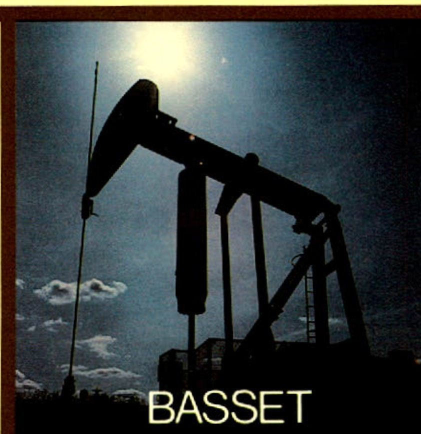
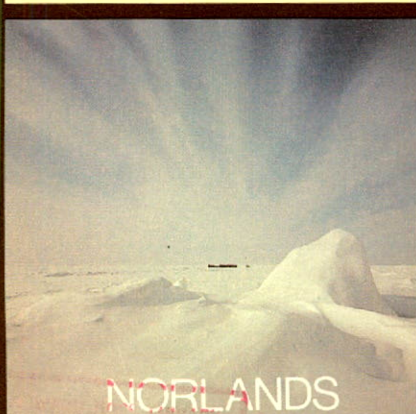
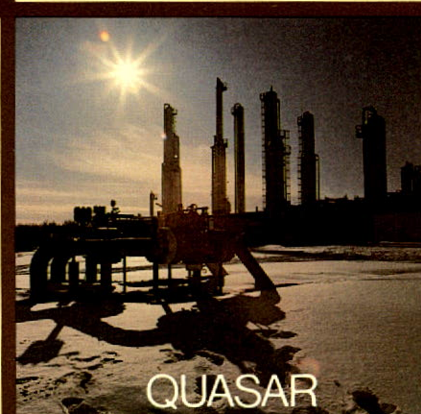
OAKWOOD







ANNUAL REPORT 1981

OAKWOOD PETROLEUMS LTD.

CONTENTS

CONVERSION TABLE

The petroleum industry in Canada has officially converted to the International System of Units for measuring and reporting. To facilitate conversion we include the following table:

To convert from	To	Multiply by
Cubic metres (m^3)	Thousand cubic feet (mcf) gas	0.0355
Cubic metres (m^3)	Barrels (bbls) oil	6.2898
Metres (m)	Feet (well depths)	3.2808
Kilometres (km)	Miles (distance)	0.6214
Hectares (ha)	Acres (land)	2.4710

ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

The Annual and Special General Meeting of Shareholders of Oakwood Petroleums Ltd. will be held in the Bonavista Room of The Westin Hotel Calgary in the City of Calgary, Alberta at the hour of 10:00 A.M. Mountain Daylight Saving Time, June 7, 1982. A formal Notice of Meeting of Shareholders together with an Instrument of Proxy and Management Proxy Circular is being mailed to the shareholders concurrently.

COMPARATIVE HIGHLIGHTS

	1981 Restated (A)	1981 Reported	1980	1979	1978	1977
FINANCIAL (000's $)						
Total Revenues	**$54,917**	**$54,917**	$38,370	$19,282	$7,067	$4,505
Cash Flow from Operations	**26,226**	**22,292**	15,618	8,445	3,334	2,011
Per Share	**5.05**	**4.30**	3.18	1.74	.69	.44
Net Earnings Applicable to Common Shares Before Deferred Income Taxes	**29,633**	**25,699**	8,147	3,342	1,823	895
Per Share	**5.71**	**4.95**	1.66	.70	.38	.20
Net Earnings (Loss)	**16,639**	**14,625**	4,361	(2,069)	934	557
Per Share	**3.21**	**2.82**	.89	(.43)	.20	.12
OPERATIONS						
Oil and Natural Gas Liquids Production (barrels)		**3,159,493**	2,650,379	1,480,182	323,000	230,454
Daily Average (barrels)		**8,656**	7,241	4,055	885	631
Natural Gas Production (mmcf) ..		**6,187**	7,092	5,307	3,080	3,034
Daily Average (mmcf)		**17.0**	19.4	14.5	8.4	8.3
Oil and Gas Lease and Permit Acres Gross		**16,799,509**	10,607,000	8,407,524	8,442,443	2,911,304
Net		**2,417,727**	1,486,000	1,180,677	1,140,267	285,810

(A) 1981 restated as per note 8 to the Consolidated Financial Statements to include Petroleum Incentives Program credits.

Dallas E. Hawkins II, Chairman of the Board

To Our Shareholders:

The officers and staff of your Company have compiled the attached report for you. It gives very complete information about your Company's activities and the results achieved during 1981.

As Chairman, I am proud of these results which demonstrate the growth and success of your Company. It is management's objective to build for the shareholders, a strong, sound business based on oil and gas production and related activities. Available funds have been used only for acquisition of production, exploration and certain investments related to those activities.

In management's view, the three important characteristics of a sound oil and gas company are: 1) Reserves; 2) Cash Flow; and 3) Profits. As you will see from the following report, your Company has achieved good results in all three areas.

Our oil and gas reserves are about 108 million barrels of oil and gas-equivalent, which equates to about 16 barrels per share on a fully diluted basis. Our cash flow for 1981 of $5.05 per share will compare very favourably with any similar producing company. Profit for 1981 of $3.21 per share proves that we are doing our jobs efficiently and have the ability to survive adverse conditions.

During 1981, consideration was given to diversification into the petrochemical field. We have decided that such investments would not now be profitable.

The petroleum industry faces many confusing problems, including the National Energy Policy, Federal subsidies for foreign oil imports, lack of gas markets, etc. One of the basic problems is that all levels of government in Canada seem to regard the petroleum industry only as a source of revenue, ignoring the benefits that a sound industry brings to all Canadians.

For example, on a free-world market price, the income from the sale of a barrel of oil is divided this way:

World Crude Price	$41.00
less Canadian Differential	17.50
Wellhead Price to Producer	23.50
less Provincial Royalties	8.80
less Federal Taxes	10.80
Netback to Producer	$ 3.90

Out of this remainder, the producer must pay for labour and operations, take all of the risk, pay interest costs, and perhaps make a profit. Governments do not work, take no risk, and yet extract the largest share of the money, by far.

In addition to the Canadian operations reflected in these pages, your Company has two closely-related foreign investments. In Australia, Oakwood International Petroleum N.L. has been active in 1981. Your Company owns 63% of this very sound exploration company which is focusing its efforts on the opportunities available in Australia. Mr. John O. Zehnder, Managing Director of the Australian company, has succeeded in organizing and directing the activities of that company into very prospective areas.

In the United States, American Oakwood Energy Ltd., together with its wholly-owned subsidiary Oakwood Resources Inc., has set up the beginnings of a strong U.S. operation. Mr. Richard D. Jensen, President of those companies, has established Oakwood in a very competitive business environment. Progress to date has been limited by the unfavourable equity markets worldwide. However, that company is actively engaged in searching for acquisitions, having access to approximately $90 million U.S. to invest. Your Company now owns about 57% of the outstanding shares of American Oakwood Energy Ltd. In addition, stockholders of the Canadian company have received, tax-free, a dividend of shares in the American company.

The current year 1982 has already produced many problems and the outlook for favourable solutions is not bright. Most of these problems have been created by governments. Still, there are great opportunities and we intend to continue our growth in Canada, the United States and Australia.

One problem which has hurt Oakwood in early 1982 is the prorationing or limitation of sales of oil from our Grand Forks, Alberta, field. This reduction of about 3,000 BOPD in sales is caused by Federal import subsidies, financed by taxes levied at the gas-pump on Canadian consumers. Although we have drawn the government's attention to these and other problems, resolution of the problems seems slow in developing. It causes one to consider whether or not a change of Federal Government or the formation of a Western Canadian nation might not be the more viable solutions.

In summary, we had a good year in 1981. The outlook for 1982 is clouded by many questions, but we can and will continue to build a sound company for you.

None of the results outlined would have been possible without the dedication and hard work by our 127 employees. I would like to thank each of them for his or her contribution.

Sincerely,

Dallas E. Hawkins II
Chairman of the Board

PRESIDENT'S REPORT

Brian S. Ekstrom, President

The management of Oakwood Petroleums Ltd. is pleased to present for your consideration and review the accompanying annual report. As you will see in the ensuing pages, 1981 was a successful year, in spite of the troubled economic environment within which we find ourselves operating. Your Chairman has commented on some of the frustrations and problems with which we are having to cope — government intervention and regulation, discriminatory pricing and subsidy systems, unresolved legislative matters, etc. Certainly 1981 was unprecedented in terms of the confusion and uncertainty which abounded in the petroleum and natural gas industry. As the impact of the National Energy Program of October 1980 made itself felt, coupled with the impact of the Ottawa — Alberta pricing agreement of September, 1981, it became clear to your management that our task of operating your Company efficiently and profitably had become a much more difficult one. Your Chairman has also highlighted the results of our two year corporate restructuring plans. This resulted in all of Oakwood's non-Canadian activities being carried on through either our 57% owned subsidiary, American Oakwood Energy Ltd., which is active in the United States of America, or through Oakwood International Petroleum N.L., a 63% owned subsidiary, which conducts our exploration and development efforts on a global scale. This report will be confined to reporting on the domestic operations of Oakwood Petroleums Ltd., your Canadian operating Company. We are proud to present these 1981 operating results to you.

Your Company has always pursued an aggressive policy of acquisitions, and during 1981, Oakwood was successful in concluding three major acquisitions.

(1) In May, your Company acquired a block of proven reserve properties from Gold Lake Resources Ltd., plus the purchase of a wholly-owned subsidiary of Gold Lake — Colony Resources Ltd. This acquisition of proven oil and gas reserves in Alberta was a fine complement to our existing operations in many areas of Alberta.

(2) Again in May, your Company completed the acquisition of Norlands Petroleums Limited. This purchase gives Oakwood some exploration acreage exposure in the high Arctic — in the Lancaster Sound area where we now enjoy a one-eighth interest in approximately 2.4 million acres of highly potential exploratory permits. In addition, the Norlands acquisition brought to Oakwood a very significant tax-loss position which was utilized during 1981 as reflected in the earnings statement included in this report.

(3) Late in the year, Oakwood successfully completed the acquisition of approximately 97% ownership of Quasar Petroleum Ltd. This acquisition — with an aggregate cost to your Company of approximately $70 million, brought to Oakwood another good block of prime producing oil and gas

properties in Alberta, as well as a very significant reserve base of proven gas reserves in northeastern British Columbia. The Quasar acquisition also brought to Oakwood a fine complement of office and field staff, headed up by Mr. A. Norman Boyse.

The Quasar Petroleum Ltd. acquisition was indeed a significant one for your Company. It is acknowledged that in the short term, the limitation of gas markets does not permit us to realize anything close to the full potential of the gas properties held by Quasar in British Columbia. However, we are making every effort to maximize production under those contracts and are seeking areas to deliver incremental quantities of gas. The addition of the Quasar properties should result in Oakwood's 1982 gas production increasing by almost 50% to in excess of 25 million cubic feet per day.

1981 operating results certainly show the impact of the National Energy Program (NEP) of October 1980. The Petroleum and Gas Revenue Tax (PGRT), introduced in the NEP, extracted an extra $4.8 million from Oakwood's cash flow. The NEP as introduced did clarify that this PGRT would be used to fund the Petroleum Incentives Program (PIP) of grants introduced by the Federal Government. Ironically, however, the Canadian Institute of Chartered Accountants saw fit in February 1982 to issue a guideline statement which precluded reporting companies such as Oakwood from including PIP credits in earnings as an offset against the PGRT, which reduces earnings. Consequently your Company's earnings under traditional reporting methods amounted to $17.5 million in 1981, or $14.6 million after provision for dividends on the outstanding preferred shares. Footnote 8 of the Consolidated Financial Statements shows the re-stated earnings — considered to be a more appropriate and accurate reporting format for your Company. You will notice that in that re-stated format, net earnings for the year would have amounted to $19.5 million or $16.6 million after provision for dividends on outstanding preferred shares. Cash flow for the year ended December 31, 1981 exceeded $26 million utilizing this amended reporting approach. Your Company is of the opinion that this treatment more properly recognizes the intent of the PIP/PGRT program as introduced in the NEP and more accurately reflects the real economic impact of the NEP as originally intended. Disposable cash flow from operations for the year 1981, which would reflect any capitalized interest charges in accordance with recognized accounting treatment of same, was in excess of $20 million.

In summary, we take pride in reporting our 1981 operating results to you, our Shareholders. We are confident that we have a strong Company — one which is ready and capable to capitalize on opportunities. Our objectives are to have your Company prosper and grow in the energy business in Canada and to make a contribution towards achieving Canada's goal of energy self-sufficiency. We sincerely believe that this latter objective can be accomplished only if the various governmental levels will recognize that we can do this job for the country if we have opportunity to earn a fair return on our investments at the same time. We have the team and resources to accomplish the job. Hopefully the latter part of 1982 will present a more favourable economic climate within which to operate.

My report to you would not be complete without paying tribute to our dedicated and loyal employees — who have helped to make 1981 the success it was and whom we rely upon to accomplish our aims and objectives in the future.

Brian S. Ekstrom

Brian S. Ekstrom
President

EXECUTIVE VICE-PRESIDENT'S REPORT

Kenneth W. Germond, Executive Vice-President

The year 1981 was a time of reorganization and growth for Oakwood and its several subsidiaries. In our report for 1980, you were advised of the several important changes in management in Calgary and the transfer to Dallas, Texas, of Mr. R. D. Jensen. Subsequent to that publication, the Company physically moved its headquarters, employed a managing director for the Australian subsidiary, employed two new vice-presidents for the Canadian company, and merged the staff of Quasar Petroleum Ltd. with that of Oakwood Petroleums Ltd.

