amounts totalled approximately $253,000,000 at the end of 1984. These costs must be recouped before any payment will be made under Bankeno's royalty interest.

Cominco's stated reserves for the Polaris ore body as at December 31, 1984 are as follows:

Measured Indicated Ore

Tons	% Lead	% Zinc
22,000,000	3.8	14.3

Inferred Ore

Tons	% Lead	% Zinc
4,000,000	2.5	12.1

The Polaris Mine achieved commercial production in March, 1982 and the first shipments of concentrate took place in July, 1982. Due to the northerly location of the mine, the concentrate production is shipped in a 12 week season at the end of the Arctic summer when the sea is open for navigation. During the remainder of the year concentrate is stored in mine site facilities having 10 month storage capacity. During 1984, 900,300 tons were mined yielding 191,900 tons of zinc concentrate and 40,700 tons of lead concentrate. The lead and zinc concentrates are sold under contracts to European smelters.

Bankeno's royalty extends to any additional expansion that might take place to increase the Polaris Mine's capacity and to any other mines developed by Cominco on Little Cornwallis Island.

MERLAND EXPLORATIONS LIMITED

Merland Explorations Limited, a 54.1% owned subsidiary of Bankeno Mines Limited, is engaged in exploration and production of crude oil and natural gas principally in Alberta and Saskatchewan.

Merland's major natural gas producing areas are in the Birchwavy and Sullivan Lake area of east central Alberta, the Medicine Hat area in southeast Alberta, and southwest Saskatchewan. The majority of its natural gas is sold under long-term contracts to TransCanada Pipelines Limited, Pan-Alberta Gas Ltd. and Saskatchewan Power Corporation. During 1984 TransCanada and Pan-Alberta purchased only approximately 50% of contracted volumes due to the current weak natural gas demand conditions. An increase in exports sales to the United States and improvement in domestic markets are required before the oversupply of natural gas will be absorbed. Crude oil production is mainly from the Taber area in southeast Alberta and the Dodsland field in southwest Saskatchewan.

At December 31, 1984 Merland's proved and probable natural gas reserves were 416 billion cubic feet and 57 billion cubic feet respectively. Crude oil and natural gas liquids reserves amounted to 1,500,000 proved barrels and 630,000 probable barrels.

Natural gas sales averaged 74 million cubic feet per day in 1984 an increase of 7% over 1983. Crude oil and natural gas liquids sales increased 16% during 1984 to an average daily rate of 758 barrels per day. The majority of the increase came from oil pools located in the Dodsland area of southwest Saskatchewan.

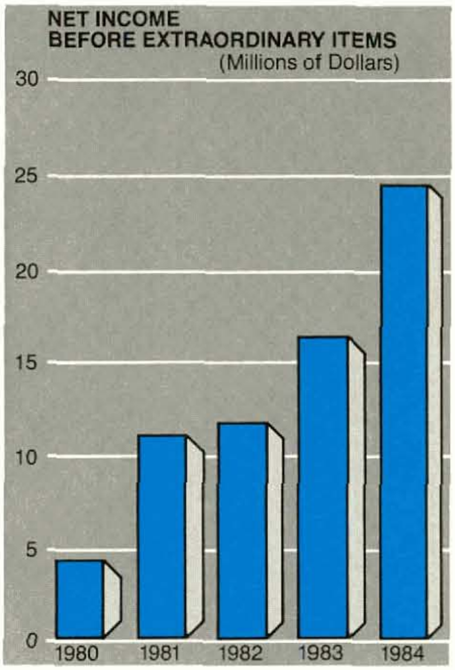
Year end undeveloped land holdings were 1.2 million gross acres and 479,000 net acres the majority of which were located in east central Alberta, the Simonette, Barrhead and Peace River areas of northwest and west central areas of Alberta, and in southwest Saskatchewan.

In 1984 revenue (after royalties) from the sale of crude oil and natural gas was $62.6 million compared to the $54.9 million recorded in 1983. Cash flow from operations was $28.5 million or $1.25 per common share up from $27.0 million or $1.19 per common share generated in 1983.

During 1984, Merland negotiated a $60 million credit facility with an affiliate and renegotiated existing bank lines of credit to provide better terms and conditions that more properly reflect the value of its asset base.

In April 1985 Merland completed a $27.5 million rights offering of Convertible First Preferred Shares, Series B. This new issue provides additional equity to strengthen Merland's financial position. Pending the acquisition of longer-term operating and investment assets in the oil and gas sector the funds will be used for reduction of long-term debt or investment in low risk, high yield marketable securities.

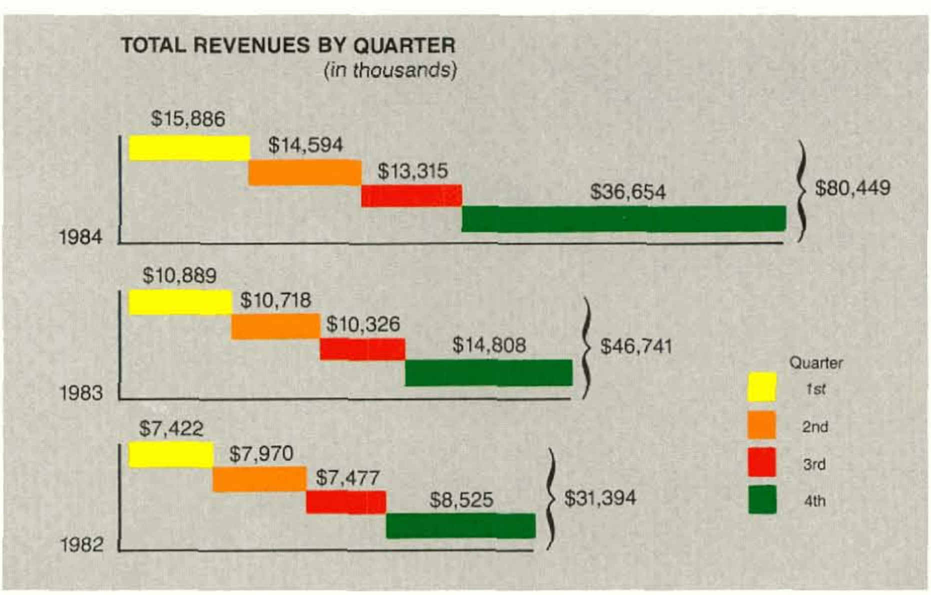
FINANCIAL REVIEW



FINANCIAL AND INVESTMENT OPERATIONS

In 1984, North Canadian issued $135.4 million of additional equity to facilitate an expansion of its oil and gas asset base. As a result a strong balance sheet has emerged which has the confidence of investors and lenders. It is North Canadian's intention to expand its activities in the energy sector by participating in reorganizations and restructurings where there is the opportunity to enhance values. Funds not currently needed for oil and gas operations have been successfully invested in securities of public corporations including securities of related companies where they satisfy investment criteria. Consistent with North Canadian's philosophy of being risk averse, when North Canadian acquires securities, it generally invests with others to ensure that its exposure is limited. North Canadian is prepared to share the profit potential over time and on a fair basis in order to reduce its risk.

