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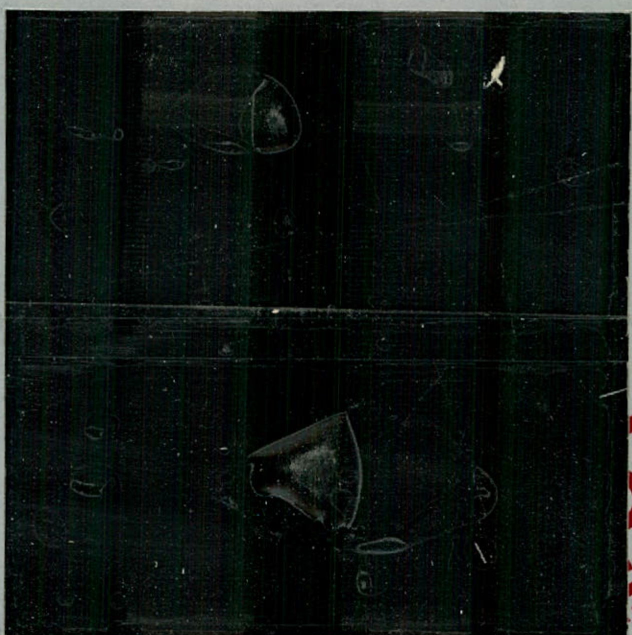
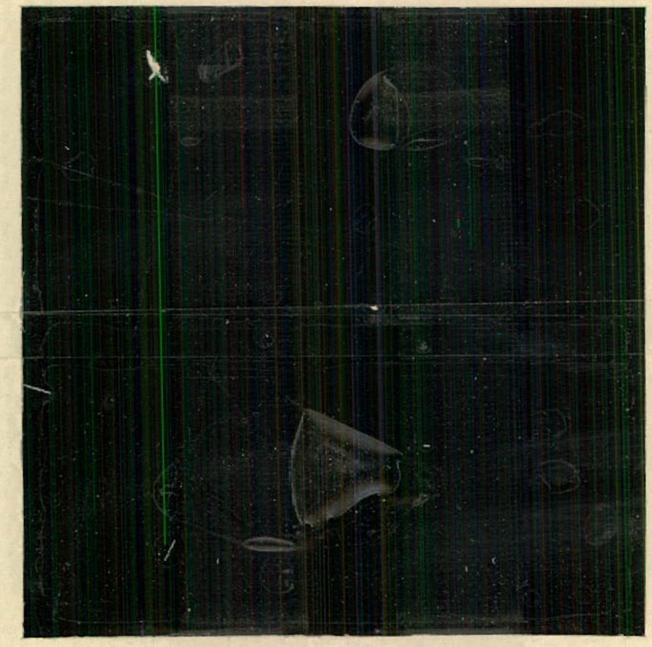


OAK '79
ANNUAL REPORT

## OAKWOOD PETROLEUMS LTD.

Incorporated under the laws of Canada on November 28, 1925 and continued under the Canada Business Corporations Act July 17, 1978. The Company is authorized to issue an unlimited number of common shares of which 4,854,677 shares are issued and outstanding. The Company is also authorized to issue an unlimited number of preferred shares none of which has been issued to this date.



## ANNUAL MEETING OF SHAREHOLDERS

Annual General Meeting of Shareholders of Oakwood Petroleums Ltd. will be held in the Jasper Suite of the Calgary Inn in the City of Calgary, Alberta at the hour of 10:00 A.M. Local Time June 17, 1980. A formal Notice of Meeting of Shareholders together with an instrument of Proxy and Information Circular is being mailed to the shareholders concurrently.

# OAKWOOD '79 ANNUAL REPORT

# OAKWOOD PETROLEUMS LTD.

## DIRECTORS

DALLAS E. HAWKINS II,
Spokane, Washington, U.S.A.
Chairman of the Board and
President of the Company
Chairman of the Board of
American Eagle Petroleums Ltd.

*BRIAN S. EKSTROM,
Calgary, Alberta
Vice-President of the Company
Treasurer of American Eagle
Petroleums Ltd.
President of Brian Ekstrom
Management Ltd.

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

*R. ROSS HAMILTON,
Calgary, Alberta
President of Great Basins
Petroleum Co.
President of Scoteire
Exploration Ltd.

RICHARD D. JENSEN,
Calgary, Alberta
Executive Vice-President
of the Company

GERHARD KASDORF,
Calgary, Alberta
Vice-President of the Company
and President of
American Eagle Petroleums Ltd.

BRIAN G. McCOMBE,
Calgary, Alberta
Partner, McCombe Cameron

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

GEORGE OUGHTRED,
Calgary, Alberta
President of Commercial Oil and
Gas Ltd.

*audit committee

## OFFICERS

DALLAS E. HAWKINS II,
Chairman of the Board and
President

RICHARD D. JENSEN,
Executive Vice-President

BRIAN S. EKSTROM,
Vice-President, Finance

KENNETH W. GERMOND,
Vice-President, Exploration

GERHARD KASDORF,
Vice-President, Production
and Operations

BRIAN G. McCOMBE,
Secretary

## SENIOR PERSONNEL

WAYNE R. COOPER
Office Manager

DONALD A. McQUAIG
Field Supervisor

JOHN M. PARTRIDGE
Controller

RUSSELL W. RIES
Operations Manager

G. JACK ROMANOSKI
Land Manager

HEAD OFFICE
2700 Shell Centre
400 - 4th Avenue S.W.
Calgary, Alberta T2P 0J4

## SUBSIDIARY COMPANIES

OAKWOOD INTERNATIONAL
PETROLEUM N.L.
OAKWOOD PETROLEUM
CORPORATION
OAKWOOD PETROLEUMS
(IRELAND) LTD.
OAKWOOD PETROLEUMS
ITALIANA S.P.A.