Your Company is now headquartered at 311 - 6th Ave. S.W., Calgary, Alberta, in the Cadillac Fairview building. The newly acquired space allowed many critical staff changes to be effected and it is now believed the Company is adequately housed with room to expand when necessary.

Mr. Curt W. Brown joined the Company in June 1981, as Vice-President, Finance. His presence has strengthened the financial and accounting staff during a time when expertise in such matters is a critical necessity. His experience spans more than 20 years with oil and gas and energy companies in Canada.

Mr. A. Norman Boyse agreed to join Oakwood Petroleums at the time of the acquisition of Quasar Petroleum. Mr. Boyse has valuable background in management, exploration, production and gas matters. As a vice-president, his assignment is to assume direction of Oakwood's Gas Marketing and Special Projects.

In Australia, Mr. John O. Zehnder, an explorationist with world-wide experience, joined Oakwood International Petroleum N.L. in July 1981, as Managing Director. Based in Sydney, New South Wales, Mr. Zehnder's management abilities, exploration experience, and acquaintances within the oil and gas industry make it possible for him to operate in Australia with the confidence of the management of Oakwood Petroleums back in Canada.

During the year, all of the companies comprising Oakwood Petroleums were involved in acquiring back-up staff so as to be able to operate better in these complex, competitive times. Your management is of the opinion that the present exployees of your Company are capable, efficient, and dependable, enabling Oakwood to operate effectively wherever it finds opportunities that justify its presence.

K. W. Germond

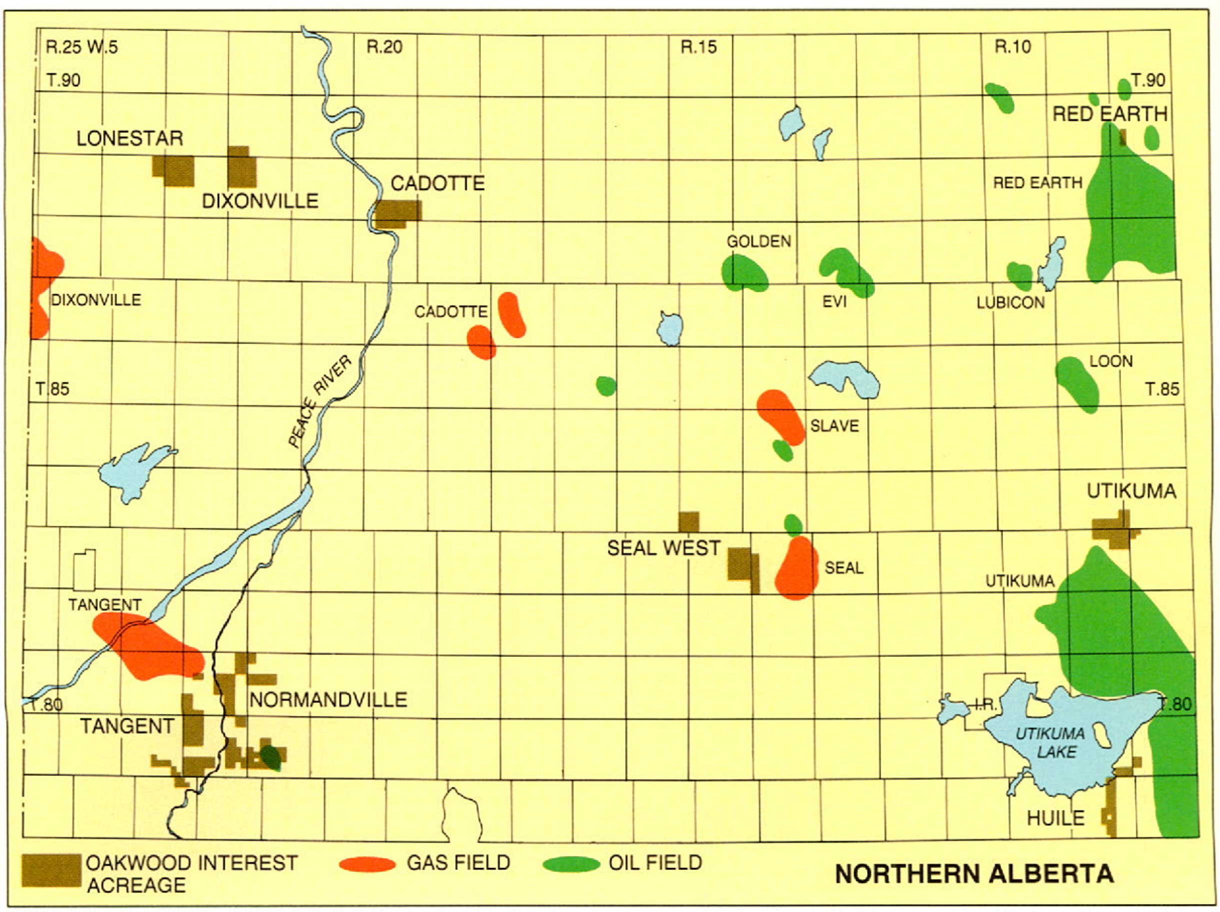
K. W. Germond
Executive Vice-President

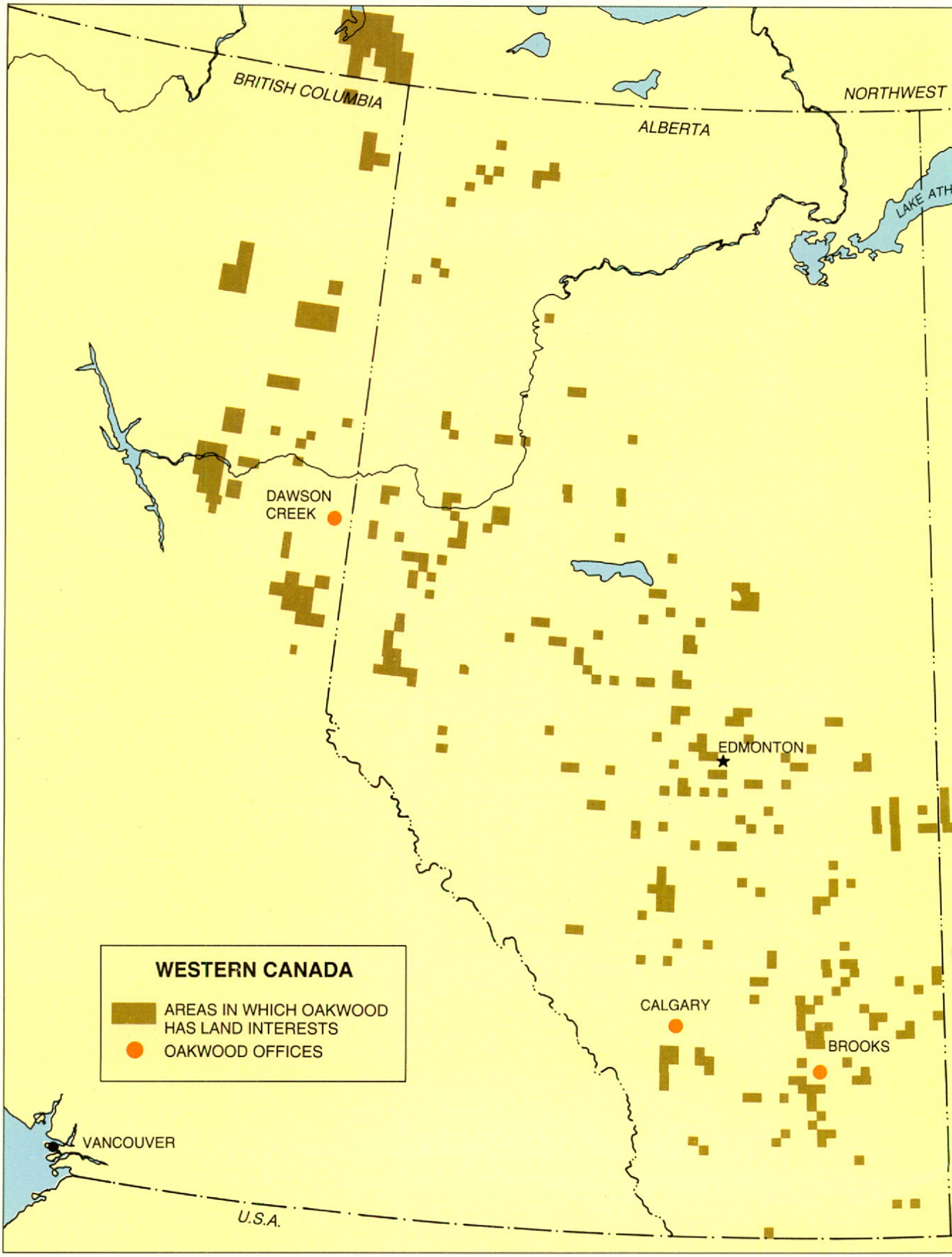
Andy J. Blashyn, Vice-President, Exploration

ALBERTA

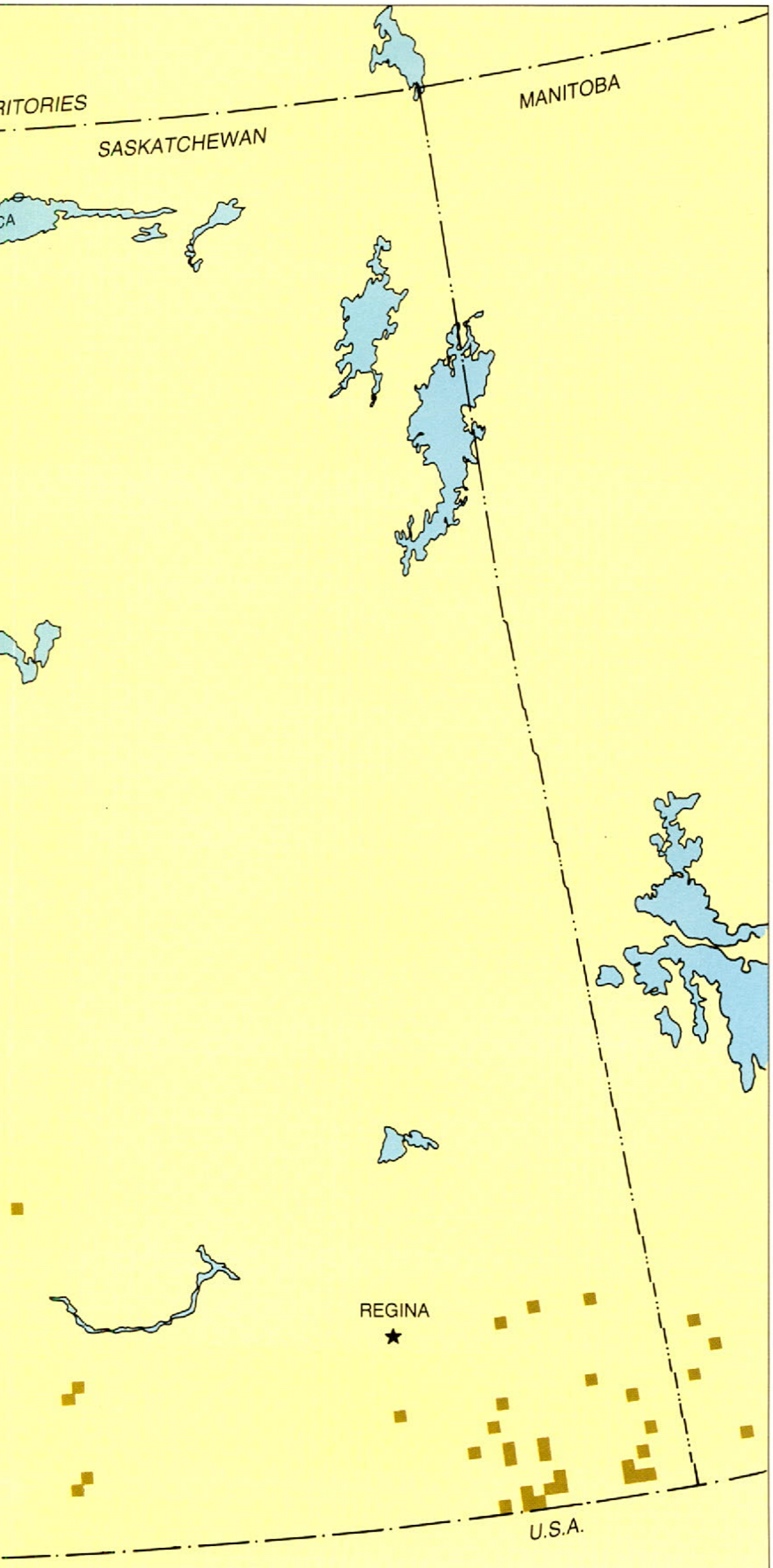
During 1981 Oakwood Petroleums emphasized diversification in its exploration program whereby the Company enhanced its representation in Northern Alberta's prospective oil trends. Through participation at Crown reserve sales and in farmin opportunities, Oakwood has been able to increase its acreage holdings to 17,879 hectares (44,160 acres) with a net of 5,993 hectares (14,802 acres) in the northern regions.