Long-term investment positions are limited to a few well established resource based companies. Investment criteria include the opportunity for substantial gain and participation at the board level.



CAPITAL RESOURCES AND LIQUIDITY

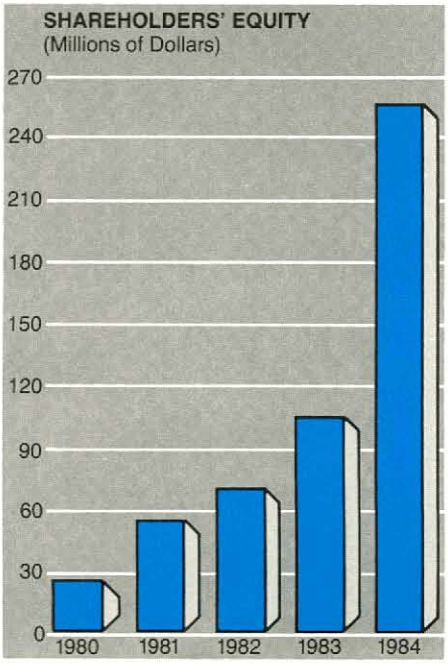
Over the past three years, the Company has substantially improved its capital resources and liquidity through the issuance of a series of preferred shares and convertible debentures. Combined with funds from operations of $85 million and bank loans of $127 million the Company has had available $468 million to use in its business. These capital resources have been employed to acquire a 96.6% interest in Bankeno Mines Limited, to fund programs for exploration and development, for preferred share dividends and the balance has been invested in marketable securities. At December 31, 1984 the Company had a $188.7 million in liquid short term investments plus unused lines of credit available to support its capital program in the oil and gas industry, to service its debt obligations and for future growth.

Results of Operations

Comparison of 1984 to 1983

REVENUE

Natural gas and crude oil revenue net of royalties was $57.0 million as compared to $32.6 million in 1983. Of the increase $19.8 million is attributable to Bankeno Mines Limited which was acquired on September 28, 1984. The balance of $4.6 million is related to an increase, in natural gas production which averaged 50.8 million cubic feet per day up from 47.8 million cubic feet in 1983 and a 15.5% increase in crude oil production from 416 barrels per day in 1983 to 481 barrels per day in 1984. Revenue, net of the cost of gas, generated by the Company's Wabamun-Hinton pipeline and gas marketing activity was $3.0 million an improvement of 42% over the $2.1 million earned during fiscal 1983. This gain is attributable to an improved tariff structure on pipeline volume throughput and on sales to industrial clients. Dividend income earned on short term investments was $15.5 million compared to $7.5 million in 1983.



EXPENSES

Operating expenses for the year were $10.3 million including $4.5 million related to Bankeno's properties. The increase in expenses was due largely to an extensive modification and maintenance program completed on the Company's production facilities and costs related to wells placed on production during 1984.

Consolidated administrative and interest expenses were higher than in 1983 because of the Bankeno acquisition and additional interest costs.

Income and resource taxes totalled $10.6 million, approximately 30% of pre-tax income, down from 33% in 1983. This reduction is due partially to the increased capital expenditures during 1984 and additional interest expense. The acquisition of Bankeno is directly reflected in the increased provision for depreciation and depletion.

NET INCOME

Net income increased to $24.0 million compared to $16.6 million. Fully diluted earnings per share were $2.39 as compared to $2.35 for 1983.

Comparison of 1983 to 1982

REVENUE

Natural gas and crude oil revenue net of royalties were $32.6 million, an increase of $10.7 million or 48 percent over fiscal 1982.

An increase of $8.5 million in natural gas revenue is directly attributable to increased production in Alberta and Saskatchewan at a higher average price than in 1982. Crude oil and condensate production more than doubled in 1983 compared to last year which, combined with increased prices, resulted in a $2.2 million gain.

Revenue from pipeline throughput and sales, net of the cost of gas, was $2.1 million, a 44 percent increase over 1982. The improvement is related to additional volumes, improved tariffs and the marketing of gas to new customers.

Investment and other income was up by $3.9 million as a result of an increase in short-term investments.

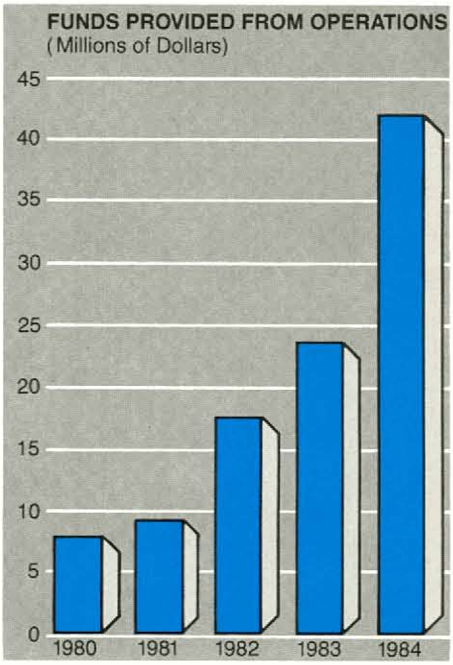
EXPENSES

Operating expenses of $4.7 million, up slightly over 1982, reflect the increase in the number of producing wells and higher plant and equipment maintenance costs. The change in interest expense reflects the increase in long-term debt outstanding during the period.

The 1983 provision for depreciation and depletion increased due to a greater net book value of resource property assets. Income and resource taxes for the year represented 33 percent of pre-tax income compared to 32 percent in 1982. The increase is in direct relation to higher resource and pipeline income.

NET INCOME

Net income was $16.6 million compared to $11.9 million in 1982. Fully diluted earnings per common share were $2.35 up from $2.07 earned the previous year.