OAKWOOD RESOURCES LTD.
OAKWOOD RESOURCES, INC.
HURON RESOURCES
MANAGEMENT LTD.

BAYVIEW OIL & GAS LTD.
BUENO OILS LTD.
FLAMINGO OILS LIMITED (N.P.L.)

AMERICAN EAGLE PETROLEUMS
LTD.
AMERICAN EAGLE PETROLEUMS,
INC.
GULL OIL & GAS LTD.

BASSET OIL LTD.*
CORONADO CONSULTANTS
LTD.*
LOCHABER OIL CORPORATION
LTD.*
MARWOOD PETROLEUM LTD.*
ORIENT INVESTMENTS LTD.*

SHARES LISTED
The Toronto Stock Exchange

BANKERS
The Bank of Montreal
Calgary, Alberta
Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois and
Toronto, Ontario

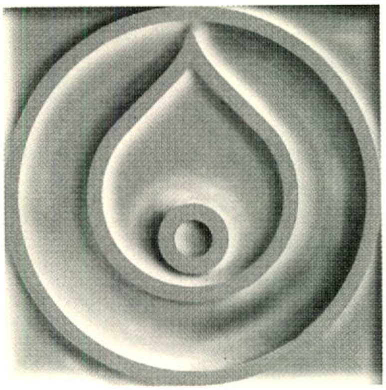
AUDITORS
Thorne Riddell
Calgary, Alberta

REGISTRAR
Canada Trust Company,
Calgary, Alberta

TRANSFER AGENTS
Canada Trust Company,
Calgary, Alberta
and Toronto, Ontario
Bank of Bermuda Limited,
Hamilton, Bermuda

* now in voluntary liquidation

# HIGHLIGHTS 1979



## PRODUCTION STATISTICS

| | 1979 | 1978 | 1977 | 1976 | 1975 |
|---|---|---|---|---|---|
| Crude Oil and Natural Gas Liquids (bbls) | | | | | |
| — gross | **1,480,182** | 323,000 | 230,454 | 204,345 | 161,182 |
| — net | **954,364** | 171,190 | 182,059 | 161,433 | 127,334 |
| Daily Average (bbls) | | | | | |
| — gross | **4,055** | 885 | 631 | 560 | 442 |
| — net | **2,615** | 469 | 499 | 442 | 349 |
| Natural Gas (mmcf) | | | | | |
| — gross | **5,307** | 3,080 | 3,034 | 1,907 | 1,318 |
| — net | **3,724** | 1,848 | 2,002 | 1,259 | 870 |
| Daily Average (mmcf) | | | | | |
| — gross | **14.5** | 8.4 | 8.3 | 5.2 | 3.6 |
| — net | **10.8** | 5.1 | 5.5 | 3.4 | 2.4 |
| **SALES & EARNINGS (000's $)** | | | | | |
| Crude Oil & Natural Gas Sales | **$18,590** | $6,018 | $4,411 | $2,595 | $1,429 |
| Funds provided by | | | | | |
| Operations | **8,445** | 3,334 | 2,011 | 994 | 655 |
| Per Share | **$1.74** | .69 | .44 | .23 | .18 |
| Earnings (Loss) | | | | | |
| for the year | **(2,069)** | 934 | 557 | 73 | (101) |
| Per Share | **(.43)** | .20 | .12 | .02 | (.03) |
| **LAND HOLDINGS** | | | | | |
| Oil & Gas Lease & Permit Acres | | | | | |
| Gross acres | **8,407,524** | 8,442,443 | 2,350,069 | 1,265,318 | 1,042,102 |
| Net acres | **1,180,677** | 1,140,267 | 303,859 | 221,048 | 163,053 |
| Mining Claims & Exploration | | | | | |
| Gross acres | **28,638** | 9,416 | 9,416 | 66,664 | 65,898 |
| Net acres | **3,172** | 787 | 787 | 6,666 | 6,451 |
| **NET RESERVES** | | | | | |
| Oil and Condensate, Barrels | | | | | |
| Proven | ***26,064,163** | 2,981,998 | 1,688,000 | 1,640,000 | 1,016,000 |
| Probable | **185,954** | 68,272 | 742,000 | 695,000 | 320,000 |
| TOTAL | **26,250,117** | 3,050,270 | 2,430,000 | 2,335,000 | 1,336,000 |
| Natural Gas, mmcf — proven and probable | **160,612** | 127,978 | 59,255 | 44,596 | 28,490 |
| Indicated Sandhills Gas Reserves, mmcf (net of royalty) | **138,000** | 103,000 | 103,000 | 103,000 | 103,000 |

*Reserves as at July 1, 1979

# CHAIRMAN'S REPORT TO THE SHAREHOLDERS

In keeping with management's growth policy, 1979 was an outstanding year for your Company. While we are proud of our largest and most successful exploration and development program ever, the majority of our growth was achieved through the acquisition of Basset Oil Ltd. which added over 22 million (net of royalty) barrels of oil to our reserve inventory. This purchase combined with those concluded in the recent past has given Oakwood the facility to mount and maintain a dual emphasis on both exploration and acquisition programs.