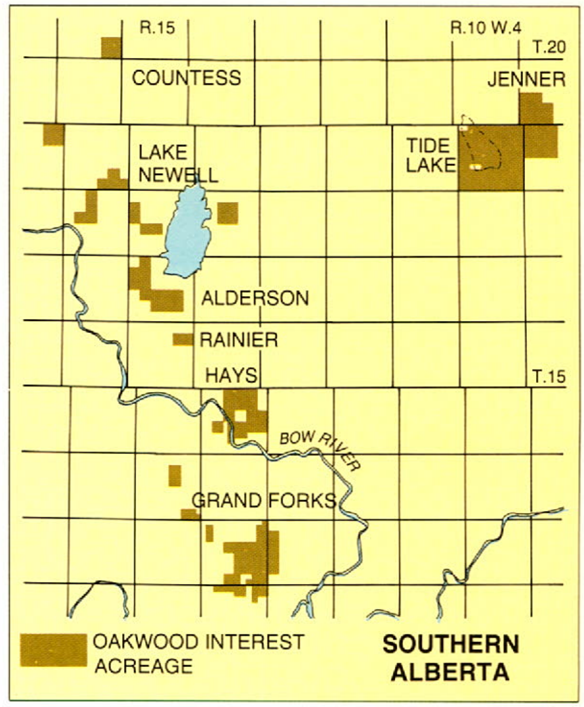
The prospective areas are identified at Lonestar, Dixonville, Cadotte, Seal, Utikuma and Huile. All prospects are in an area where recent exploratory drilling has resulted in significant discoveries of lighter gravity oil in the Devonian Slave Point carbonates and Gilwood-Granite Wash clastics. Seismic programs have been completed on many of the prospects with exploratory drilling anticipated for late 1982. Oakwood is participating in a joint venture exploratory program in the Shekilie-





BRITISH COLUMBIA
ALBERTA
NORTHWEST
LAKE ATH
DAWSON CREEK
EDMONTON
CALGARY
BROOKS
VANCOUVER
U.S.A.
WESTERN CANADA
AREAS IN WHICH OAKWOOD HAS LAND INTERESTS
OAKWOOD OFFICES





Bistcho area, where considerable industry activity is directed to Keg River pinnacle reef exploration. A seismic program was conducted during the recent winter season, evaluating prospective Crown reserve and option acreage.

In conjunction with the exploratory programs in Northern Alberta, your Company has maintained an aggressive level of activity in Southern Alberta. During 1981, Oakwood participated in the drilling of 77 wells in the southern regions of the province, resulting in 32 oil wells, 33 gas wells and only 12 abandonments. The primary objectives were the shallow gas and heavy oil reserves of the Cretaceous.

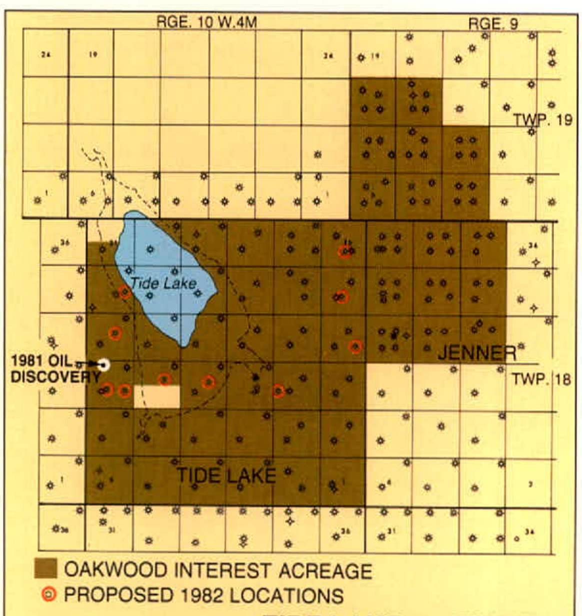
Activity at Grand Forks consisted of the continued exploitation of the field through the drilling of 19 wells and some additional seismic. The drilling resulted in 15 oil wells and four abandonments.

Drilling at Minnehik-Buck Lake consisted of eight wells, with six being completed as Cardium oil wells, one waiting on completion and one as a dual Belly River/Cardium oilwell. Oakwood has an interest varying from 18.75% to 40% in 1,814 gross hectares (4,480 acres).

Oakwood operated joint seismic programs at Hays, Alderson, Kitsim and Lake Newell, evaluating these areas for Lower Cretaceous channel potential. It is anticipated that prospects will be delineated for drilling during late 1982. A total of five wells were drilled at Alderson, resulting in three Glauconite oil wells, one gas well and one abandonment.

An accelerated drilling program is currently in progress at Tide Lake to define the extent of the Bow Island gas and Glauconite oil discovery at the 14-18-18-10 W4M location. Oakwood has an average working interest of 23.44% in leases which exceed 8,615 gross hectares (21,280 acres). Many of these leases are subject to the expiry of non-producing deep rights early in 1983.

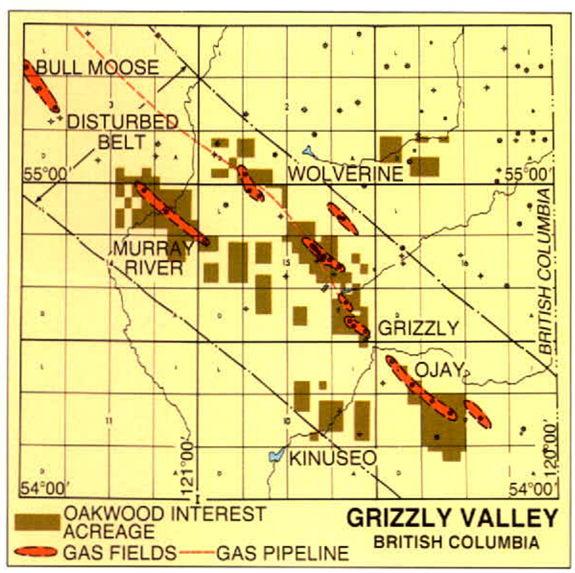
In addition to the continuing evaluation and development of Oakwood properties, negotiations are in progress regarding farmin opportunities on prospective trend acreage, emphasizing oil prospects.



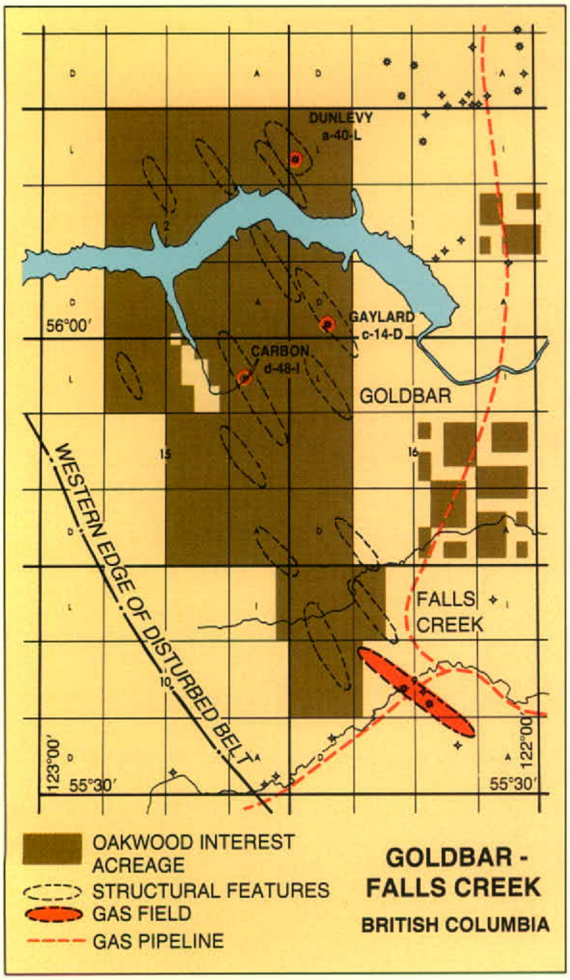
TIDE LAKE — JENNER
ALBERTA

BRITISH COLUMBIA

Through its acquisition of Quasar Petroleum Ltd., Oakwood has added substantially to its activity in British Columbia. Your Company now holds an interest in 418,098 gross hectares (1,032,701 acres) with a net position of 73,278 hectares (180,996 acres). Approximately 40% of this total is concentrated in the Goldbar area which is on trend with the Grizzly, Bullmoose and Sukunka overthrust gas fields. During 1981, the second earning well on the Goldbar block was drilled at Quasar et al Gaylard, c-14-D, 94-B-1. This location was drilled to a depth of 2 291 m, encountering significant gas potential in the Triassic section. A third location at Quasar et al Carbon d-48-I, 93-0-15 is currently drilling on a separate structure. Several prominent faulted anticlinal structures have been identified through surface geology and regional seismic coverage. Additional seismic programs are planned for 1982 as part of a long term exploratory program for the area. Drilling to date has revealed gas bearing reservoirs in the lower Cretaceous, Jurassic, Triassic and Paleozoic formations. It is estimated that gas reserves of approximately 56.6 Billion cubic metres (2 Trillion cubic feet) may exist in the Goldbar area.



GRIZZLY VALLEY
BRITISH COLUMBIA



Oakwood participated in the drilling of an exploratory Devonian Keg River reef test at Coseka et al Kahntah a-61-L, 94-H-15. This well was abandoned after encountering a porous wet reef section. Due to the geological potential and the sparse exploration activity, this area remains highly prospective for oil prone Keg River reef development.

SASKATCHEWAN

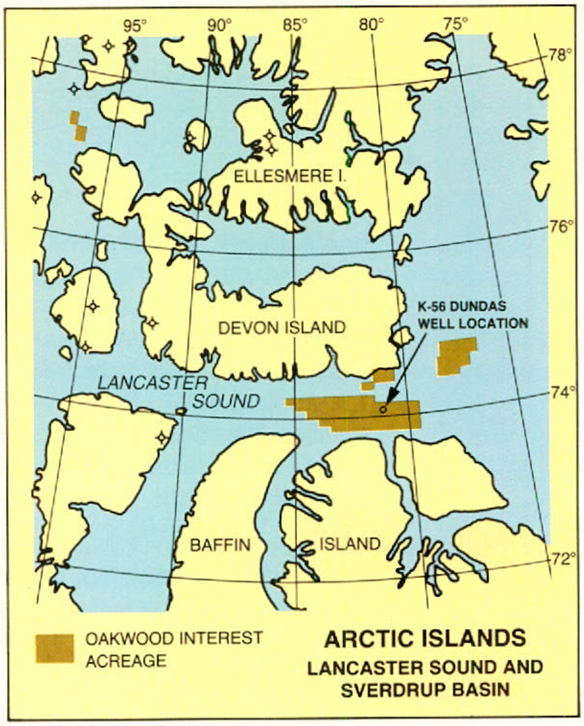
The recent Energy Pricing and Taxation Agreement reached between Canada and Saskatchewan has created an improved economic environment for exploration and development of oil properties in the province. Oakwood has an interest in 120,207 gross hectares (296,912 acres) for a net position of 35,194 hectares (86,928 acres) with the majority being productive or proven acreage. The Company will pursue development of its non-producing properties in conjunction with improved marketability and economics.

CANADA FRONTIER LANDS

The enactment of the National Energy Policy provides certain incentives for Canadian companies to explore for oil and gas on Federal lands. Oakwood Petroleums' high Canadian ownership and control rate, presently greater than 75%, qualifies the Company for maximum benefits under the Petroleum Incentives Program. This allows for an 80% rebate of exploration costs expended on Federal lands.

With consideration to provisions under the National Energy Policy, your Company is pursuing opportunities on Canadian Frontier Lands. Oakwood is presently negotiating for participation in a major program in the Beaufort Sea region. In addition, the Company is a member of a joint venture bidding group which has submitted bids for certain parcels offered at the East Coast Offshore Federal land sale. Results of this sale have not been released pending outcome of the Newfoundland-Federal government jurisdictional negotiations.

In purchasing the assets of Norlands Petroleum Limited, Oakwood acquired a 12½% working interest position in 974,412 gross hectares (2,406,798 acres) representing 137,602 net hectares (339,876 acres) in the Lancaster Sound-Baffin Bay region. Exploration programs comprising extensive seismic, magnetic, gravity and geochemical surveys have been conducted since 1971. These have resulted in the identification and delineation of several geological structures on the permits. The most prominent of these is a large faulted anticlinal structure which includes some 466 square kilometres of closure. The application to drill the exploratory well on this structure at Dundas K-56, has experienced lengthy delays since 1974.



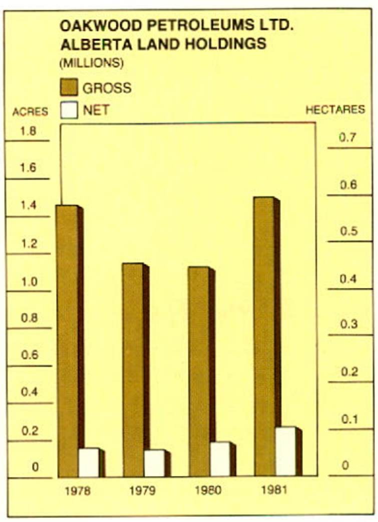
These are attributed to government requirements to conduct and review extensive environmental studies and to further await the multiple use recommendations of the governmental "Green Paper". Indications are that the multiple use options will be released early in 1982. It is anticipated that a favorable drilling option will be included.

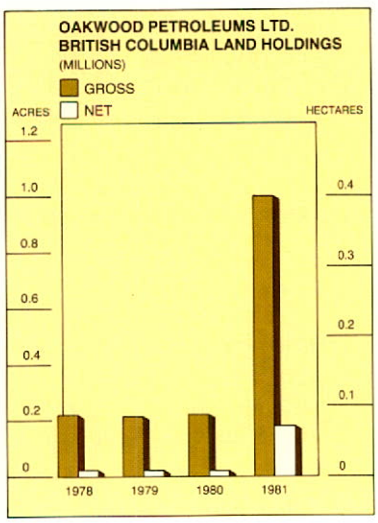
Included in the Norlands acquisition is an 11.25% interest in two permits totalling 45,589 hectares (112,604 acres) in the Sverdrup Basin. Phillips Petroleum holds an option on the permits with plans to drill during the 1982-83 drilling season.