Five Year Summary of Operations

(Stated in thousands of dollars except for per share data)

	1984	1983	1982	1981	1980
Operations					
Revenue					
Gas and oil	$ 69,474	$ 37,282	$25,646	$18,788	$12,989
Less royalties	12,507	4,656	3,725	3,560	2,468
	56,967	32,626	21,291	15,228	10,521
Pipeline operations	8,005	6,577	5,842	6,076	6,113
Investment and other income	15,477	7,538	3,631	1,482	1,070
	80,449	46,741	31,394	22,786	17,704
Expenses					
Operating and administrative	14,978	6,254	5,605	3,970	2,554
Gas purchased for resale	5,040	4,464	4,374	4,910	4,723
Interest	15,721	7,940	1,802	1,523	1,679
Income tax — current (recovery)	(2,163)	1,362	648	1,680	325
Petroleum and gas revenue tax	5,983	3,618	1,625	1,228	—
	39,559	23,638	14,054	13,311	9,281
Depreciation and depletion	9,677	3,232	2,144	1,820	1,210
Gain on sale of coal properties	—	—	—	8,010	—
Equity in operating income (loss) of affiliate	—	—	—	1,699	(1,127)
Income before undernoted	31,213	19,871	15,196	17,364	6,086
Income tax — deferred	6,761	3,294	3,302	5,635	1,773
Minority interest	442	—	—	—	—
Net income before undernoted	24,010	16,577	11,894	11,729	4,313
Extraordinary items	—	—	—	(982)	(13,385)
Net income (loss)	$ 24,010	$ 16,577	$11,894	$10,747	((9,072)
Funds provided from operations	$ 41,753	$ 23,103	$17,340	$ 9,475	$ 8,423
Income per common share					
Basic	$ 3.39	$ 2.81	$ 2.07	$ 2.02	$ (2.04)
Fully diluted	$ 2.39	$ 2.35	$ 2.07	$ 2.02	$ (2.04)
Assets					
Investments	$188,774	$135,946	$67,075	$17,600	$ 8,819
Property and equipment — net	$441,934	$ 78,147	$64,891	$57,756	$42,019
Capital structure					
Long-term debt	$254,387	$ 87,553	$46,823	$ 5,769	$ 9,600
Deferred taxes	$ 32,261	$ 25,061	$21,767	$18,465	$12,830
Shareholders' equity	$256,262	$101,952	$66,251	$54,422	$28,510
Capital expenditures					
Exploration	$ 13,095	$ 5,599	$ 2,443	$ 4,769	$ 5,995
Development	$ 23,580	$ 9,652	$ 6,873	$ 8,791	$ 5,311
Shares outstanding — thousands					
Common — no par value	5,764	5,723	5,723	5,304	*4,477
Class A Preferred	2,000	—	—	—	—
Class B Preferred	3,959	1,000	—	—	—
Preferred — Stated value $50 per share	16	17	21	22	24

*Excludes shares owned by affiliate.

	1984	1983	1982	1981	1980
Production and Sales					
Natural gas production — billion cubic feet	26.4	17.5	17.0	*17.0	*18.0
Average per day — million cubic feet	72.3	48.0	46.6	46.6	49.3
Crude oil and natural gas liquids - barrels	295,000	152,000	74,000	50,000	50,000
Pipeline —					
Annual throughout, billion cubic feet	8.8	9.2	9.1	7.2	8.5

*Includes production of affiliate.

Consolidated Balance Sheet

(in thousands of Canadian dollars)

	December 31	
	1984	1983
ASSETS		
CURRENT ASSETS		
Investments	$188,774	$135,946
Accounts receivable	36,455	11,074
Prepaid expenses	482	59
	225,711	147,079
OIL, GAS AND MINING PROPERTIES AND EQUIPMENT ("Full cost" Note 3)	441,934	78,147
OTHER ASSETS, at cost	6,597	932
	$674,242	$226,158
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 39,239	$ 7,848
Income and other taxes payable	—	3,364
Current portion of deferred revenue	2,812	—
Current portion of long-term debt	5,119	380
	47,170	11,592
DEFERRED REVENUE (Note 4)	27,725	—
LONG-TERM DEBT (Note 6)		
Loan from affiliate	60,000	—
Other	194,387	87,553
	254,387	87,553
DEFERRED INCOME TAXES (Note 7)	32,261	25,061
MINORITY INTEREST (Note 5)	56,437	—
SHAREHOLDERS' EQUITY		
Share capital (Note 8)		
Preferred	155,585	20,831
Common 5,764,365 shares (1983 - 5,722,865)	23,291	23,291
Contributed surplus	129	125
Retained earnings	77,257	57,705
	256,262	101,952
CONTINGENCY (Note 13)		
	$674,242	$226,158

On behalf of the Board:

Director

Director

See accompanying notes.

Consolidated Statement of Income

(in thousands of Canadian dollars)

	Years ended December 31		
	1984	1983	1982
REVENUE			
Gas and oil, net	$56,967	$32,626	$21,921
Pipeline operations	8,005	6,577	5,842
Investment and other income	15,477	7,538	3,631
	80,449	46,741	31,394
EXPENSES			
Operating	10,259	4,659	4,462
Gas purchased for resale	5,040	4,464	4,374
Administrative	4,719	1,595	1,143
Interest on long-term debt	15,721	7,940	1,802
Depreciation and depletion	9,677	3,232	2,144
	45,416	21,890	13,925
Income before the undernoted	35,033	24,851	17,469
Income and resource taxes (Note 7)			
Current	(2,163)	1,362	648
Deferred	6,761	3,294	3,302
Petroleum and gas revenue tax	5,983	3,618	1,625
	10,581	8,274	5,575
Income before minority interest	24,452	16,577	11,894
Minority interest	442	—	—
NET INCOME	$24,010	$16,577	$11,894
Income per common share			
Basic	$3.39	$2.81	$2.07
Fully diluted	$2.39	$2.35	$2.07

See accompanying notes.