Excluding consultants, Oakwood Petroleums Ltd. now has a total complement of 58 employees all of whom are dedicated to the task of finding and managing energy resources in Canada and abroad. This growth in our staff from 31 last year and 15 just two years ago, more than any other statistic serves to demonstrate our continuing growth in size, diversity and ability. We are confident that our depth in personnel combined with our continued enhancement of cash flow will make possible our aspirations for additional growth in 1980 and beyond.

This year Oakwood generated a cash flow of nearly $8.5 million from total revenues of approximately $ 19.5 million. Despite these new records in revenue and cash flow, we sustained an earnings loss of over $2 million. While this downturn is not expected to reoccur, our 1979 performance can be attributed to unusually high interest rates and substantial provisions for deferred taxes and depletion. We have no control over the required depletion and deferred tax allocation but we have taken remedial measures with respect to interest charges. As stated in the financial section, your management consummated a long term favourable fixed rate loan in January of this year. This facility funded in both Canadian and U.S. dollars bears interest at just over 11%. In contrast to the maximum interest rates which were common place just weeks ago, this borrowing arrangement could theoretically save $7 million in interest charges over the ensuing year. We are, of course, unable to predict future interest rates on bank borrowings and are therefore unable to forecast actual savings. We are, however, confident that this fixed rate facility will serve us well over its 16½ year term.

As reported in previous years, your Company has been involved in seismic evaluation work in various locations throughout the world. For the most part, results of this work are encouraging. Drilling is slated to commence in late 1980 on our Australian lands.

A new subsidiary, Oakwood International Petroleum N.L., has been formed. This company incorporated in New South Wales, Australia, will enter into an underwriting agreement in Australia for the purpose of selling approximately one-third of its issued capital to the Australian public. It is anticipated that sale of these shares will raise Australian $6 million, largely for use in Australia. Oakwood International will be our vehicle for future world-wide exploration, excluding Canada and the United States.

As a condition of the underwriting, your Company's management has agreed to transfer to Oakwood International all of the issued shares of Oakwood Petroleum Corporation, our U.S. subsidiary, together with Oakwood's interest in the Australian, Seychelles and German North Sea permit areas. Ongoing North American activity will, of course, continue in Canada as in the past. We have also incorporated a new U.S. subsidiary, Oakwood Resources Inc., which will handle all future activity in that country.

Although there are as yet unresolved pricing problems between various jurisdictions in Canada, we are assuming that the national objective of energy self sufficiency will ultimately prevail, thus resulting in a pricing formula which will continue to encourage development and ownership of Canadian energy resources.

Failure to resolve this seemingly perpetual problem will only serve to further frustrate sensible exploration and development decisions thereby delaying Canada's return to energy self sufficiency.

It will be noted that this year's slate of directors does not include Mr. Jack Wahl who has recently taken up residency outside of Canada and has resigned from the Oakwood Board of Directors. We shall always be grateful for the outstanding contributions made by Mr. Wahl to Oakwood and we wish to extend to him our very best wishes in his new surroundings. We also extend our continued thanks to our shareholders for their confidence both in Oakwood and its dedicated employees.

Dallas E. Hawkins

DALLAS E. HAWKINS II
President & Chairman

# EXECUTIVE VICE PRESIDENT'S REPORT

The corporate strategy of Oakwood Petroleums Ltd. can best be illustrated by the achievements realized during the year under review. While we continue to broaden our efforts to include a strong emphasis on exploration, this growth has been made possible through an acquisition program which will continue to be employed as a means of developing financial flexibility and exploration ability.

We propose to direct a substantial portion of anticipated cash flow to exploration areas of interest in Canada and the United States. Accordingly, we are obliged to evaluate and purchase undeveloped acreage when it becomes available. Mounting land costs coupled with continued escalations in drilling costs demand more than ever, the development of revenue at the lowest possible cost. There is little doubt that our ability to realize these, our exploration aspirations, have been, and will be largely dependent on our acquisition and financing capabilities.

In March 1979, your Company concluded the second stage of the Shenandoah Oil Corporation asset purchase. This acquisition for an aggregate consideration of $47 million (Oakwood's share $23.5 million) was shared by two other Canadian companies and was first initiated in 1978. The acquired interests included various oil and gas properties located in British Columbia, Alberta, Saskatchewan, and Ontario. Completion of the transaction added net land holdings to Oakwood of 65,000 net acres under some 761,000 gross acres largely located in Alberta and British Columbia. Simultaneously Oakwood's reserves net after royalty were increased by 46.8 billion cubic feet of gas and 181,000 barrels of liquid hydrocarbons.

In June 1979, Oakwood agreed to purchase all of the issued shares of Basset Oil Ltd. for $80 million and various adjustments. With initial financing arranged by way of a bank loan, the transaction was closed in July, 1979.

This acquisition resulted in your Company obtaining interests in some 68 oil and service wells located in the Grand Forks area of Southeastern Alberta, having net after royalty reserves of 22.4 million barrels. Gas reserves of approximately 14.4 billion cubic feet were acquired in the transaction and were subsequently sold for $9.2 million. Initial gross production levels of approximately 4,000 barrels per day have now been enhanced to some 6,500 barrels per day and further improvement is contemplated upon the completion of wells subsequently drilled, and the installation of improved production facilities. Bow River Pipe Lines Ltd. has increased its crude oil handling capacity to accommodate the increased production expected to occur throughout the balance of 1980 and beyond.