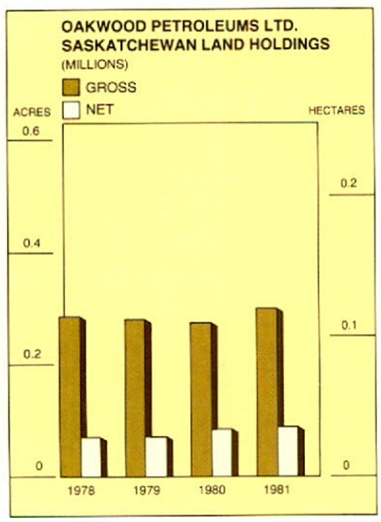
In the Hopedale area on the Labrador Shelf, the Company owns a net 7,387 hectares (18,246 acres) of a 305,022 hectare (753,404 acre) block. The permits are presently under option to Chevron to drill a third earning well to fulfill its commitment to the farmor group. This well is expected to be drilled during 1982, whereupon Oakwood's interest will reduce to 1.529%.

LAND COMMENTS

As evidenced by the land statistics included in this report, Oakwood has demonstrated a continued growth in its land inventory. Growth has been through acquisitions, competitive bidding for Crown reserves and selective land negotiations. Significant increases in land exposure have been made in Alberta, British Columbia and on Canada Federal lands. The Company feels that these areas exhibit the greatest potential for Oakwood's continuing success and growth.







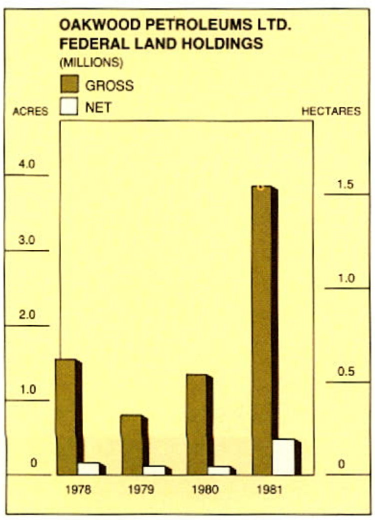
OIL AND GAS LEASE AND PERMIT ACRES

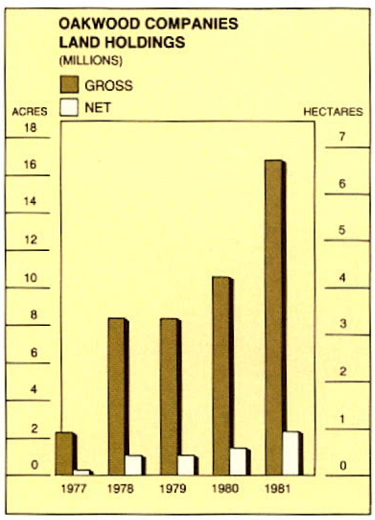
Oakwood Companies Land Holdings

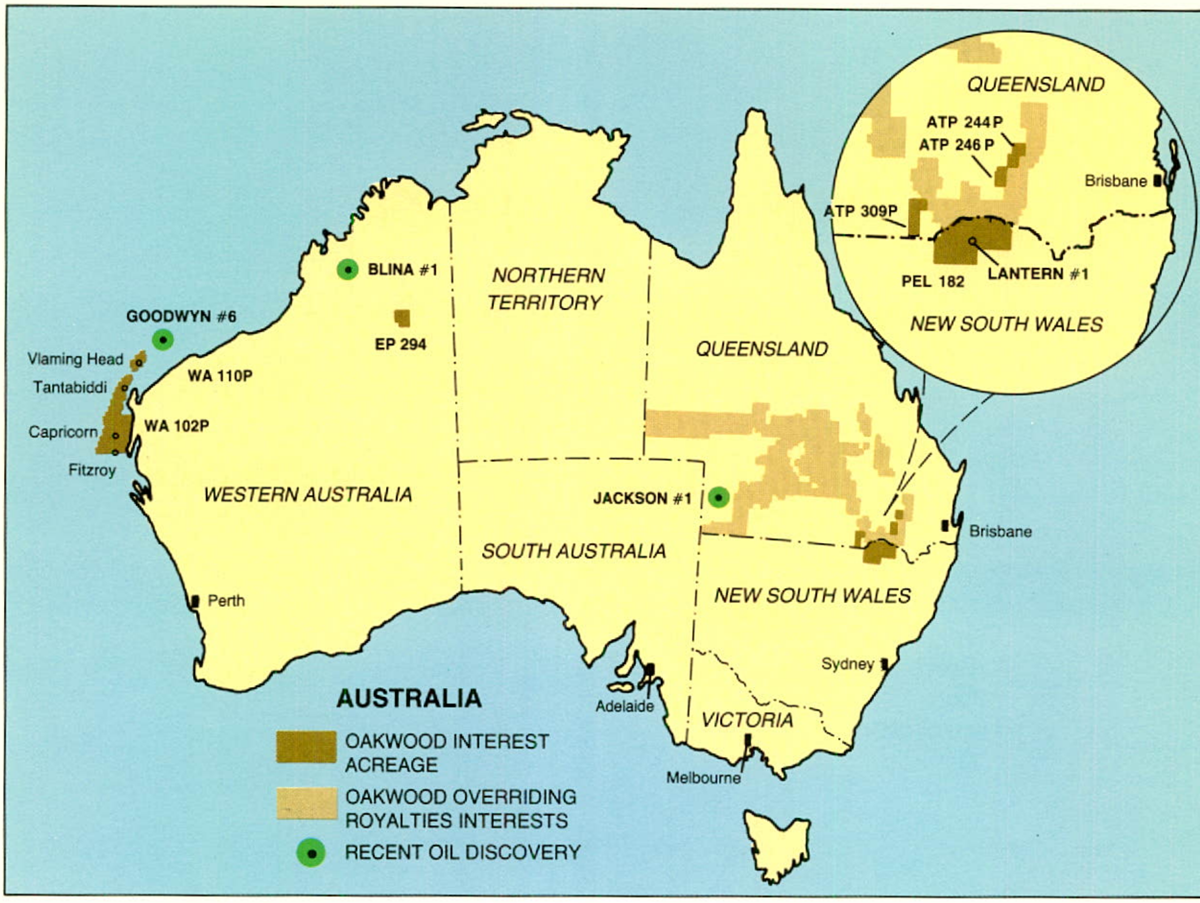
	1981	1980	1979	1978	1977
Gross	**16,799,509**	10,607,000	8,407,524	8,442,443	2,911,304
Net	**2,417,727**	1,486,000	1,180,677	1,140,267	285,810

Oakwood Canadian Land Holdings

	1981	1980	1979	1978	1977
Alberta					
Gross	**1,507,444**	1,134,024	1,145,637	1,460,080	969,596
Net	**268,384**	192,017	149,096	157,082	122,939
British Columbia					
Gross	**1,032,701**	220,443	213,806	223,689	71,109
Net	**180,996**	21,057	23,797	23,925	2,075
Saskatchewan					
Gross	**296,912**	274,911	279,082	286,992	297,086
Net	**86,928**	84,177	71,324	70,792	73,866
Canada Federal Lands					
Gross	**3,866,508**	1,347,106	794,046	1,547,450	1,573,033
Net	**483,329**	130,785	129,695	166,187	86,870
Manitoba-Ontario					
Gross	**6,589**	6,589	7,876	8,036	480
Net	**3,552**	3,552	3,040	3,040	60
Total Canada					
Gross	**6,710,154**	2,983,073	2,440,447	3,526,247	2,911,304
Net	**1,023,189**	431,588	376,952	421,026	285,810







OUTLOOK 1982

The growth and activity level of the oil and gas industry during 1981 was hindered to a great extent by factors beyond its control. It is anticipated that these factors will be minimized during 1982. Given a favorable operating and economic climate, Oakwood has the capability to aggressively pursue exploration and development opportunities. To that effect, your Company has assembled a competent and dedicated exploration staff. Oakwood's Canadian exploration department has a full complement of qualified geological, geophysical, land and drafting personnel, totalling 20 employees.

Oakwood's basic strategy will be to maintain a vigorous exploration effort with consideration for product markets and economics.

OAKWOOD INTERNATIONAL PETROLEUM NL

Oakwood Petroleums Ltd. maintains a controlling interest of 63% in Oakwood International Petroleum NL. During 1981, the international subsidiary increased its Australian acreage holdings from 4,900,000 gross acres in 1980 to 9,327,000 gross acres at year end, and from 661,000 net acres to 1,174,375 net acres. This land position has been secured through farmin opportunities and the filing of State Government applications, with interests varying from 10% to 14%. In addition, the Australian company holds production royalties of .5% to 1.2% on permits which total in excess of 48,500,000 acres.

On permit WA-102-P, efforts are continuing to contract a dynamically positioned drillship to drill the Tantabiddi structure. In order to expedite the drilling obligations, emphasis has been directed to the maturing of drillable prospects in the shallow water portion of the permit. It is anticipated that two of the prospects along the Pendock-Fitzroy trend will be drilled during 1982.

Participants in WA-110-P have completed a farmout agreement whereby the Vlaming Head structure will be drilled during 1982. This prospect is analogous to those drilled at Goodwyn where significant amounts of oil and condensate have been recently discovered.

The Company has a working interest in the State Government application for EP 294 in the Canning Basin. This exploration permit is on trend with the recent Devonian reef oil discoveries at Blina.

Oakwood International participated in the drilling of its initial well at Lantern No. 1 on PEL 182 in the Surat Basin, State of New South Wales. The primary objectives of Jurassic and Triassic sands were found to be porous and wet, resulting in the abandonment of the well. This location was the first test of several structures identified on the permit.

The discovery of Jurassic oil at the Jackson locations in the Cooper Basin, State of Queensland, directly offsets permits in which Oakwood has production royalties. Additional drilling activity is planned for the area.

Other Australian activity includes the conduct of geophysical programs over Queensland Permits ATP 244, ATP 309 and ATP 246. These are located in the highly active Surat Basin.

The Company held a substantial acreage position in the Seychelles Islands in the Indian Ocean. These blocks were surrendered at the end of 1981 when the operator was unable to negotiate a farmout to drill the prospect.

A farmout agreement has been negotiated on the German North Sea acreage, whereby a 5,000 metre test will be drilled prior to June 1983 to earn an interest in 98,842 acres. After the drilling of the earning well, Oakwood's working interest will reduce from 2.1% to .71%.

Oakwood Petroleum Corporation, a wholly owned subsidiary of Oakwood International has oil and gas production in California, Montana, Kansas and Texas in the United States. The Company has an interest in 107 oil and gas wells, generating an operating revenue of approximately $1.1 million U.S. during 1981.

AMERICAN OAKWOOD ENERGY LTD.

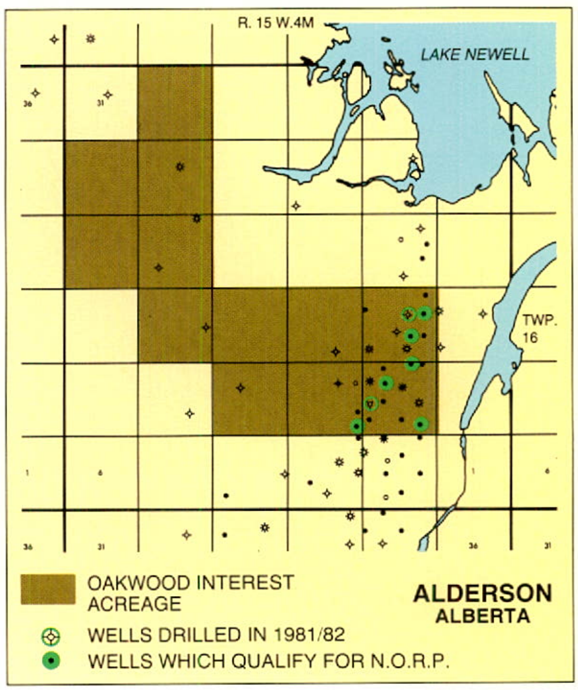
Oakwood Petroleums Ltd. has a controlling 57% equity in American Oakwood Energy Ltd. and its wholly owned subsidiary, Oakwood Resources Inc. During 1981, Oakwood Resources Inc. participated in 29 exploratory and 13 development wells. The exploratory program yielded twelve discoveries, four gas and eight oil. Texas and Kansas accounted for four each, two in Oklahoma, and one each located in Montana and South Dakota. The development drilling resulted in three oil wells and seven gas wells. The Company participated in geophysical programs over its large acreage holdings in the Montana Overthrust Belt. Four structures have been identified, one of which will be selected for drilling during 1982. Oakwood has a 25% working interest position in this 250,532 acre block. An extensive exploration program is planned for the Utah properties in which Oakwood has an interest in 181,516 acres with a net of 92,396 acres. To date, the Company has accumulated a position in 613,461 gross acres in various prospective oil and gas areas in the United States, having an average participation of 34%.

D. Nolan Blades, Vice-President, Production and Operations

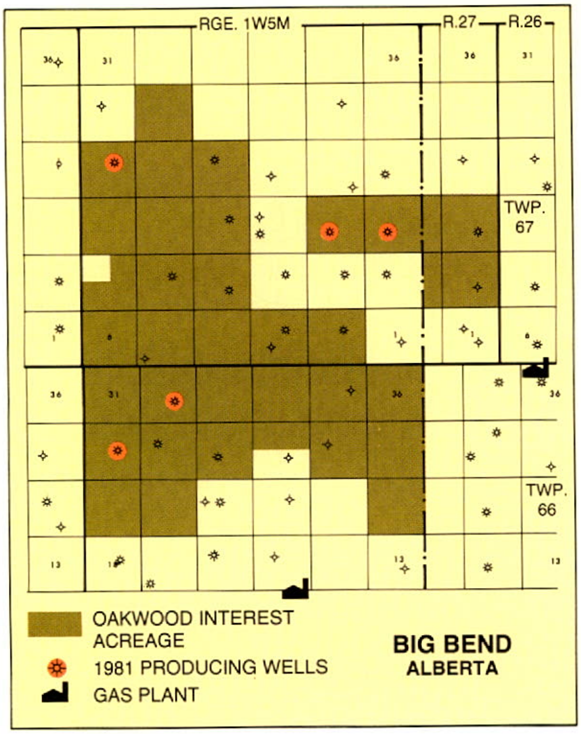
The producing operations of Oakwood during 1981 were highlighted by record rates of oil production. The acquisition of Quasar Petroleum Ltd. accounted for a large growth in the Company's gas reserves. Canadian drilling activity was maintained close to the level of the previous year, with most of the 87 wells again drilled in development projects. While the majority of the regulatory events of 1981 had a negative impact on the oil and gas industry, the establishment of New Oil Reference Pricing (NORP), for production from wells drilled subsequent to January 1, 1981, which result in new crude oil reserves being recognized, was positive. This program provides significantly improved netbacks to producers and an incentive for increased exploration for new oil reserves. During 1982, the NORP price is expected to be approximately 175 per cent higher than conventional crude oil prices. At the present time, Oakwood has an interest in 28 wells which qualify for NORP recognition.