Consolidated Statement of Changes in Financial Position

(in thousands of Canadian dollars)

	Years ended December 31		
	1984	1983	1982
SOURCE OF FUNDS			
Funds provided from operations	$ 41,753	$ 23,103	$17,328
Proceeds on:			
Issue of debentures	70,143	41,460	—
Issue of preferred shares	134,766	20,000	—
Sale of properties and other assets	—	123	73
Redemption of investment in affiliate	—	—	16,900
Sale of long-term investments	—	41,279	—
Loan from affiliate	60,000	—	—
Increase in long-term debt	22,539	—	41,359
Reclassification of long-term investments	—	25,796	—
Current liabilities increase (decrease)			
Accounts payable	29,390	2,677	1,316
Income and other taxes payable	(5,825)	3,046	(1,611)
Current portion of long-term debt	4,739	75	305
Current portion of deferred revenue	2,812	—	—
Total funds provided	360,317	157,559	75,670
USE OF FUNDS			
Purchase of Bankeno Mines Limited (including working capital deficiency of $23,387) (Note 2)	158,689	—	—
Purchase of long-term investments	—	—	67,075
Expenditures for property, plant, and equipment	39,499	16,490	9,316
Dividends on preferred shares	4,458	493	58
Reduction in deferred revenue	1,241	—	—
Other	258	163	7
Reduction of long-term debt	80,000	730	305
Current assets — increase (decrease)			
Accounts receivable	22,921	3,806	917
Current portion of long-term investments	—	—	(1,000)
Prepaid expenses	423	26	(8)
Total funds used	307,489	21,708	76,670
Increase (decrease) in cash and investments	52,828	135,851	(1,000)
Cash and investments, beginning of year	135,946	95	1,095
Cash and investments, end of year	$188,774	$135,946	$ 95

Consolidated Statement of Retained Earnings

(in thousands of Canadian dollars)

	Years ended December 31		
	1984	1983	1982
Balance, beginning of year	$57,705	$39,150	$27,367
Net income	24,010	16,577	11,894
Transfer from capital redemption reserve fund (Note 8)	—	2,493	—
	81,715	58,220	39,261
Deduct			
Transfer to capital redemption reserve fund	—	22	53
Dividends on preferred shares	4,458	493	58
Balance, end of year	$77,257	$57,705	$39,150

Auditors' Report To The Shareholders

We have examined the consolidated balance sheets of North Canadian Oils Limited as at December 31, 1984 and 1983 and the related consolidated statements of income, retained earnings and of changes in financial position for each of the two years in the period ended December 31, 1984. Our examinations were 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 1983 and the results of its operations and the changes in its financial position for each of the two years in the period ended December 31, 1984 in accordance with generally accepted accounting principles applied on a consistent basis.

The consolidated statements of income, retained earnings and changes in financial position of North Canadian Oils Limited for the year ended December 31, 1982 were examined by other auditors whose report dated March 2, 1983 expressed an unqualified opinion on those financial statements.

Calgary, Canada
March 19, 1985

Touche Ross & Co.
Chartered Accountants

Comment on Differences in
Canada — United States Reporting Standards

In the United States, reporting standards require reference in the auditors' report when reliance is being placed on the reports of other auditors who have examined financial statements of subsidiary companies. For 1984, 48.4% of total assets and 0.3% of net income were reported on by other auditors. The auditors' report above is expressed in accordance with Canadian standards which do not require such reference when appropriate communication has been made with the other auditors.

Calgary, Canada
March 19, 1985

Touche Ross & Co.
Chartered Accountants

Notes To Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which in all material respects are in accordance with generally accepted accounting principles in the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of North Canadian Oils Limited, its wholly owned subsidiary companies, and its 96.6% interest in Bankeno Mines Limited which includes Bankeno's 54.1% interest in Merland Explorations Limited.

Joint Ventures

The Company conducts substantially all of its oil and gas exploration and production activities on a joint venture basis and the accounts reflect only the Company's proportionate interest in such activities.

Oil and Gas Operations

The Company follows the full cost method of accounting for oil and gas exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressors and gas plants and overhead expenses related to exploration activities after deducting related government grants. All such costs are being amortized on the unit-of-production method based on estimated proven recoverable reserves. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated present value of future net revenues from the production of proven reserves calculated at current prices and costs, plus the estimated fair market value of unevaluated properties, all adjusted for the income tax effects related to the differences between the accounting and tax basis of the properties involved.

Pipeline assets are depreciated over the term of the existing gas contracts and other equipment is depreciated over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease.

Mining

The Company holds a 25% royalty interest in a mine, the cost of which will be depleted when revenue commences.

Foreign Exchange Translation

Monetary assets and liabilities in foreign currencies are translated at year end rates with non-monetary assets and liabilities translated at rates prevailing at the transaction dates. Revenue and expenses (other than depletion and depreciation which are translated at the rate applicable to the related assets) are translated at the average rate for the year. Gains or losses arising on translation are included in earnings for the current period except those relating to long term debt which are deferred and amortized over the life of the debt.

Investments

Investments, the majority of which have no quoted market values, are stated at the lower of cost and estimated net realizable value.

Segmented Information

The Company is principally engaged in the exploration, development and production of oil and gas, all significant assets and operations are located in Canada.

Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the income reported in the accounts. Under this method the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowance and exploration and development costs in excess of the depreciation and depletion provisions recorded in the accounts.

Income Per Common Share

Basic income per common share is computed by dividing net income, after provision for preferred dividend requirements, by the weighted average number of common shares outstanding (1984 - 5,765,424; 1983 - 5,723,644; 1982 - 5,723,483). Fully diluted income per common share has been computed as above and also assumes the conversion of all instruments effective the date of issue (weighted average of 9,517,286 shares for 1984 and 7,480,406 shares for 1983) and the related adjustments to net income.

2. PURCHASE OF BANKENO MINES LIMITED

Under a purchase agreement with an effective date of September 28, 1984, and by a related offer to minority shareholders, the Company acquired 96.6% of the common shares and 91.2% of the share purchase warrants of Bankeno Mines Limited ("Bankeno"), a company engaged in oil, gas and mining. The accounts of Bankeno have been consolidated with the Company since September 28, 1984 and the excess of the purchase cost over the related net book value of assets acquired has been allocated to oil, gas and mining properties and will be amortized on the unit of production method.