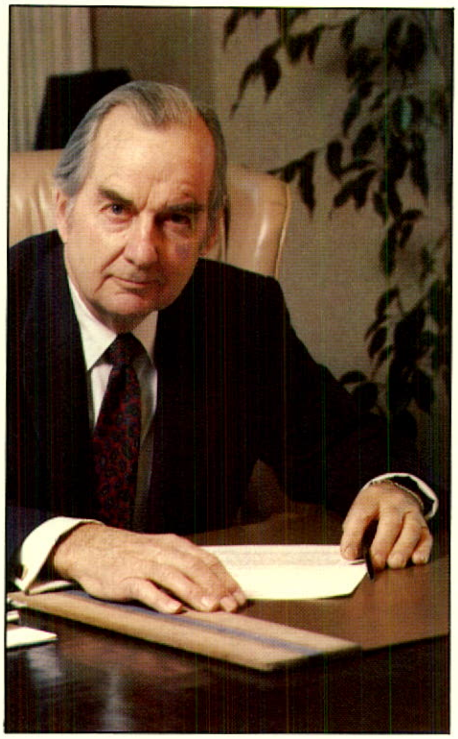
In July 1979, Sundance Oil Canada Ltd. agreed to sell a 90% net profits interest previously acquired from Oakwood in early 1978. This original purchase highlighted in our 1977 annual report, included all of the Western Canadian producing and non-producing properties of The Consumers' Gas Company. In order to finance the original purchase, which totalled $20.1 million, Oakwood sold to Sundance a net profits interest on all acquired properties for approximately $ 18 million. As a result of the repurchase consummated this past summer for $ 14.5 million, Oakwood now has full ownership of all producing properties but still remains a 10% co-venturer in the undeveloped acreage originally acquired from The Consumers' Gas Company. Purchase of the net profits interest, did however, add net reserves after royalty of 77 thousand barrels and 22.8 billion cubic feet of natural gas.

In summation, the foregoing major acquisitions of 1979 added net reserves of 22.7 million barrels and 69.6 billion cubic feet of gas to Oakwood's reserve inventory. The transactions enumerated above include a wide mix of asset and stock purchases. They include undeveloped acreage as well as producing properties and in some instances shutin gas properties were obtained in the respective packages. Accordingly, it would be imprudent to attempt a rigorous cost analysis relative to the reserves acquired. We are, however, generally satisfied that our net cost is in the order of $3 per net barrel equivalent, well in keeping with traditional finding costs, common place and escalating at a perilous rate throughout Western Canada.

In our view, our acquisition philosophy combined with our ability to finance has and should continue to play a dominant role in establishing new reserves and cash flow for your Company.

RICHARD D. JENSEN
Executive Vice President

# EXPLORATION & LAND



For the past two years, Oakwood has conducted its exploration drilling in Canada utilizing a drilling fund as its vehicle, serving as the General Partner in a Limited Partnership arrangement. Both years are considered to have been successful ventures for all the partners involved. In 1979, Drilling Fund No. Three was involved in the drilling of 24 exploratory holes, eleven of which were completed as potential gas wells. This compares with the 1978 Fund No. One which participated in 18 gross wells, eight of which were successful. Drilling Fund No. Two, aligned with Fund No. One, participated in 1979 in the successful completion of seven development wells at Alderson. Oakwood's management decided that the Company would explore in 1980 as a single entity, so as to analyze the economic benefits through comparison.

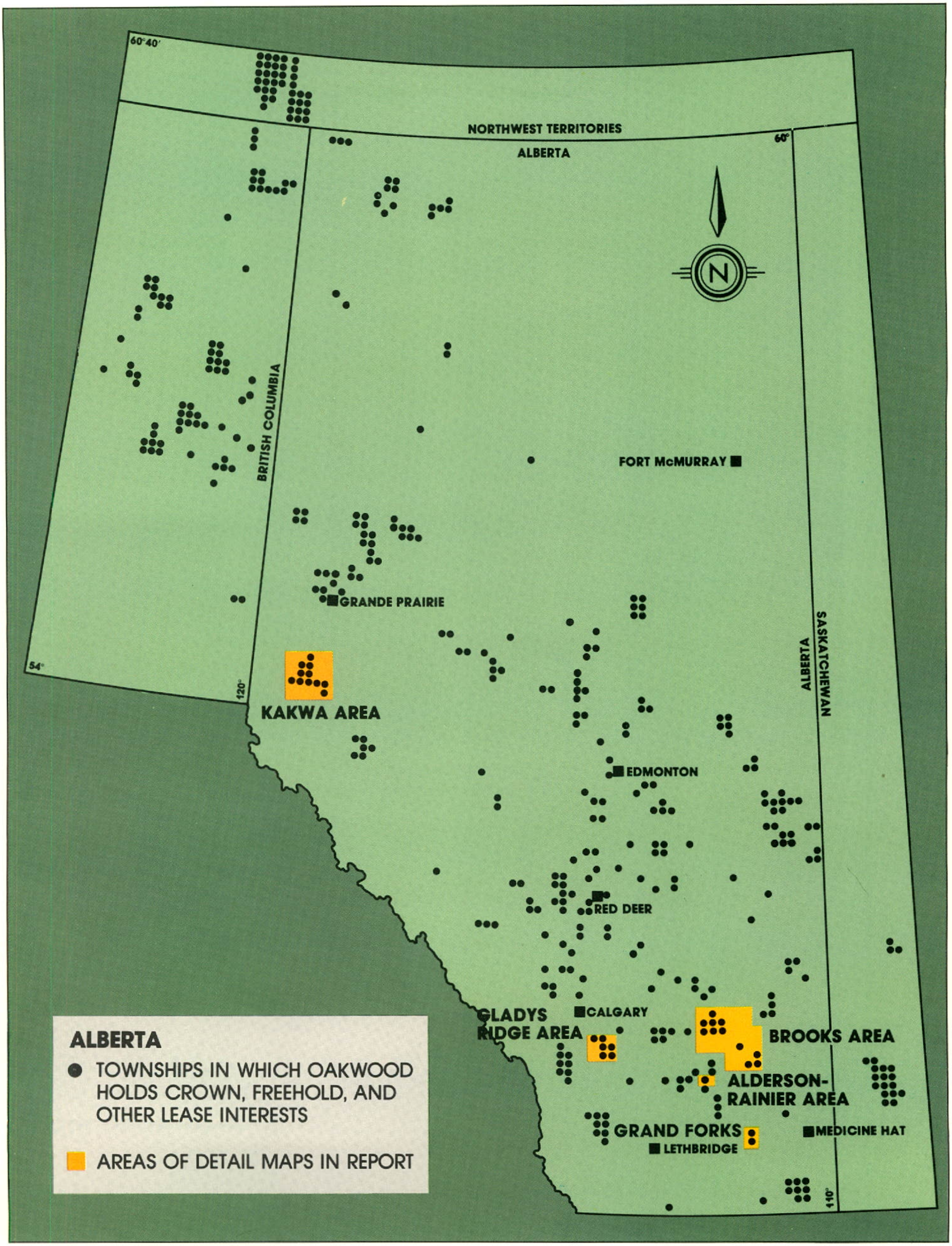
The Company was highly selective as to the areas of emphasis for both exploration and development drilling during the year. Economics dictate that further exploitation in gas prone areas having no foreseeable market is prohibitive unless there are lease expiry problems such as at Kakwa. Two areas of emphasis in 1978 were at Sexsmith and Clairmont in Western Alberta. No further work was carried out in 1979 and no work is programmed for 1980. At Island River-Trout Lake, Northwest Territories, exploration work in 1979 amounted to only planning for a probable exploratory drilling program in the 1980-1981 winter season.