The 1981 rate of oil production, which averaged 1 375 cubic metres (8,656 barrels) per day, represents a 20% increase over the average production rate in 1980. This increase reflects an improvement in the productivity of the Grand Forks properties and the lack of market proration for the Grand Forks heavy crude oil production. The properties operated by Oakwood in the Grand Forks area reached a gross producing capability of 1 400 cubic metres (8,800 barrels) of crude oil per day by mid-1981. This producing level resulted from the 1981 drilling program and the addition of pumping equipment in the pools.

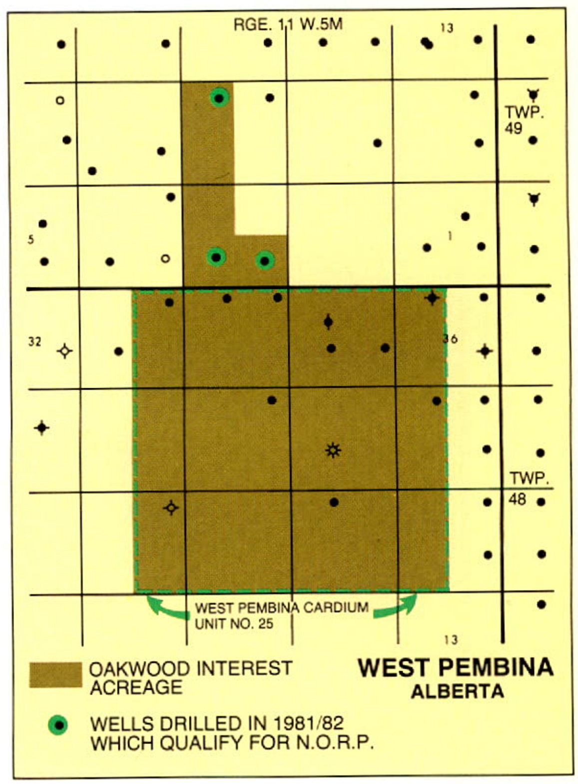
The benefits derived by no market proration during 1981 were quickly lost on the last producing day of the year, when heavy crude oil producers in Southeastern Alberta were allocated a 50 per cent cutback in production. The reduction in markets for this crude oil can be related to the high level of compensation paid to refiners to import crude oil and a low demand for heavy crude oil. A limited demand for heavy crude oil is anticipated to continue for the first half of 1982.



Natural gas production levels declined from a record level of 546 thousand cubic metres (19.4 million cubic feet) per day in 1980 to 478 thousand cubic metres (17.0 million cubic feet per

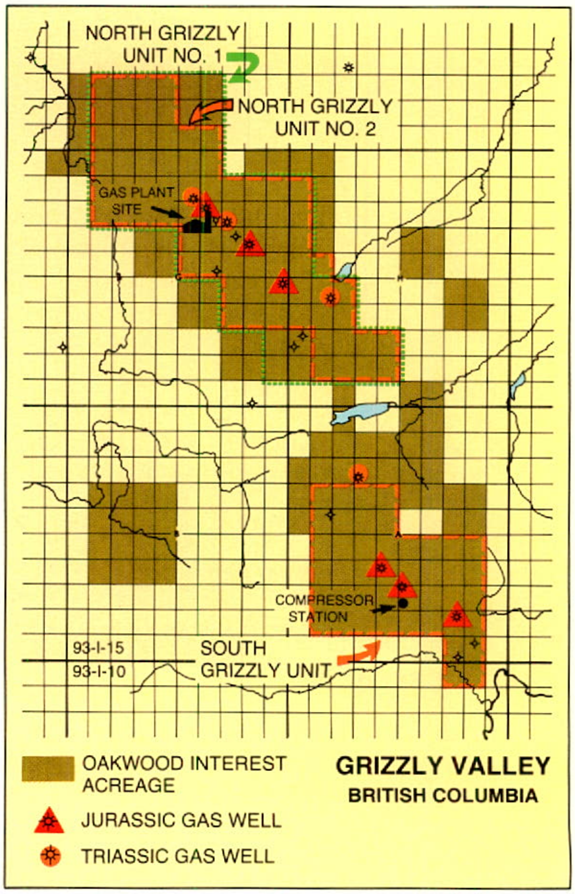


day) in 1981. The reduction in gas sales is attributable to the Company's major gas purchasers being unable to obtain approval to export additional volumes of natural gas to the United States, coupled with a large growth of deliverability. In Alberta, less than 70 per cent of normal contract volumes were purchased during 1981. The National Energy Board is currently reviewing several applications to export additional volumes of natural gas to the United States. While it is generally expected that some of these applications will be approved, no significant increase in the rate of gas production from existing contracts is expected for the next year. In this regard, the major gas purchaser in Alberta has proposed a scheme which would further modify take or pay provisions in its contracts until market and contract volumes are more closely matched. In order that your Company receives an equitable share of the available gas markets, several of the gas purchase contract areas have been under active development in 1981 to ensure that the maximum rate commitments in the contracts can be met. As a consequence, 18 wells were drilled in the Matziwin area, raising the maximum deliverability by 20 per cent, and two additional wells were put on stream in the Big Bend area. Gas production in British Columbia was further reduced from 1980 levels by decreased export demand. As a result, contractual commitments were reduced to 52 per cent of normal contract rates. During 1981, several applications for petrochemical and LNG projects were made by various groups of companies to the British Columbia Government. These applications resulted in a hearing, in which your Company participated, to determine the amount of surplus gas available to such projects. It is expected that a decision on these applications will be made during 1982. The approval of a petrochemical or LNG project would provide for a major improvement in gas marketing in British Columbia by the mid-1980's.

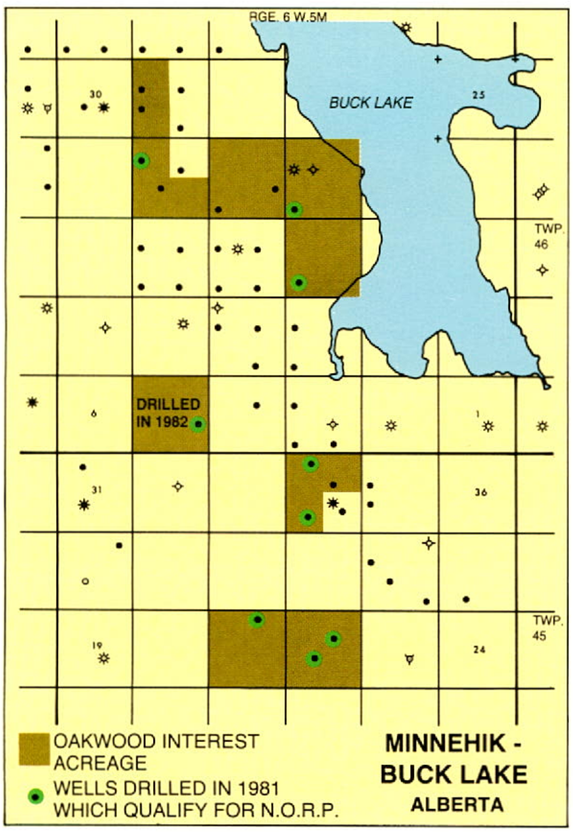


A. Norman Boyse, Vice-President, Gas Marketing and Special Projects

The acquisition of Quasar Petroleum Ltd., effective December 22, 1981, added substantial natural gas reserves and reserve growth potential to the Company. Net proven and probable gas reserves of 3.2 billion cubic metres (115 billion cubic feet) are recognized for the Quasar properties. In the order of two-thirds of the Quasar assets are located in British Columbia, specifically in the Ojay — Grizzly Valley— Murray area along the foothills region of the northeastern portion of the province. Quasar is the operator of the three Grizzly Valley Units, which are on production and are tied into the Pine River Plant operated by Westcoast Transmission Limited. The natural gas is sold under a gas purchase contract with the British Columbia Petroleum Corporation. Natural gas is produced from three separate zones, the Jurassic Nikanassin, Triassic Baldonnel and Halfway. Production was restricted to sweet gas from the six Nikanassin wells for virtually all of 1981 due to well control problems with the two deeper sour gas wells during the first half of the year, and the failure of a portion of the pipeline between the field and the Pine River Plant in mid-1981. It is anticipated that the portion of the pipeline connecting the Grizzly Valley Units with the plant, which is not presently licensed for sour gas service, will be replaced in mid-1982. Production in British Columbia from the Quasar properties is expected to provide Oakwood with a flow rate of 150 thousand cubic metres (5.3 million cubic feet) per day during 1982. In Alberta, Quasar operates eight gas properties which, on a gross basis, produced an average of 185 thousand cubic metres (6.5 million cubic feet) of natural gas per day during 1981. Production from these properties accounted for the majority of the 1981 Quasar Alberta gas production of 92 thousand cubic metres (3.3 million cubic feet) per day. The Quasar oil production is realized primarily from the Sylvan Lake-Medicine River and Rainbow areas. Again, Quasar is the operator of these properties, which provided an average working interest production rate of 14 cubic metres (90 barrels) per day during 1981.

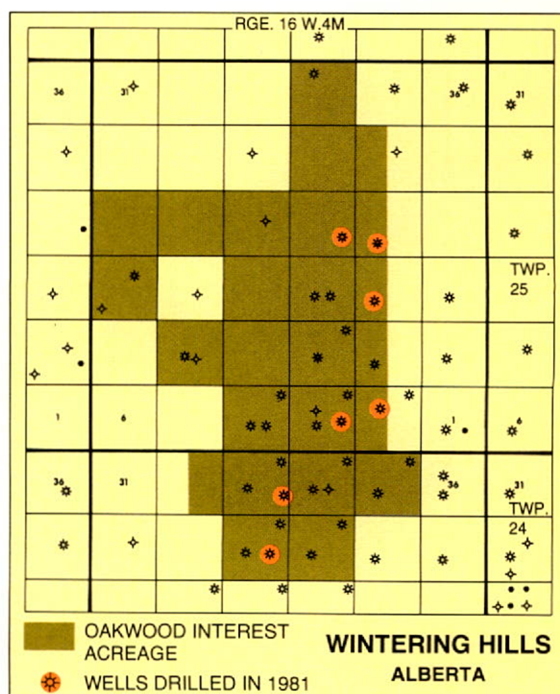


The Quasar acquisition resulted in a significant expansion of the Company's field operations and added a new dimension in Oakwood's operational environments. The Quasar staff in the Dawson Creek office are responsible for the production operations in the Grizzly Valley area, which are characterized by deep, high pressure, sour gas production. The daily Grizzly Valley operations are conducted from an on-site Company camp. The integration of the Dawson Creek and Sylvan Lake staff of Quasar adds to the existing Brooks and Grand Forks operations of Oakwood. Total field staff now numbers 44 people.



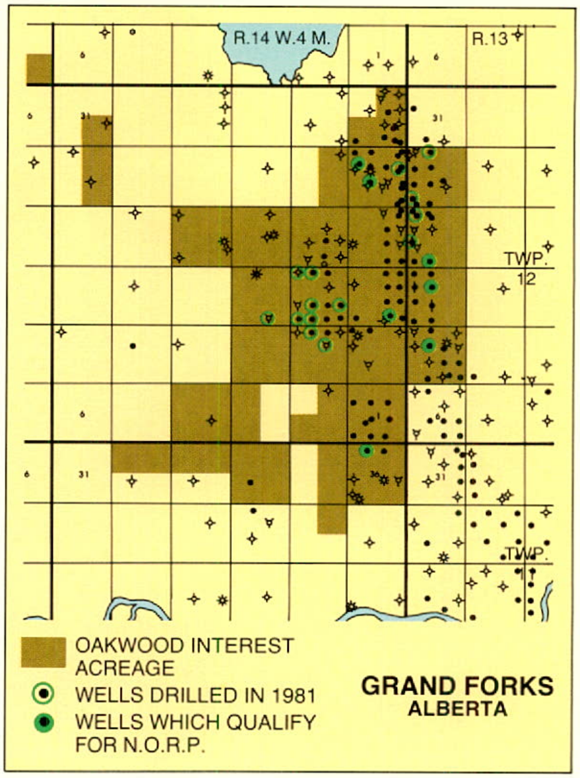
The 1981 purchase of an additional 15 per cent working interest in the Minnehik-Buck Lake properties raised the Oakwood level of participation to 40 per cent in the majority of the lands. With the purchase of this interest, the Company also became the operator of most of these properties. Of the eight wells drilled during 1981, six were completed as Cardium oil wells, one was dually completed as a Cardium and Belly River oil well, and one well is waiting to be completed as a Cardium oil well. In addition, one of the Cardium completions will be dually completed as a Belly River oil well in early 1982. The production from all of these wells qualifies for NORP pricing. During 1981, operators in the Minnehik-Buck Lake area held meetings to review the technical and economic feasibility of waterflooding the Cardium formation in the area. These studies are in progress and at least a portion of the Cardium formation is expected to be included in a waterflood scheme in 1982. Oakwood has undertaken a feasibility study to review waterflood potential for the largest Belly River pool discovered on its lands in the area.