The acquisition has been accounted for as a purchase as follows:

	(in thousands)
Net assets acquired:	
Current assets	$ 10,487
Oil, gas and mining properties and equipment	272,691
Other assets	6,310
	289,488
Current liabilities	33,874
Deferred revenue	28,966
Other liabilities	96,084
Minority interest	56,154
	215,078
Net assets acquired	$ 74,410
Consideration:	
10% debentures and cash	$ 70,536
Class B preferred shares, Series 3	64,766
	$135,302

The following pro forma information has been prepared as if Bankeno had been consolidated at January 1, 1983:

	Year ended	
	1984	1983
	(in thousands, except per share data)	
Revenue	$130,570	$110,062
Net income	$ 25,882	$ 17,981
Income per common share		
Basic	$3.02	$2.12
Fully diluted	$2.41	$1.71

3. OIL, GAS AND MINING PROPERTIES AND EQUIPMENT

	1984	1983
	(in thousands)	
Oil and gas properties and related production equipment	$420,631	$ 90,970
Pipeline and other equipment	7,314	6,522
Mining - royalty interests	42,629	—
	470,574	97,492
Less: Accumulated depreciation and depletion	28,640	19,345
	$441,934	$ 78,147

Grants under petroleum incentive programs aggregating $4,279,000 in 1984 and $2,845,000 in 1983 have been accrued in accordance with the regulations and treated as a reduction of the cost of related oil and gas exploration and development expenditures.

4. DEFERRED REVENUE

Pursuant to take-or-pay provisions included in certain natural gas purchase contracts, payments were received by the Company in respect of annual contract gas volumes not taken by the purchaser. In November, 1984 the purchaser began to take delivery of the gas and the Company has recognized revenue related to the gas taken. The purchaser's present delivery schedule for the gas will allow recognition after 1985 of $27,725,000 of revenue over nine years with $2,897,000 annually in 1986 through 1988, $3,400,000 annually in 1989 through 1993 and $2,034,000 in 1994.

5. MINORITY INTEREST

Minority interest at December 31, 1984 is comprised as follows:

	(in thousands)
Preferred shares	$31,194
Common shares	23,216
Retained earnings	2,027
	$56,437

6. LONG-TERM DEBT

	1984	1983
	(in thousands)	
11¼% sinking fund debentures	$ 3,274	$ 4,905
Income debentures, due June 1988	22,896	—
Floating rate convertible debentures	21,460	21,460
10% debentures, due September 1994	70,143	—
Bank indebtedness	137,666	41,568
Mining loan, payable with interest at prime rate from royalty revenue	4,067	—
8% convertible debentures	—	20,000
	259,506	87,933
Less: Current portion of long-term debt	5,119	380
	$254,387	$87,553

The 11¼% sinking fund debentures and the income debentures are secured by certain of the Company's oil and gas properties. The income debentures bear interest at one half of the bank's prime lending rate plus 1⅛% to maturity and are repayable as follows: 1985 - $5,085,000; 1986 - $6,539,000; 1987 - $7,269,000; 1988 - $3,633,000. The sinking fund debentures are redeemable at 103.75% of the principal amount to August 31, 1985, declining by 1.25% annually to 100% in the year ending August 31, 1988. In addition, the Company is required to make sinking fund payments sufficient to retire on August 31, in each of the years 1985 to 1987 inclusive, $917,000 principal amount of debentures and $1,775,000 to 1988.

The floating rate convertible debentures bear interest at the average prime rate of a Canadian chartered bank, mature on April 30, 1988 and are convertible after December 31, 1984 into common shares of the Company at a price of $15 per share. Of the total, $6,345,000 is payable to an affiliate. In January 1985, the Company served notice of its intention to redeem all the outstanding debentures.

The 10% debentures were issued pursuant to a Trust Indenture in connection with the purchase of Bankeno Mines Limited, are redeemable at the option of the Company and are secured by a pledge of the shares and share purchase warrants of Bankeno Mines Limited held by the Company. Upon meeting certain requirements, the pledged securities will be released by the trustee. The Trust Indenture imposes certain restrictions on the Company.

The Company has lines of credit in the amount of $258,000,000 which when drawn down bear interest at prime rate and are repayable on demand. The Company's bankers have agreed not to require repayment of the bank indebtedness prior to December 31, 1985 and accordingly, the indebtedness has been classified as long-term. Of the total bank indebtedness, $60,000,000 is payable to an affiliate.

7. INCOME AND RESOURCE TAXES

The provisions made for income taxes differ from the amounts which would have been expected if it were assumed that the reported pre-tax income were subject to the Canadian Federal statutory income tax rate for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided are as follows:

	1984	1983	1982
		(in thousands)	
Computed "expected" income tax at 48%	$13,944	$10,167	$ 7,605
Increase (decrease) in income taxes resulting from:			
Non-deductibility of royalties and other payments to the crown	8,275	3,384	2,351
Federal resource allowances	(7,210)	(3,638)	(2,356)
Allowance for earned depletion	(760)	(107)	(181)
Provincial taxes less federal abatement	392	291	194
Provincial rebates and credits	(2,271)	(1,504)	(2,308)
Non-taxable Canadian dividends	(7,429)	(4,357)	(1,598)
Petroleum and gas revenue tax	5,983	3,618	1,625
Other	(343)	420	243
Actual income and resource taxes	$10,581	$ 8,274	$ 5,575

Deferred income taxes arise from differences in the rates at which certain costs have been written off for tax purposes and for financial reporting purposes. The principal items which give rise to such timing differences, and the amount of deferred income taxes attributable thereto, are as follows:

	1984	1983	1982
		(in thousands)	
Excess of capital cost allowances deducted for income tax purposes over depreciation recorded in the amounts	$ (478)	$ 420	$ 411
Excess exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion recorded in the accounts	7,239	2,874	2,891
Total deferred income taxes	$ 6,761	$ 3,294	$ 3,302

8. SHARE CAPITAL

Authorized

In 1983, the Company was continued under the Canada Business Corporations Act with an authorized capital of 20,149 5½% cumulative redeemable sinking fund preferred shares, each share having a stated value of $50, 10,000,000 Class A and 10,000,000 Class B junior preferred shares issuable in series, 20,000,000 Class A shares and 20,000,000 common shares each without nominal or par value. On continuance, the capital redemption reserve fund in the amount of $2,493,000 was transferred to retained earnings.