## LAND ACTIVITIES

Acquisition of Petroleum and Natural Gas Acreage via the vehicle of competitive bidding at Governmental sales was given emphasis during the year. The Company participated in some 38 sales in Alberta and British Columbia, partnering with both major and independent companies. Successful tenders were made on 47,321 gross acres of P&NG rights (18,800 hectares) resulting in a net increase to the Company's acreage portfolio of 6815 acres (2726 hectares). This represented a ten-fold increase in the Company's involvement in this mode of land acquisition and set a trend being carried forth in the current year.

The Company continues to be aggressive in its pursuit of joint venture participation through farm-in and has maintained a willingness to pursue this posture in its exploration philosophy resulting in company involvement in several highly potential areas in Alberta and British Columbia.

As is evident from the property distribution plat depicting the Company's principle holdings, Oakwood's land inventory encompasses representation in ever-increasing areas and in areas of ever-increasing industry interest.

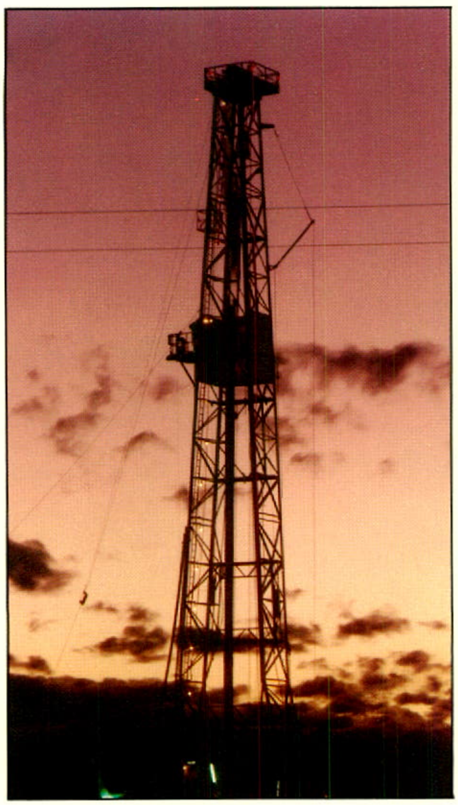

60°40′
NORTHWEST TERRITORIES
ALBERTA
60°
N
BRITISH COLUMBIA
FORT McMURRAY
GRANDE PRAIRIE
54°
120°
KAKWA AREA
ALBERTA
SASKATCHEWAN
EDMONTON
RED DEER
GLADYS RIDGE AREA
CALGARY
BROOKS AREA
ALDERSON-RAINIER AREA
GRAND FORKS
LETHBRIDGE
MEDICINE HAT
110°
ALBERTA
TOWNSHIPS IN WHICH OAKWOOD HOLDS CROWN, FREEHOLD, AND OTHER LEASE INTERESTS
AREAS OF DETAIL MAPS IN REPORT

## OAKWOOD PETROLEUMS LTD., AND SUBSIDIARIES, OIL AND GAS RIGHTS HELD AT JANUARY 1, 1980

| | GROSS ACRES | NET ACRES |
|---|---|---|
| CANADA | | |
| Alberta | 1,145,637 | 149,096 |
| Saskatchewan | 279,082 | 71,324 |
| British Columbia | 213,806 | 23,797 |
| Manitoba | 480 | 60 |
| Northwest Territories | 756,350 | 128,124 |
| Yukon | 37,696 | 1,571 |
| Ontario | 7,396 | 2,980 |
| | 2,440,447 | 376,952 |
| UNITED STATES | | |
| Montana | 85,939 | 5,667 |
| Texas | 28,383 | 2,975 |
| Kansas | 4,852 | 303 |
| California | 955 | 527 |
| Kentucky | 1,033 | 258* |
| | 121,162 | 9,730 |
| FOREIGN | | |
| German North Sea | 98,842 | 2,111 |
| Seychelles Islands | 847,073 | 105,884 |
| Western Australia | 4,900,000 | 686,000 |
| | 5,845,915 | 793,995 |
| Total | 8,407,524 | 1,180,677 |

As of January 18, 1980 the Company acquired 753,404 gross (18,246 net) acres offshore Labrador in the Hopedale area.