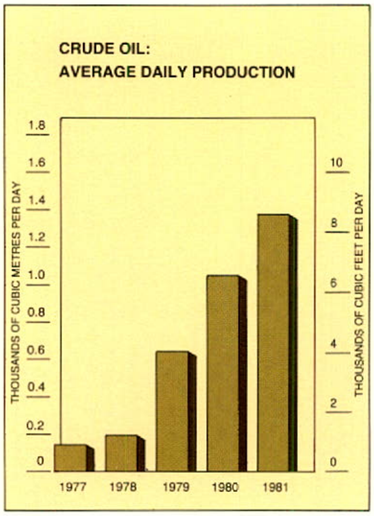
The Canadian oil and gas properties of Gold Lake Resources Ltd. were acquired at the time of the purchase of Colony Resources Ltd. in mid-1981. This acquisition increased Oakwood's net natural gas reserves by 140 million cubic metres (5 billion cubic feet). These reserves are located in Southern Alberta. The majority of the properties are on production to existing gas purchase contracts. The largest of the properties is located in the Wintering Hills area, where, during 1981, six

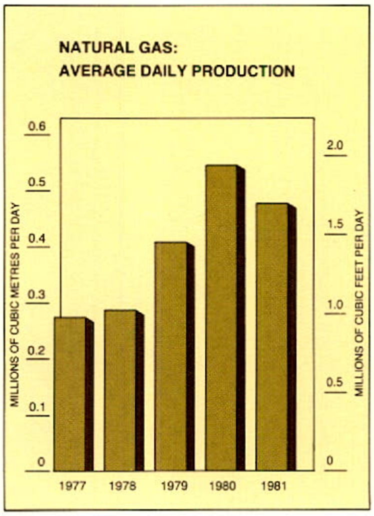


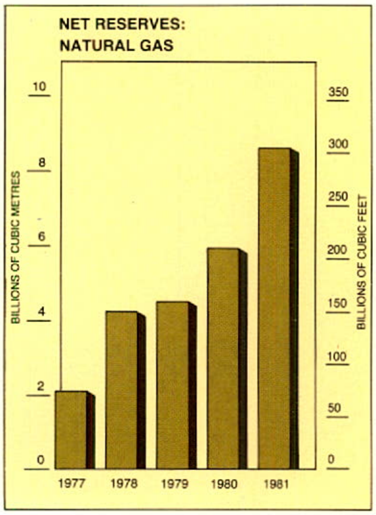
wells were drilled and completed as Basal Quartz formation gas wells. These wells formed the basis for an increase in the contract rate of take through the recognition of new natural gas reserves. The Colony assets included a working interest in the Retlaw area where an active exploration and development program has resulted in significant oil discoveries. Two of the four wells drilled and completed in 1981 in the Retlaw area qualify for NORP pricing.

A total of 19 stepout and infill wells were drilled in the Grand Forks producing area during the year. Fifteen of the wells were completed as oil producers with seven of these qualifying for NORP pricing. Production performance of the six pools in the area continued to demonstrate that the waterfloods are performing effectively and high ultimate oil recoveries will be obtained from the pools. Additional submersible pumps were installed during the year to expand the high volume lift operations in the pools.





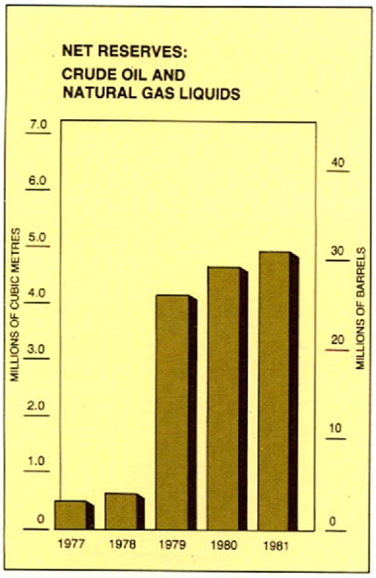




OAKWOOD PETROLEUMS LTD.[1]
CANADIAN OIL AND GAS RESERVES

	Crude Oil and NGL		Natural Gas	
	Thousand Cubic Metres	Thousand bbls.	Millions Cubic Metres	Billions Cubic Feet
BEFORE ROYALTIES				
Proved	7,128	(44,858)	8,868	(315)
Probable	62	(385)	1,695	(60)
Total	7,190	(45,243)	10,563	(375)
AFTER ROYALTIES				
Proved	4,906	(30,859)	7,168	(254)
Probable	52	(324)	1,458	(52)
Total	4,958	(31,183)	8,626	(306)

[1] Including Reserves of Quasar Petroleum Ltd.



CANADIAN WELLS DRILLED
1981

Development	Gross	Net
Oil	28	15.5
Gas	26	7.6
Service	3	2.7
Dry	5	2.8
Total	62	28.6

Exploration		
Oil	4	1.0
Gas	7	1.1
Dry	14	3.9
Total	25	6.0

Curt W. Brown, Vice-President, Finance

The year 1981 was the most successful in Oakwood's 56 year history as highlighted below:

EARNINGS AND CASH FLOW

Consolidated net earnings applicable to common shares were $14,625,000 (after preferred dividends of $2,838,000) or $2.82 per common share compared to $4,361,000 (after preferred dividends of $1,481,000) or $.89 per common share last year.

In the opinion of management, the consolidated net earnings applicable to common shares (as mentioned in note 8 to the consolidated financial statements, with respect to the accounting for Petroleum Incentives Program credits) are understated by $2,014,000 or $.39 per common share in order to comply with the recommendations of the Canadian Institute of Chartered Accountants.

Extraordinary items for 1981 were $13,806,000 or $2.66 per common share compared to $2,466,000 or $.50 per common share last year. The 1981 extraordinary items primarily reflect the net gain derived from corporate acquisitions and disposals.

Cash flow from operations was $22,292,000 or $4.30 per common share ($26,226,000 or $5.05 per common share with Petroleum Incentives Program credits) compared with $15,618,000 or $3.18 per common share last year.

REVENUES

Revenue from the sale of oil and gas reached $46,491,000, an increase of 29% compared to $35,990,000 last year, reflecting an increase in oil sales volume of 20% from enhanced oil recovery and new production plus an increase in the average selling price for oil in 1981 to $111.93 per cubic metre compared to $93.55 per cubic metre last year and an increase in the average selling price for natural gas in 1981 to $82.48 per 1 000 cubic metres compared with $74.86 last year.

CORPORATE TAXES

Total corporate taxes were $14,693,000 or 80% of earnings before corporate taxes and extraordinary items of $18,350,000 compared to $3,170,000, 48%, and $6,546,000 respectively last year. If the $14,693,000 total was reduced by the amount of the Petroleum Incentives Program credits of $3,934,000, less deferred income taxes of $1,920,000 related thereto, corporate taxes would be reduced to $12,679,000 or 69% of earnings before corporate taxes and extraordinary items (with the concomitant improvement in earnings), which management believes is the proper interpretation of the National Energy Program.

ACQUISITIONS

During 1981, Oakwood acquired three operating companies for a total cost of $46,528,000 which significantly increased Oakwood's asset base. As indicated in the past, Oakwood's planned growth is through both acquisition of oil and gas production and traditional exploration.

CAPITAL EXPENDITURES

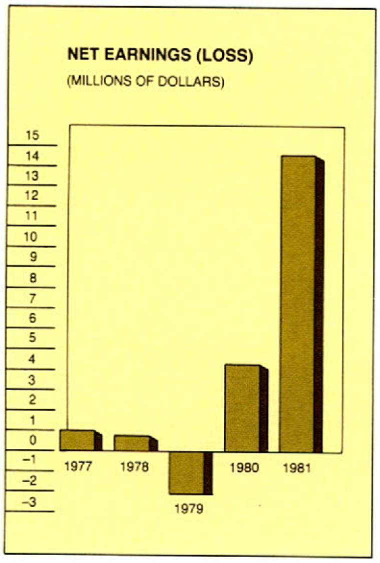
Oakwood expended $26,775,000 during 1981 on property and equipment compared to $28,194,000 last year. The 1980 figure excludes $27,755,000 expended on property and equipment of Oakwood Resources Inc., now owned by American Oakwood Energy Ltd.

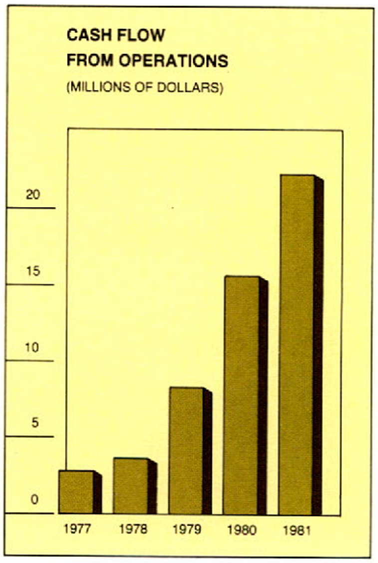
ASSET BASE

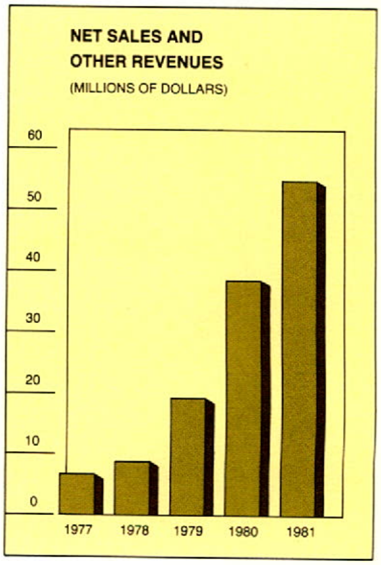
The total assets increased to $369,858,000 at December 31, 1981 from $228,064,000 a year earlier. The investment in petroleum and natural gas property and equipment of $255,232,000 at December 31, 1981 represents proven and probable oil and gas reserves and land values (as determined by independent petroleum consulting engineers) on a cumulative cash flow basis (before income tax) of more than $2.1 billion ($565 million discounted at 15%).

LONG-TERM DEBT

The December 31, 1981 long-term debt was $265,953,000 (which includes $76,097,000 invested in marketable securities and long-term investments) compared to $142,408,000 last year. Of the $265,953,000, $99,075,000 is at very attractive fixed interest rates averaging 11.2% with the remainder, by and large, at floating interest rates based on bank prime. A refinancing plan is being investigated to replace the floating interest rate debt.







OAKWOOD PETROLEUMS LTD.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1981

ASSETS

	1981	1980
CURRENT ASSETS		
Cash and term deposits	**$ 7,820,000**	$ 17,888,000
Accounts receivable	**11,439,000**	16,357,000
Corporate taxes receivable	**2,081,000**	3,805,000
	21,340,000	38,050,000
MARKETABLE SECURITIES, at cost (quoted market value $42,922,000)	**46,543,000**	—
LONG-TERM INVESTMENTS (note 3)	**29,554,000**	2,224,000
PROPERTY AND EQUIPMENT, at cost (note 4)	**298,877,000**	214,033,000
Accumulated depletion and depreciation	**39,444,000**	27,710,000
	259,433,000	186,323,000
OTHER ASSETS	**12,988,000**	1,467,000
	$369,858,000	$228,064,000

Approved by the Board

Brian S. Ekstrom — Brian S. Ekstrom, Director

K. W. Germond — K. W. Germond, Director

LIABILITIES

	1981	1980
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 12,664,000**	$ 14,803,000
Current maturities on long-term debt	**2,410,000**	2,167,000
	15,074,000	16,970,000
PREPAYMENTS AND ADVANCES UNDER GAS SALES CONTRACTS	**4,240,000**	1,750,000
LONG-TERM DEBT (note 5)	**265,953,000**	142,408,000
DEFERRED INCOME TAXES	**13,660,000**	13,548,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES	**6,829,000**	6,889,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
First preferred shares, Series A	**35,996,000**	36,338,000
Common shares	**13,928,000**	10,592,000
CONTRIBUTED SURPLUS	**768,000**	768,000
RETAINED EARNINGS (DEFICIT)	**13,410,000**	(1,199,000)
	64,102,000	46,499,000
	$369,858,000	$228,064,000

OAKWOOD PETROLEUMS LTD.