Issued

	1984		1983	
Preferred	Shares	Amount	Shares	Amount
		(in thousands)		(in thousands)
5½% cumulative redeemable	16,394	$ 819	16,628	$ 831
Class A, Series 1	2,000,000	50,000	—	—
Class B, Series 1	1,000,000	20,000	1,000,000	20,000
Class B, Series 2	800,000	20,000	—	—
Class B, Series 3	2,158,881	64,766	—	—
		$155,585		$ 20,831
Common	5,764,365	$ 24,193	5,722,865	$ 23,511
Less: Notes Receivable (Note 9)		902		220
		$ 23,291		$ 23,291

Class A Preferred Series 1

The Class A preferred shares, Series 1 rank junior to the 5½% cumulative redeemable preferred shares with respect to all rights, privileges, restrictions and other conditions and holders of these shares are entitled to dividends, when declared, at the semi-annual rate of 70% of the floating bank prime rate per share. These shares are redeemable by the Company under certain conditions after June 30, 1989 and prior to June 30, 1993.

Class B Preferred Series 1, Series 2, and Series 3

The Class B preferred shares, Series 1, 2 and 3 rank junior to the 5½% cumulative redeemable preferred shares with respect to all rights, privileges, restrictions and conditions attaching to the preferred shares. The Series 1 shares are convertible at $20 per share into one common share after December 31, 1984 and prior to April 1, 1993. The Series 2 shares are convertible at $25 per share into one common share after December 31, 1984 and prior to September 2, 1993. The Series 3 shares are convertible at $30 per share into one common share any time prior to September 28, 1989. All Series earn cumulative dividends (Series 1 and 2 at the annual rate of one-half bank prime plus one percent, Series 3 at the annual rate of one-half bank prime) and are redeemable by the Company under certain conditions.

During 1984, the Class B preferred shares, Series 2 were issued on conversion of the 8% convertible debentures in the principal amount of $20,000,000.

Common Shares Reserved

At December 31, 1984 the Company has reserved for issue a total of 5,407,581 common shares under conversion rights of the issued preferred shares, convertible debentures, and outstanding stock options.

9. OTHER INFORMATION

Share Purchase Plan

The Company has a Management Share Purchase Plan under which 100,000 common shares may be purchased by the management of the Company. During 1984, 41,500 common shares were allocated and purchased under this plan. Notes receivable in respect of the shares purchased under this plan in the amount of $682,000 at December 31, 1984 are due from officers and are shown as a reduction of common share capital.

The Employee Stock Option Plan expired during 1983 and the unexercised stock options totalling 18,000 common shares expire in 1986 and 1987. In 1982, 3,000 common shares were issued for a total consideration of $28,000 under this plan. Notes receivable in respect of the stock option plan in the amount of $220,000 at December 31, 1984 and $220,000 at December 31, 1983 are due from directors, officers and a retired director and are shown as a reduction of common share capital.

Employee Incentive Plan

The Company has an Employee Profit Sharing Plan for technical and other personnel directly involved in exploration and development. Contributions to the plan by the Company may be made in cash or as a royalty interest in petroleum natural gas and related hydrocarbons attributable to the Company's interest in certain non-producing exploration lands. The Company's contributions to the plan in 1984 and 1983 consisted of a gross overriding royalty interest having a nominal fair market value at the time of contribution. The royalty interest vests in each participant at the rate of 20% per year until fully vested; however, all amounts received in respect of the contingently vested portion of any royalty interest is fully vested as and when received.

Effective January 1, 1984, the Company adopted an Employee Production Incentive Plan which is intended to substantially replace the Employee Profit Sharing Plan and is for technical and other personnel directly involved in the Company's gas and oil exploration and development. Contributions to this plan by the Company are made in the form of a revenue contribution determined on a formula basis from production from defined wells. The revenue contribution vests with each participant at the rate of 20% per year until fully vested. However, cash received in respect of the non-vested portions of the revenue contribution is fully vested as and when received.

Pension Plan

The Company pension plan, which is available to all employees, was amended during 1983 to a defined benefit plan. Based on an actuarial valuation, the unfunded liability at December 31, 1984 was approximately $385,000 which is being funded and charged to earnings over a thirteen year period. As at April 1, 1982, the present value of accumulated pension benefits using a 5.5% rate of return was $1,083,000 and net assets available for benefits were $572,000. Pension expense including unfunded liability contributions totalled $164,135 in 1984 (1983 - $138,513; 1982 - $69,364).

Related Party Transactions

From time to time, the Company arranges investment transactions in conjunction with certain affiliates. These transactions are arranged without cost and at normal market terms. Investments totalling $150,009,000 at December 31, 1984 were with affiliated companies. Dividends from such investments totalled $13,477,000 in 1984 (1983 - nil; 1982 - $1,837,000).

The Company also arranges financing transactions with affiliates at normal market terms. In 1984 the Company paid interest in the amount of $4,170,000 on loans from a shareholder company, $60,000,000 of which was outstanding at year end. In addition, interest of $1,164,000 (1983 - $828,000) on floating rate convertible debentures in the principal amount of $11,540,000 was paid to two shareholder companies. Dividends of $3,681,000 were also paid to affiliates on Class A preferred shares, Series 1, and Class B preferred shares, Series 1.

The Company accrued or paid professional fees aggregating $295,000, $237,000 and $157,000 to three legal firms in which certain directors of the Company are partners for the years ended December 31, 1984, 1983 and 1982 respectively.

10. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Three months ended (in thousands)			
	March 31	June 30	Sept. 30	Dec. 31
1984**				
Net revenue	$15,886	$14,594	$13,315	$36,654
Net income	$ 6,501	$ 5,801	$ 4,653	$ 7,055
Net income per common share after preferred share dividends				
Basic	$1.13	$ .88	$ .61	$ .77
Fully diluted	$ .78	$ .65	$ .43	$ .53
1983				
Net revenue	$10,889	$10,718	$10,326	$14,808
Net income	$ 4,031	$ 4,242	$ 3,079	$ 5,225
Net income per common share after preferred share dividends				
Basic	$ .70	$ .74	$ .54	$ .83
Fully diluted	$ .70	$ .61	$ .36	$ .68

**The quarter ending December 31, 1984 includes the results of Bankeno Mines Limited.

11. DEPENDENCE UPON LIMITED CUSTOMERS

Three customers to whom the Company sold natural gas accounted individually for more than 10% of gross revenue as follows:

	Amounts		Percent of Total revenue	
	1984	1983	1984	1983
	(in thousands)			
Company				
TransCanada PipeLines Limited	$36,292	$18,063	56	46
Saskatchewan Power Corporation	15,188	14,502	23	37
St. Regis (Alberta) Ltd.	3,808	4,784	6	12
Total	$55,288	$37,349	85	95

12. DISCLOSURE OF OIL AND GAS PRODUCING ACTIVITIES AS REQUIRED BY STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 69

Capitalized costs relating to oil and gas producing activities.