* In addition to the above interests, the Company has an overriding royalty interest in 15,130 gross acres in Kentucky.

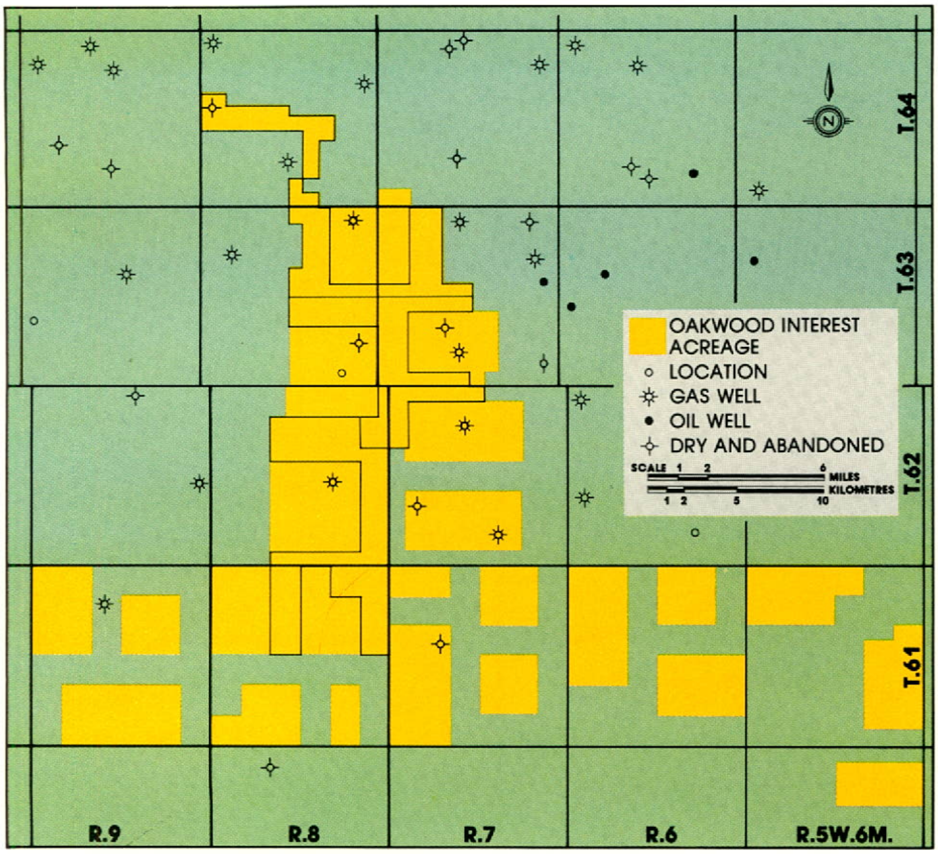


## KAKWA AREA

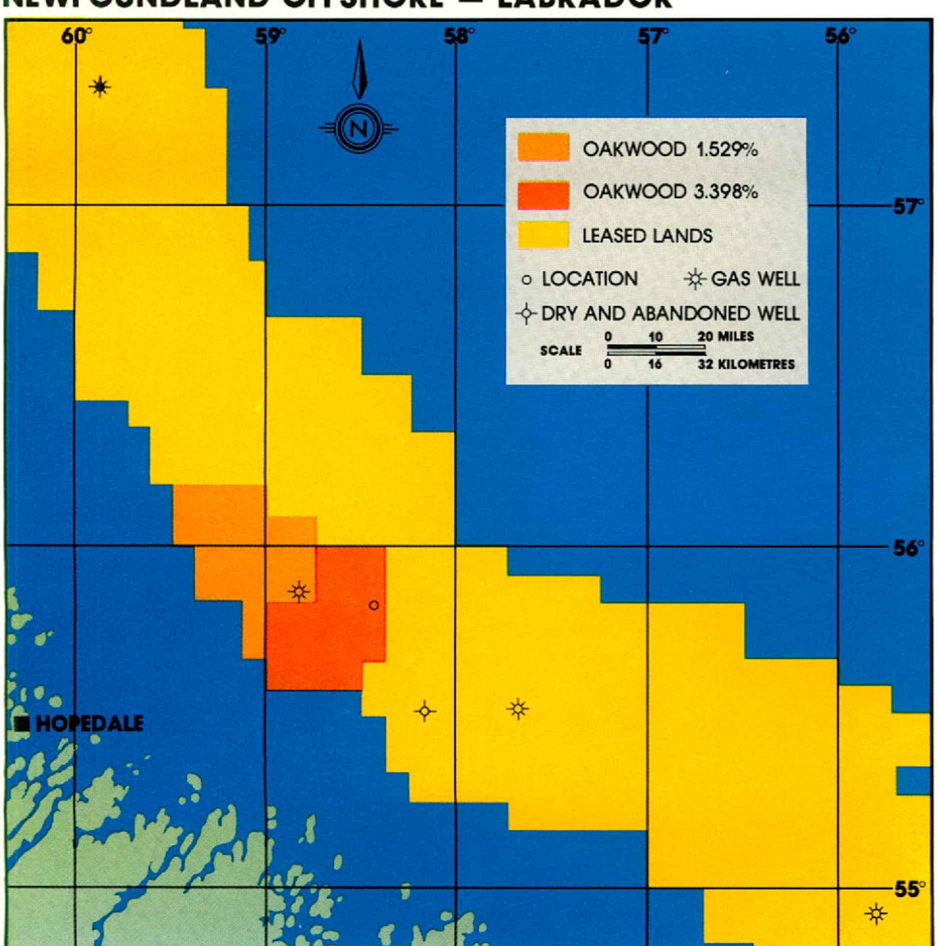
The exploratory drilling program carried out across the Kakwa acreage spread met with considerable success. The previously reported 3418 metre abandonment was followed by the completion of five successful gas wells, each located on different leases in the north two thirds of the block. During the drilling of these wells, The Company participated in the acquisition of three contiguous Petroleum and Natural Gas licences generally occupying the corridors between the various lease blocks upon which have been drilled the five gas wells. These acquisitions required the Company to spend $490,000 to acquire its 2.5% interest under 27,680 acres at an average cost of $708 per acre. The Company now has a lease interest under 114,000 acres within ten contiguous townships.