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1981

	1981	1980
Revenue		
Sale of oil and gas	**$46,491,000**	$35,990,000
Interest and other	**8,426,000**	2,380,000
	54,917,000	38,370,000
Expenses		
Production	**6,136,000**	4,608,000
General and administrative	**3,837,000**	2,740,000
Interest on long-term debt (note 7)	**18,921,000**	16,346,000
Depletion and depreciation	**7,673,000**	8,130,000
	36,567,000	31,824,000
Earnings before corporate taxes and extraordinary items	**18,350,000**	6,546,000
Corporate taxes (note 8)	**14,693,000**	3,170,000
Earnings before extraordinary items	**3,657,000**	3,376,000
Extraordinary items (note 9)	**13,806,000**	2,466,000
NET EARNINGS	**17,463,000**	5,842,000
Provision for dividends on preferred shares	**2,838,000**	1,481,000
NET EARNINGS APPLICABLE TO COMMON SHARES	**$14,625,000**	$ 4,361,000
NET EARNINGS PER COMMON SHARE		
Earnings before extraordinary items	**$ .16**	$ .39
Net earnings	**$2.82**	$ .89

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

YEAR ENDED DECEMBER 31, 1981

	1981	1980
DEFICIT AT BEGINNING OF YEAR	**$(1,199,000)**	$(5,798,000)
Net earnings	**17,463,000**	5,842,000
	16,264,000	44,000
Dividends on preferred shares	**2,840,000**	1,243,000
Dividend of shares of American Oakwood Energy Ltd.	**14,000**	—
	2,854,000	1,243,000
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	**$13,410,000**	$(1,199,000)

OAKWOOD PETROLEUMS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1981

	1981	1980
WORKING CAPITAL DERIVED FROM		
Operations	$ 22,292,000	$ 15,618,000
Petroleum Incentives Program credits	3,934,000	—
	26,226,000	15,618,000
Proceeds on sale of		
Marketable securities	3,255,000	—
Long-term investment	3,498,000	—
Increase in long-term debt	90,881,000	104,075,000
Issue of common shares	2,994,000	923,000
Issue of preferred shares	—	35,301,000
Repayment of notes receivable from American Oakwood Energy Ltd.	6,526,000	—
Issue of shares and options by subsidiary company	—	9,148,000
	133,380,000	165,065,000
WORKING CAPITAL APPLIED TO		
Acquisition of subsidiary companies	46,528,000	—
Add working capital deficiency assumed	3,972,000	—
	50,500,000	—
Marketable securities	49,046,000	—
Long-term investment	7,553,000	—
Additions to property and equipment	26,775,000	55,949,000
Reduction of long-term debt	7,167,000	101,637,000
Dividends on preferred shares	2,840,000	1,243,000
Other	4,313,000	114,000
	148,194,000	158,943,000
INCREASE (DECREASE) IN WORKING CAPITAL	(14,814,000)	6,122,000
WORKING CAPITAL AT BEGINNING OF YEAR	21,080,000	14,958,000
WORKING CAPITAL AT END OF YEAR	$ 6,266,000	$ 21,080,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1981

1. ACCOUNTING POLICIES

The financial statements of Oakwood have been prepared by management in accordance with generally accepted accounting principles in Canada and in accordance with international accounting standards applied on a basis consistent with the preceding year, except for the adoption of the revenue method of depletion as set out in note 1(d) below. Because a precise determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below. Reference is made to note 8 where the method of accounting for Petroleum Incentives Program credits is described.

(a) Consolidation

The consolidated financial statements include the accounts of Oakwood Petroleums Ltd., its wholly owned subsidiary companies, its 97.0% interest in Quasar Petroleum Ltd., and its 63.2% interest in Oakwood International Petroleum N.L. and its wholly owned subsidiary company Oakwood Petroleum Corporation.

Acquisitions of subsidiary companies are accounted for by the purchase method, and accordingly, only earnings or losses from the date of acquisition are included in the consolidated statement of earnings.

The excess of consideration paid for shares of subsidiary companies over the book value of their net assets at date of acquisition is included in property and equipment in the consolidated balance sheet and is amortized on the same basis as such assets.

(b) Long-Term Investments

Oakwood's long-term investment in American Oakwood Energy Ltd. is recorded on the equity basis. Accordingly, the investment includes Oakwood's share of undistributed earnings since acquisition and the consolidated statement of earnings includes Oakwood's share of the earnings. The excess of the consideration paid for the shares over the book value of net assets at date of acquisition has been assigned to property and equipment and is amortized on the same basis as such assets.

(c) Marketable Securities

Oakwood's acquisition of marketable securities is for the purpose of evaluating the possible acquisition of control of certain companies and not for investment purposes. The cost includes capitalized interest, reduced by income derived from the securities during the determination period. If control is not obtained, the security is sold and a gain or loss recognized at that time.

(d) 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, plus estimated future capital costs associated with proved reserves, are accumulated and depleted on a country by country basis (except for frontier areas) using the revenue method based upon estimated proved reserves as determined by Oakwood's and independent consulting engineers. Previously depletion was determined utilizing the unit of production method. This change in the method of accounting increased the net earnings for 1981 by $1,228,000 ($.24 per share).

Costs incurred in frontier areas in which development activities are underway together with related interest costs are capitalized until the economic viability can be determined. If economically successful, costs are depleted using the revenue method; if unsuccessful, costs are charged to earnings when the area is determined uneconomic.

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.

(e) 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%.

(f) Income Taxes

Oakwood follows the tax allocation method of accounting under which the income tax provision is based on earnings reported in the consolidated financial statements. Accordingly, Oakwood makes full provision for income taxes deferred as a result of claiming capital cost allowances and exploration and development costs in excess of the amount provided for depreciation and depletion in the consolidated financial statements.

No deduction for income tax purposes is allowed for interest on Oakwood's income debentures (see note 5) which is included in interest on long-term debt expense in the consolidated statement of earnings.

(g) Foreign Currencies

The accounts of Oakwood which are denominated in foreign currencies and those of its foreign subsidiary companies are translated into Canadian dollars on the following basis:

(i) current assets and liabilities, at the rate of exchange as at the balance sheet date;

(ii) all other assets, liabilities, and depletion and depreciation, at rates prevailing when the assets were acquired or the liabilities incurred;

(iii) revenue and expenses, except depletion and depreciation, at the average rate in effect during the period.

Unrealized gains or losses resulting from such translation practices are capitalized as part of property and equipment and are amortized in accordance with policies outlined in note 1(d) and (e). Realized gains or losses are reflected in earnings.

(h) Deferred Charges

Financing charges related to long-term debt are included in other assets in the consolidated balance sheet and are amortized on a straight-line basis over the term of the related debt.

(i) Earnings Per Common Share

Basic earnings per common share are calculated using the weighted daily average number of common shares outstanding during the year (1981 — 5,188,826; 1980 — 4,907,714) and the net earnings applicable to common shares.

2. ACQUISITION OF SUBSIDIARY COMPANIES

(a) Quasar Petroleum Ltd.

Effective December 1981, Oakwood acquired 97% of the outstanding common shares of Quasar Petroleum Ltd., pursuant to a Stock Exchange Take Over Bid for all of the issued and outstanding common shares, at a cash price of $3.00 per share. The net assets acquired and values assigned thereto are as follows:

	Net Book Value	Adjustment to Fair Value	Cash Consideration
Property and equipment	$ 31,152,000	$47,702,000	$78,854,000
Other assets	3,014,000	—	3,014,000
	34,166,000	47,702,000	81,868,000
Working capital deficiency	3,558,000	—	3,558,000
Other liabilities	42,157,000	—	42,157,000
	45,715,000	—	45,715,000
Net assets (liabilities) acquired	$(11,549,000)	$47,702,000	$36,153,000

Quasar has tax losses and unclaimed costs for tax purposes, the potential tax benefit of which has not been recognized in the above values. At December 31, 1981, such losses and unclaimed costs aggregate $47,300,000 and are available for deduction from future otherwise taxable income at varying rates.

(b) Norlands Petroleums Limited

Effective May 1981, Oakwood acquired all the issued shares of Norlands Petroleums Limited. The net assets acquired and values assigned thereto are as follows:

	Net Book Value	Adjustment to Fair Value	Cash Consideration
Property and equipment	$14,506,000	$(13,597,000)	$ 909,000
Other assets	5,028,000	96,000	5,124,000
	19,534,000	(13,501,000)	6,033,000
Working capital deficiency	13,000	5,000	18,000
Advances from parent company	19,365,000	(19,365,000)	—
	19,378,000	(19,360,000)	18,000
Net assets acquired	$ 156,000	$ 5,859,000	$6,015,000

On acquisition date Norlands had unclaimed costs for tax purposes of $24,700,000, the potential tax benefit of which was not recognized in the above values. On December 28, 1981, Norlands was amalgamated with Oakwood at which time most of the unclaimed costs were utilized resulting in unclaimed costs at December 31, 1981 of $1,600,000 which are available for deduction from future otherwise taxable income at varying rates.

(c) Colony Resources Ltd.

Effective May 1981, Oakwood acquired all the issued shares of Colony Resources Ltd. The net assets acquired and values assigned thereto are as follows:

	Net Book Value	Adjustment to Fair Value	Cash Consideration
Property and equipment	$1,624,000	$3,663,000	$5,287,000
Working capital deficiency	396,000	—	396,000
Other liabilities	482,000	(393,000)	89,000
Deferred income taxes	442,000	—	442,000
	1,320,000	(393,000)	927,000
Net assets acquired	$ 304,000	$4,056,000	$4,360,000

3. LONG-TERM INVESTMENTS

	1981	1980
American Oakwood Energy Ltd.		
Investment	**$ 7,453,000**	$ —
10% Convertible demand note receivable	**5,292,000**	—
11% Note receivable	**7,981,000**	—
Demand notes receivable, interest at Canadian bank prime rate plus ¼% ($7,346,000 U.S.)	**8,828,000**	—
	29,554,000	—
American Eagle Petroleums Ltd.		
Shares, at cost	—	3,066,000
Share of losses since acquisition	—	(842,000)
	$29,554,000	$2,224,000

(a) American Oakwood Energy Ltd.

Pursuant to a Reorganization Agreement effective January 1, 1981, Oakwood acquired 1,401,355 treasury common shares of American Oakwood Energy Ltd., a wholly owned subsidiary of Oakwood, at $.01 each, of which 1,070,679 shares were distributed by way of a dividend in kind to the holders of Oakwood's common shares, 676 were retained by Oakwood, and 330,000 were deposited with a Trustee to be distributed upon conversion or redemption of Oakwood's outstanding first preferred shares, Series A (reference is made to note 6(c)). Oakwood subsequently transferred to American Oakwood, for consideration of $1,000 U.S. and 1 share of American Oakwood, all the issued shares of Oakwood Resources Inc., its wholly owned subsidiary, which had, at January 1, 1981, net assets as follows:

Working capital	$ 749,000
Property and equipment	27,038,000
	27,787,000
Payable to Oakwood Petroleums Ltd.	28,628,000
Capital stock and deficit	$ (841,000)

On September 30, 1981, Oakwood acquired 3,137,635 common shares of American Oakwood for $7,060,000 cash to hold 57.5% of the issued common shares. The acquisition costs exceeded the related net book value of American Oakwood by $6,964,000. Oakwood intends to reduce its ownership of American Oakwood below 50% in 1982 and accordingly, the accounts of American Oakwood are not consolidated, but are recorded on the equity basis as indicated in note 1(b).

Oakwood has indicated that it will not require the repayment of the demand notes receivable until the earlier of 1983 or the completion by American Oakwood of equity and/or alternative debt financing in amounts sufficient to facilitate full repayment of the notes receivable and to sustain American Oakwood operations in 1982.

(b) American Eagle Petroleums Ltd.

In June 1981, Oakwood disposed of 1,000,000 shares of American Eagle, reducing its interest in that company from 42.11% at December 31, 1980 to 12.85%. The carrying value of Oakwood's remaining investment in 1,052,623 shares of American Eagle at December 31, 1981 is included in marketable securities in the consolidated balance sheet.

In January 1982, Oakwood disposed of an additional 906,900 shares of American Eagle for $3,587,000 cash, resulting in an extraordinary gain on disposal of $2,029,000, net of income taxes of $536,000.

4. PROPERTY AND EQUIPMENT

	1981			1980
	Cost	**Accumulated Depletion and Depreciation**	**Net**	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon				
Canada	**$282,535,000**	**$36,371,000**	**$246,164,000**	$147,476,000
United States	**10,480,000**	**2,258,000**	**8,222,000**	35,582,000
Other	**846,000**	**—**	**846,000**	538,000
Other property and equipment	**5,016,000**	**815,000**	**4,201,000**	2,727,000
	$298,877,000	**$39,444,000**	**$259,433,000**	$186,323,000

5. LONG-TERM DEBT

	Interest Rate	Maturity Date	Payment Terms	1981	1980
Oakwood Petroleums Ltd.					
Series A Senior Secured Notes	11⅞%	June 15, 1995	$770,000 June 15, 1984, $1,565,000 semi-annually thereafter, and $1,365,000 June 15, 1995	**$ 35,000,000**	$ 35,000,000
Series B Senior Secured Notes ($55,000,000 U.S.)	10.9%	June 15, 1995	$1,230,000 U.S. June 15, 1984, $2,430,000 U.S. semi-annually thereafter, and $2,740,000 U.S. June 15, 1995	**64,075,000**	64,075,000
Demand investment bank loan	Prime + ¼%			**28,545,000**	—
Demand production bank loan	Prime + ¼%			**76,300,000**	27,500,000
Promissory note	Prime (maximum 23.5%; minimum 17.5%)	September 5, 1983	Payable on or before maturity	**13,536,000**	—
Income debentures	½ Prime + 1¼%	October 1, 1986	$542,000 quarterly commencing January 1981	**10,833,000**	13,000,000
Income debentures	½ Prime + 3%	October 15, 1993	Annual sinking fund payments required 1982 to 1993	**—**	5,000,000
Quasar Petroleum Ltd.					
Demand production bank loan	Prime + ¼%		$180,000 monthly December 1982 to November 1985 and $342,000 monthly December 1985 to November 1990	**25,400,000**	—
Note payable	A U.S. bank prime	January 1, 1983	On maturity	**14,346,000**	—
Other				**328,000**	—
				268,363,000	144,575,000
Less current maturities included in current liabilities				**2,410,000**	2,167,000
				$265,953,000	$142,408,000

The long-term debt is secured by certain petroleum and natural gas properties. The bank loans are also secured by accounts receivable and marketable securities.

The demand investment bank loan was obtained to finance the acquisition of certain marketable securities. Proceeds from any sales of such securities must be applied to this bank loan. The loan is repayable July 1, 1982, but it is anticipated the loan will be refinanced, if necessary, under an enlarged production loan line of credit. The demand production bank loans are repayable out of future production proceeds and are not expected to require the use of existing working capital. As long as estimated future production proceeds continue to exceed Oakwood's production loan lines of credit, determined by the bank in accordance with its usual production loan parameters, there are no repayment requirements other than for the loan to Quasar Petroleum Ltd. Accordingly, no portion of the bank loans has been reclassified to current liabilities; and, except for the Quasar bank loan, no provision has been made for bank loan repayments in the following estimated principal payments on long-term debt in the five years subsequent to 1981: 1982 — $2,410,000; 1983 — $32,282,000; 1984 — $11,089,000; 1985 — $13,485,000; 1986 — $15,164,000.