At December 31, 1984 and 1983 there were no significant unproved oil and gas properties included in capitalized costs relating to oil and gas properties.

Costs incurred in oil and gas property acquisitions, exploration and development activities for the years ended December 31:

	1984	1983	1982
		(in thousands)	
Acquisition of properties	$ 8,459	$ 2,936	$ 1,019
Exploration	5,873	2,677	2,582
Development	23,580	9,652	4,978

Results of operations for producing activities ending December 31:

	1984	1983	1982
Revenue			
Sales (net)	$56,967	$32,626	$21,921
Transfers	—	—	—
Total	56,967	32,626	21,921
Production costs	9,775	4,167	4,462
Exploration costs	—	—	2,582
Depreciation and depletion	9,365	3,091	2,144
	37,827	25,368	12,733
Income and resource taxes	17,988	10,897	4,510
Results of operations from producing activities (excluding corporate overhead and interest costs)	$19,839	$14,471	$ 8,223

Quantities of oil and gas reserves at December 31 (unaudited):

	1984		1983		1982	
	Oil*	Gas**	Oil*	Gas**	Oil*	Gas**
Beginning of year	1,223,347	578.8	1,313,137	590.9	1,210,282	604.4
Revision of previous estimates	24,056		(44,956)	(0.5)	—	—
Improved recovery	—	9.0	—	—	—	—
Purchase of minerals in-place	3,396,000	464.0	—	—	—	—
Extensions and discoveries	215,069	—	65,940	5.9	158,051	3.6
Production	(276,341)	(26.4)	(110,774)	(17.5)	(55,196)	(17.1)
Sales of minerals-in-place	—	—	—	—	—	—
End of year***	4,582,131	1,025.4	1,223,347	578.8	1,313,137	590.9

There were no long-term supply agreements with foreign governments or any significant foreign geographic reserves.

* Oil stated in barrels before royalty interests.

** Gas stated in billion cubic feet before royalty interests.

*** The 1984 reserve data includes the reserves acquired on the purchase of Bankeno Mines Limited. At December 31, 1984 approximately 1,561,000 barrels of oil and 217 billion cubic feet of gas are attributable to minority interests in subsidiaries.

Standard measure of discounted net cash flows and changes therein relating to proved oil and gas reserves at December 31 (unaudited).

	1984	1983	1982
		(in thousands)	
Future cash inflows	$1,930,901	$1,106,872	$689,553
Future production and development costs	606,596	323,994	230,587
Future income tax expenses	478,195	301,472	144,402
Future net cash flows	846,110	481,406	314,564
10% annual discount for estimated timing of cash flows	481,360	312,915	191,670
Standardized measure of discounted net cash flows*	$ 364,750	$ 168,491	$122,894

* At December 31, 1984 approximately $108,123 of net cash flows is attributable to minority interests in subsidiaries.

The following are the principal sources of changes in the standardized measure of discounted future net cash flows:

	1984	1983	1982
		(in thousands)	
Sales and transfers of oil and gas produced, net of production cost	$(47,193)	$(28,459)	$(17,459)
Net changes in prices and production costs	(36,253)	315,423	50,794
Purchase of minerals-in-place	477,049	—	—
Extensions, discoveries, and improved recovery, less related costs	13,220	6,858	3,551
Development costs incurred during period	(14,470)	(9,652)	(4,978)
Accretion of discount	16,849	12,289	9,789
Net changes in income taxes	(176,723)	(157,070)	(1,837)
Other	(36,220)	(93,792)	(14,854)

Amortization per equivalent physical unit of production (Mcf):

	1984	1983	1982
Depreciation and depletion	$.33	$.13	$.11

13. CONTINGENCY

By statement of claim served on the Company on September 21, 1984, an action was commenced against the Company by certain minority shareholders of Bankeno. The claim alleges that the Company, by reason of the transactions described in Note 2, is converting to its own use certain Bankeno shares issued to Turbo Resources Limited and purchased by the Company. The plaintiffs' claim, among other things, an order cancelling the issue of any Bankeno shares that may be issued to the Company as a result of this transaction and damages of $5,000,000. The Company believes that no liability will result from this action.

14. SUBSEQUENT EVENTS

On January 11, 1985 the Company served notice to all holders of the floating rate Convertible Debentures that the Company was redeeming all of the outstanding Convertible Debentures due April 30, 1985 at the principal amount together with accrued and unpaid interest thereon to April 12, 1985.

On February 19, 1985, a subsidiary of the Company, Merland Explorations Limited, announced its intention to make a rights offer in the maximum amount of $27,500,000 to the holders of common and preferred shares. Management has recommended that the Company subscribe for its proportionate share.

ACCOUNTING FOR THE EFFECTS OF CHANGING PRICES Supplemental information (Unaudited)

The Canadian Institute of Chartered Accountants (CICA) recommends the disclosure of supplementary financial information on a current cost basis commencing with the fiscal year ended December 31, 1983. The CICA deemed this disclosure necessary to reflect the economic effects of changes in the general purchasing power of the monetary unit and changes in specific prices of goods and services during periods of significant inflation.

The Company generally supports the initiative in requiring companies to disclose information of the effects of changing prices. However, it is the opinion of the Company that further work is required in the area of specialized assets, as in the oil and gas industry, in order to provide more meaningful information to the reader.

The recommendations of the CICA have generally been adopted in preparing information on the effects of changing prices. The Company, however, has made certain subjective modifications as allowed by the CICA guidelines which are presented below.

The Company follows the full cost method of accounting for oil and gas properties. The historical costs for oil, gas and mining properties and equipment have been adjusted by the consumer price index instead of by a specific price index for each class of asset. Fixed assets, other than oil, gas and mining properties and equipment, which represents less than 5% of total assets, have not been adjusted, as it is the opinion of the Company that the historical costs approximate current costs.

Depreciation, depletion and income taxes have been calculated on the same basis as for historical costs but using the current cost base. No adjustment to the income tax expense has been made as per the CICA guidelines. Taxes would have been reduced if an adjustment had been made.

Financing adjustments reflect the benefit or cost to common shareholders of using borrowed funds to finance the purchase of fixed assets during inflationary periods. Although this concept might have certain theoretical validity, it has not received professional acceptance because of its controversial nature. In contrast to financing adjustments the gain in general purchasing power arises due to the fact that during periods of significant inflation the value of the monetary unit declines. Therefore, if the monetary liabilities exceed the monetary assets, as in the case of the Company, a gain will result.