The 1980 drilling program is progressing, two new wells having been spudded. The first is a one kilometre evaluation stepout to a previous discovery and the other is a 3900 metre Fernie exploratory well located two kilometres southwest of the 1978 abandonment. Consideration is being given to the drilling of five additional exploratory tests with the possibility of the 1980 program being expanded by the addition of two further wells. It is anticipated that with the activity on the lands in which the Company is involved and by other operators to the east and north, negotiation of gas purchase contracts will soon be justified.

## KAKWA AREA




## NEWFOUNDLAND OFFSHORE — LABRADOR




## HOPEDALE AREA

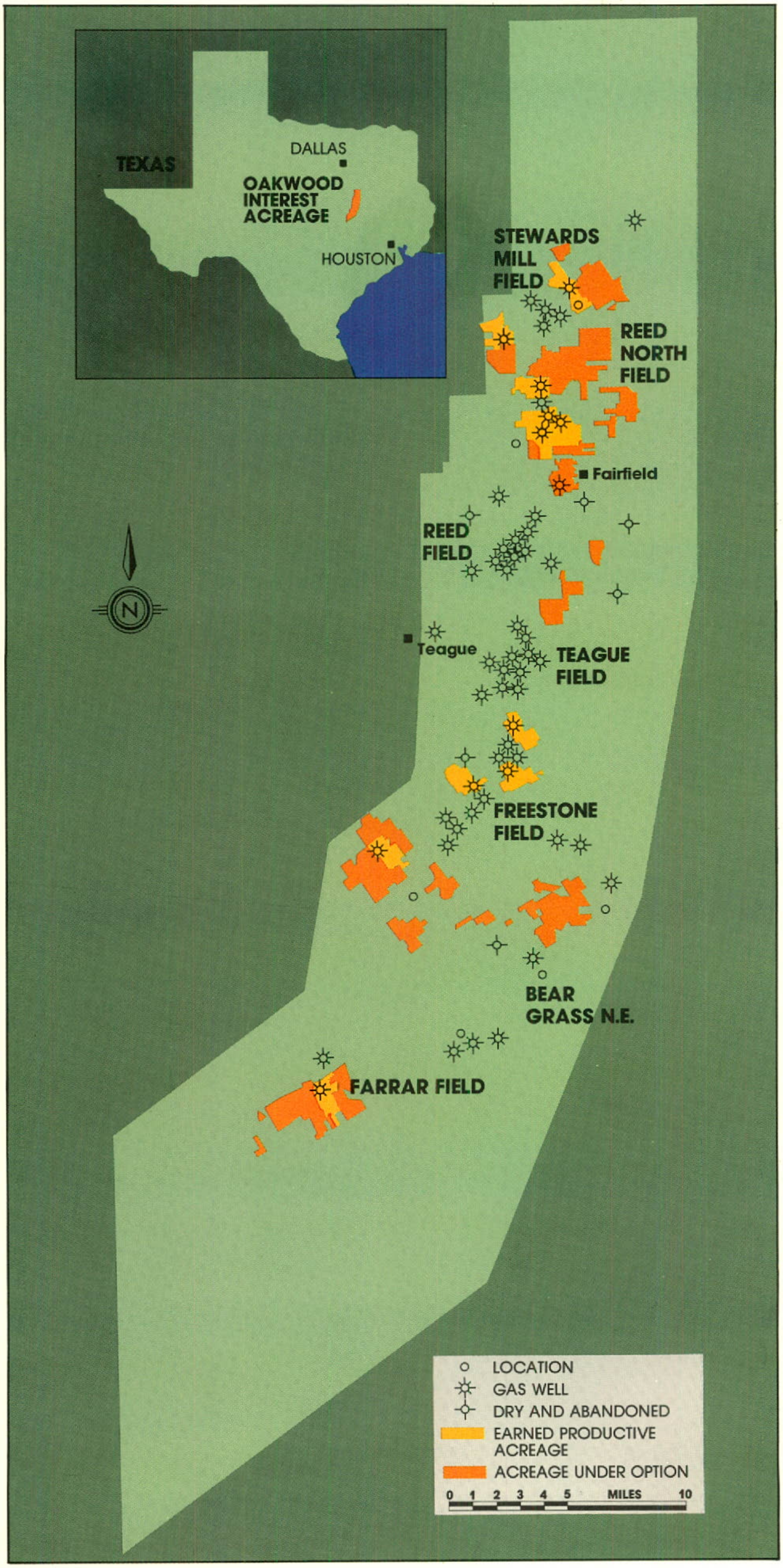
Oakwood acquired on January 18, 1980 a 50% interest in American Eagle's acreage position under its Hopedale exploratory block located offshore 60 miles east of the Labrador coastline. The Company now owns 18,246 net acres under the 753,404 acre block, being an average 2.42% interest. In 1978, Chevron Standard Limited drilled a 2,073 metre exploratory discovery well in the centre of the block, earning a 55% interest in the west half of the acreage spread. Chevron has indicated to the present owners that it will exercise its option to earn a like interest in the east half of the block by drilling a second exploratory well thereon and has chosen a location for a 3,912 metre basement test at a site lying approximately 24 kilometres southeast of the original wet gas discovery well. Operations will commence when a drill ship is available.