If the Series B Senior Secured Notes which are payable in U.S. funds had been translated at the rate of exchange as at December 31, 1981, the additional long-term debt liability would have been $1,150,000.

6. CAPITAL STOCK

(a) Authorized

At December 31, 1981, the authorized share capital of Oakwood consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value, issuable in series.

(b) Issued

Changes in the issued capital stock for the years ended December 31, 1981 and 1980 are as follows:

	Common Shares		First Preferred Shares, Series A	
	Number of Shares	**Carrying Value**	**Number of Shares**	**Carrying Value**
Balance December 31, 1979	5,450,011	$10,354,000	—	$ —
Issued for $37,500,000 cash, less expenses of issue, net of income tax reduction of $1,037,000			1,500,000	36,338,000
Issued for cash pursuant to share option agreements	152,700	923,000		
Cancelled on liquidation of wholly owned subsidiary company	(595,334)	(685,000)		
	(442,634)	238,000	1,500,000	36,338,000
Balance December 31, 1980	5,007,377	10,592,000	1,500,000	36,338,000
Issued pursuant to share purchase plan (see note 6(d))	**165,000**	**2,748,000**		
Issued for cash pursuant to share option agreements	**50,400**	**246,000**		
Issued on conversion of preferred shares	**15,521**	**342,000**	**(14,110)**	**(342,000)**
	230,921	**3,336,000**	**(14,110)**	**(342,000)**
Balance December 31, 1981	**5,238,298**	**$13,928,000**	**1,485,890**	**$35,996,000**

(c) Cumulative Redeemable Convertible First Preferred Shares, Series A

Redemption

The shares are not redeemable prior to September 2, 1985, unless the weighted average price at which the common shares have traded for twenty consecutive days on The Toronto Stock Exchange ending on the fifteenth trading day preceding the call for redemption is at least 125% of the conversion price, in which case the shares will be redeemable at $26.90. Commencing September 2, 1985, the shares are redeemable at $25.75, reducing annually by $0.25 to $25.00 at September 2, 1988 and thereafter, plus in each case accrued and unpaid dividends to the date of redemption. In May 1981, the terms of the shares were amended to provide that upon redemption the holder is also entitled to receive .22 of an American Oakwood Energy Ltd. common share for each share redeemed.

Conversion

The shares are convertible into common shares at the option of the holder at a conversion price of $22.73 per common share prior to September 2, 1984 and $25.00 thereafter to September 1, 1988. In May 1981, the terms of the shares were amended to provide that upon conversion the holder is also entitled to receive .22 of an American Oakwood Energy Ltd. common share for each share converted.

Purchase Obligation

In each calendar quarter, commencing January 1, 1989, Oakwood is obligated to purchase 1% of the shares outstanding on the record date established for the payment of the September 1, 1988 dividend, at a price not exceeding $25.00 per share plus costs of purchase, such obligation to carry over to succeeding calendar quarters in the same calendar year.

(d) Share Purchase Plan

In 1981, a share purchase plan was established under which key executive personnel were granted loans by Oakwood to acquire shares of Oakwood:

Price	Number of Shares	Loan Amount
$16.20	150,000	$2,430,000
17.78	5,000	89,000
22.83	10,000	229,000
	165,000	$2,748,000

At December 31, 1981, the loans, which are included in other assets in the consolidated balance sheet, were secured by non-interest bearing promissory notes payable in eight equal annual instalments commencing one year after the loans were granted. The shares were held in trust pending payment.

In January 1982, the participating executives elected to withdraw from the share purchase plan and the related notes were cancelled. Share options to acquire 55,000 common shares at $12.38 per share and 110,000 common shares at $11.03 per share with an expiry date of December 31, 1986, were granted to those executives.

(e) Common Shares Reserved

As at December 31, 1981, 1,785,479 common shares are reserved for issue, including 1,634,479 shares to be issued on conversion of the outstanding first preferred shares, Series A and 151,000 shares to be issued on exercise of outstanding share options granted to directors, officers and employees. In January 1982, all the outstanding share options, which had exercise prices and expiry dates ranging from $12.49 to $16.54 and November 1984 to November 1986 respectively, were cancelled and replaced with options having an exercise price of $11.03 and an expiry date of December 31, 1986.

(f) Dividend Restriction

Payment of dividends on common shares is subject to approval by the holders of certain of Oakwood's long-term debt.

7. INTEREST ON LONG-TERM DEBT

In accordance with Oakwood's accounting policies, $5,127,000 of interest was capitalized in 1981 on marketable securities, frontier properties and long-term investments.

8. CORPORATE TAXES

(a) National Energy Program

The National Energy Program (NEP) of the Government of Canada has provided that commencing in 1981, companies with stipulated Canadian ownership would receive Petroleum Incentives Program credits (PIP) based on approved expenditures on petroleum and national gas exploration and development. Concurrently, the Government levied the Petroleum and Natural Gas Revenue Tax (PGRT) on revenues. As announced by the Government, PGRT would be used to fund PIP and payments of PGRT could be offset against PIP earned.

The Canadian Institute of Chartered Accountants (CICA) has stated that PIP is a form of government grant and accordingly should be treated as a reduction of the expenditure incurred. If such expenditure was included in property and equipment, the CICA recommended treatment would result in the reduction of property and equipment.

Oakwood and certain other companies in the petroleum and natural gas industry are of the opinion that PGRT should be netted against PIP with any excess PIP reducing property and equipment. This position is taken because of the Government's announced intention relative to the handling of PIP and PGRT under the NEP.

These financial statements have been prepared in accordance with the CICA recommendation. If Oakwood had followed the position outlined in the preceding paragraph, 1981 consolidated net earnings would be increased by $2,014,000 ($.39 per common share), as follows:

	1981		1980
	Restated	**Reported**	Reported
Revenue	**$54,917,000**	**$54,917,000**	$38,370,000
Expenses	**36,567,000**	**36,567,000**	31,824,000
	18,350,000	**18,350,000**	6,546,000
Corporate taxes			
Current income taxes	**469,000**	**469,000**	384,000
Deferred income taxes	**12,717,000**	**10,797,000**	3,786,000
PGRT	**4,767,000**	**4,767,000**	—
Provincial royalty tax credit	**(1,340,000)**	**(1,340,000)**	(1,000,000)
PIP	**(3,934,000)**	—	—
	12,679,000	**14,693,000**	3,170,000
Earnings before extraordinary items	**5,671,000**	**3,657,000**	3,376,000
Extraordinary items	**13,806,000**	**13,806,000**	2,466,000
Net earnings	**19,477,000**	**17,463,000**	5,842,000
Provision for dividends on preferred shares	**2,838,000**	**2,838,000**	1,481,000
Net earnings applicable to common shares	**$16,639,000**	**$14,625,000**	$4,361,000
Net earnings per common share			
Earnings before extraordinary items	**$ .55**	**$ .16**	$ .39
Net earnings	**$3.21**	**$2.82**	$ .89

(b) Income Taxes

The effective income tax rate varies from the rate that would be computed by applying the statutory Canadian Federal and Provincial, United States and Australian income tax rates, as follows:

	1981		1980	
	Amount	**% of Pre-Tax Earnings**	Amount	% of Pre-Tax Earnings
Computed income tax expense	**$ 9,047,000**	**49.3**	$3,295,000	50.3
Increase (decrease) in income taxes resulting from:				
Non-deductible provincial royalties and rentals, net of provincial rebates	**10,048,000**	**54.8**	7,369,000	112.6
Federal resource allowance	**(7,118,000)**	**(38.8)**	(5,333,000)	(81.5)
Depletion allowance	**(1,033,000)**	**(5.6)**	(1,296,000)	(19.8)
Income debenture interest	**926,000**	**5.0**	793,000	12.1
Other	**(604,000)**	**(3.3)**	(658,000)	(10.0)
Income tax expense	**$11,266,000**	**61.4**	$4,170,000	63.7

9. EXTRAORDINARY ITEMS

	1981	1980
Adjustment to consolidated earnings on disposal of a subsidiary company (see note 3(a))	**$ 841,000**	$ —
Gain on sale of shares of American Eagle Petroleums Ltd., net of income taxes of $473,000 related thereto (see note 3(b))	**1,905,000**	—
Loss on disposal of marketable securities, net of income tax recovery of $196,000 related thereto	**(340,000)**	—
Income tax reduction on utilization of tax deductions of acquired subsidiary company (see note 2(b))	**11,400,000**	—
Gain on issue of shares and options by subsidiary company	**—**	2,466,000
	$13,806,000	$2,466,000

10. BUSINESS SEGMENTS

The Company is engaged in one industry segment, oil and gas exploration, development and production. Geographic segment information for the years ended December 31, 1981 and December 31, 1980 is as follows:

	1981			
	Canada	**United States**	**Other**	**Consolidated**
Gross revenue				
Sale of oil and gas	$ 45,100,000	$ 1,391,000	$ —	$ 46,491,000
Operating profit	$ 32,508,000	$ 363,000	$ (189,000)	$ 32,682,000
Interest and other revenue				8,426,000
General and administrative expense				(3,837,000)
Interest expense				(18,921,000)
Extraordinary items				13,806,000
Corporate taxes				(14,693,000)
Net earnings				$ 17,463,000
Identifiable assets	$274,773,000	$ 9,546,000	$ 9,442,000	$293,761,000
Marketable securities				46,543,000
Long-term investments				29,554,000
Total assets				$369,858,000

	1980			
	Canada	United States	Other	Consolidated
Gross revenue				
Sale of oil and gas	$ 33,836,000	$ 2,154,000	$ —	$ 35,990,000
Operating profit	$ 22,724,000	$ 528,000	$ —	$ 23,252,000
Interest and other revenue				2,380,000
General and administrative expense				(2,740,000)
Interest expense				(16,346,000)
Extraordinary items				2,466,000
Corporate taxes				(3,170,000)
Net earnings				$ 5,842,000
Identifiable assets	$176,645,000	$39,135,000	$10,060,000	$225,840,000
Long-term investments				2,224,000
Total assets				$228,064,000

11. RELATED PARTY TRANSACTIONS

In 1981, Oakwood charged American Oakwood Energy Ltd. and American Eagle Petroleums Ltd. $215,000 and $60,000 respectively for recovery of general and administrative costs and charged American Oakwood $5,140,000 interest on advances.

Certain employees of Oakwood have the right to participate in Oakwood's exploration projects through a 5% net profits interest in the projects after payout.

12. SUBSEQUENT EVENTS

In February 1982, Oakwood entered into a program of purchasing, through the facilities of The Toronto Stock Exchange, up to but not more than 5% in any thirty day period of the issued and outstanding common shares of Oakwood during the twelve months ending February 5, 1983. To March 31, 1982, Oakwood has acquired and cancelled 194,500 common shares for consideration of $1,817,000.

In February 1982, Oakwood became contingently liable under a guarantee of a bank loan of $3,000,000 (U.S.) to American Oakwood Energy Ltd.

AUDITORS' REPORT

To the Shareholders of
Oakwood Petroleums Ltd.

We have examined the consolidated balance sheet of Oakwood Petroleums Ltd. as at December 31, 1981 and the consolidated statements of earnings, retained earnings (deficit) 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, 1981 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 depletion as described in note 1(d), on a basis consistent with that of the preceding year.

Calgary, Canada
April 8, 1982

Thorne Riddell
Chartered Accountants

CORPORATE INFORMATION

DIRECTORS

DALLAS E. HAWKINS II, Calgary, Alberta
Chairman of the Board of the Company

* BRIAN S. EKSTROM, Calgary, Alberta
President of the Company
President of Brian Ekstrom Management Ltd.

KENNETH W. GERMOND, Calgary, Alberta
Executive Vice-President of the Company

* R. ROSS HAMILTON, Calgary, Alberta
President of Scoteire Exploration Ltd.

RICHARD D. JENSEN, Dallas, Texas, U.S.A.
President of American Oakwood Energy Ltd.

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

* EDWARD G. McMULLAN, Calgary, Alberta
President of E. G. McMullan Ltd.

GEORGE OUGHTRED, Calgary, Alberta
Chairman of the Board of Commercial Oil and Gas Ltd.

* audit committee

OFFICERS

DALLAS E. HAWKINS II, Chairman of the Board

BRIAN S. EKSTROM, President

KENNETH W. GERMOND, Executive Vice-President

D. NOLAN BLADES, Vice-President, Production and Operations

ANDY J. BLASHYN, Vice-President, Exploration

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

CURT W. BROWN, Vice-President, Finance

BRIAN G. McCombe, Secretary

SENIOR PERSONNEL

KENNETH W. CHERYBA, Operations Manager

WAYNE R. COOPER, Office Manager

KENNETH A. MORRISON, Land Manager

JOHN M. PARTRIDGE, Controller

JACK W. SENAKOVICZ, Information Systems Manager

ROBERT M. STUART, Geophysical Manager

HARRY G. YOUNG, Geological Manager

OAKWOOD PETROLEUMS LTD.

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Calgary, Alberta T2P 3H2

SUBSIDIARY COMPANIES
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FLAMINGO OILS LIMITED
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OAKWOOD PETROLEUMS ITALIANA S.p.A.
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OAKWOOD INTERNATIONAL
PETROLEUM N.L.
OAKWOOD PETROLEUM CORPORATION
OAKWOOD RESOURCES (U.K.) LIMITED

AMERICAN OAKWOOD ENERGY LTD.
OAKWOOD RESOURCES INC.

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The Alberta Stock Exchange

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Calgary, Alberta

Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois and Toronto, Ontario

AUDITORS
Thorne Riddell, Calgary, Alberta

REGISTRAR
The Canada Trust Company, Calgary, Alberta

TRANSFER AGENTS
The Canada Trust Company
Calgary, Alberta and Toronto, Ontario

Bank of Bermuda Limited, Hamilton, Bermuda

Notice of change of address should be sent to the Transfer Agent.

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