In presenting the supplementary information about the changing prices of 1984 on a comparative basis, the 1983 results have been restated in terms of 1984 constant dollars.

STATEMENT OF INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS ON A CURRENT COST BASIS
(in thousands)

	1984	1983
Historical income for the year	$24,010	$16,577
Less: preferred share dividend	(4,458)	(493)
Historical cost income attributable to common shareholders	19,552	16,084
Less: Current cost adjustments		
Depreciation and depletion	2,586	1,188
Financing adjustments	(1,060)	(285)
	1,526	903
Income attributable to common shareholders on a current cost basis	$18,026	$15,181

The financing adjustments amounts to $2,768 (1983 - $10,368) based on the amount of changes during the reporting period in the current cost amounts of oil, gas and mining properties and equipment.

Other Supplementary Information

	1984	1983
Increase in the current cost amounts of oil, gas, and mining properties and equipment due to the effects of general inflation	$6,752	$6,976
Gain in general purchasing power from holding net monetary liabilities	$3,532	$2,939

Schedule of Assets

	Historical Cost	Current Cost
1984		
Oil, gas and mining properties and equipment - net	$468,425	$506,110
Net assets (common shareholders' equity)	$256,262	$268,007
1983		
Oil, gas and mining properties and equipment - net	$ 78,147	$135,961
Net assets (common shareholders' equity)	$101,952	$213,693

SELECTED FINANCIAL DATA

The following table summarizes certain selected financial data in accordance with Generally Accepted Accounting Principles in Canada and the United States and is qualified in its entirety by the more detailed Consolidated Financial Statements of the Company appearing elsewhere in the report.

	Year ended December 31,				
	1984	1983	1982	1981	1980
	(Stated in thousands of dollars except for per share data)				
Net operating revenues	**$ 80,449**	$ 46,741	$ 31,394	$22,786	$17,704
Income before extraordinary items	**$ 24,010**	$ 16,577	$ 11,894	$ 5,929(a)	$ 5,440(a)
Income before extraordinary items per common share	**$ 3.39(c)**	$ 2.81(c)	$ 2.07	$ 1.12	$ 1.22(b)
Total assets (at end of period)	**$674,242**	$226,158	$140,635	$84,440	$56,156
Long-term obligations (at end of period) (d)	**$255,206**	$ 88,384	$ 47,852	$ 6,851	$10,814

(a) Before equity in operating income (loss) of an affiliate and after tax gain on disposal of coal properties.
(b) Before extraordinary loss of $2.99 per common share. Net loss for the year ended December 31, 1980 was $2.04 per common share.
(c) Fully diluted $2.39 and $2.35 for 1984 and 1983 respectively.
(d) Includes redeemable preferred shares.

COMMON STOCK PRICE RANGE

	Toronto Stock Exchange (Can.)				American Stock Exchange (U.S.)			
Quarter	1984		1983		1984		1983	
	High	Low	High	Low	High	Low	High	Low
First	$20.13	$17.00	$18.25	$13.00	$16.13	$13.63	$15.00	$10.88
Second	23.25	19.13	19.00	13.63	16.63	15.00	15.75	11.12
Third	23.50	18.25	22.25	18.50	17.88	13.75	17.75	15.00
Fourth	22.88	18.75	19.50	17.00	17.38	14.13	15.88	14.00

At January 31, 1985 there were 4,643 common shareholders.

DIRECTORS

DONALD F. CHRISTENSEN
Senior Vice President and
Chief Operating Officer
of the Company
Calgary, Alberta

MICHAEL A. CORNELISSEN
President and Chief Executive Officer,
Royal Trustco Limited
Toronto, Ontario

MARSHALL A. JACOBS (1)
Senior Partner, Jacobs Persinger & Parker
New York, New York

JAMES F. KAY (1)
Chairman of the Board, Dylex Limited
Toronto, Ontario

DAVID W. KERR (1)(2)
Executive Vice President and
Chief Operating Officer,
Hees International Corporation
Toronto, Ontario

WILLARD J. L'HEUREUX, Q.C. (1)
President, Carena-Bancorp Inc.
Toronto, Ontario

CHARLES K. LOUGH
Senior Vice President and
Chief Operating Officer and
Secretary of the Company
Calgary, Alberta

ROSS A. MacKIMMIE, Q.C. (2)
Counsel, MacKimmie Matthews
Calgary, Alberta

FREDERIC Y. McCUTCHEON
President, Arachnae Management Limited
Markham, Ontario

R. BRYAN McJANNET (1)(2)
President, Dexleigh Corporation
Toronto, Ontario

HAROLD P. MILAVSKY
President and Chief Executive Officer,
Trizec Corporation
Calgary, Alberta

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

FORM 10K

North Canadian Oils Limited will furnish upon written request to any registered shareholder, without charge, a copy of its most recent Annual Report - Form 10K, as filed with the United States Securities and Exchange Commission.

OFFICERS AND OPERATING MANAGEMENT

JAMES F. KAY
Chairman of the Board

DAVID W. KERR
President and Chief Executive Officer

DONALD F. CHRISTENSEN
Senior Vice President and
Chief Operating Officer

CHARLES K. LOUGH
Senior Vice President and
Chief Operating Officer

BENJAMIN L. COOK
Vice President, Land

W. KEITH MILLER
Vice President, Marketing

BILL A. KURUCZ
Controller/Treasurer

LARRY F. KANUIT
Land Manager

MARLIN LOCKEN
Production Manager

JOHN H. WILLIAMS
Exploration Manager

REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA
Calgary and Toronto

The BANK of NOVA SCOTIA TRUST COMPANY
of NEW YORK (Common Shares Only)
New York, New York

PREFERRED SHARE REGISTRAR AND TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA
Calgary and Toronto

COMMON SHARES LISTED

TORONTO STOCK EXCHANGE (NCOT)
AMERICAN STOCK EXCHANGE (NCD)

PREFERRED SHARES LISTED

TORONTO STOCK EXCHANGE

AUDITORS

TOUCHE ROSS & CO.
Calgary, Alberta

BANKERS

BANK of MONTREAL
CONTINENTAL BANK of CANADA

North Canadian Oils Limited Annual Report 1984

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