# EAST TEXAS JURASSIC COTTON VALLEY LIME TREND

Activity involving development and evaluation stepout drilling along the Jurassic trend continued at a steady rate throughout the year. The Company participated in five drilling operations, all of which were successful ventures. The Jurassic Cotton Valley Lime has proven to be the most dependable and economically attractive pay zone of the several different zones proven and completion in each of the five wells was within this zone. At year end twelve wells were producing gas on a restricted basis, two were being completed, and five locations were being readied for drilling during the first half of 1980.

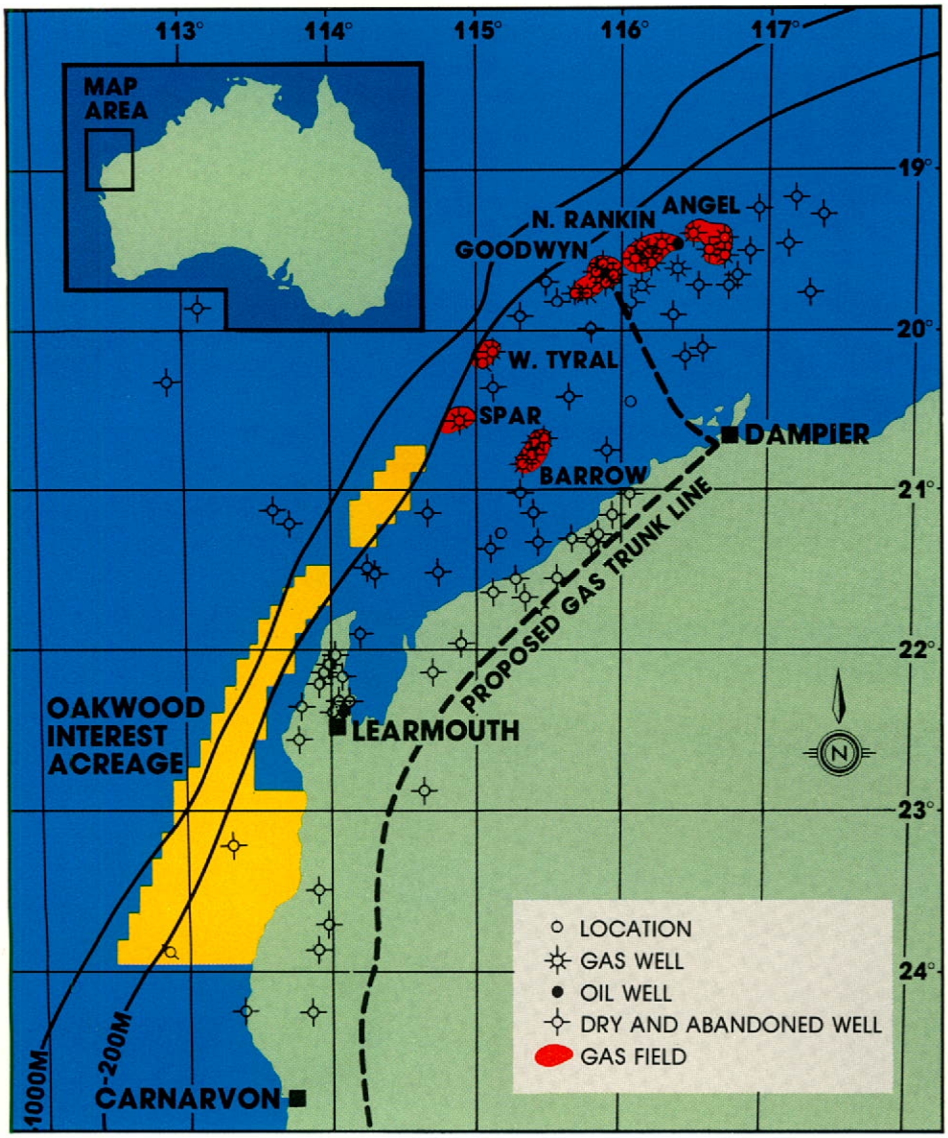
Gas marketing has improved but it is still not at the anticipated maximum level. Delays in well connections and in an overloaded gathering system prevail. It is hoped that such problems will be corrected during the year.

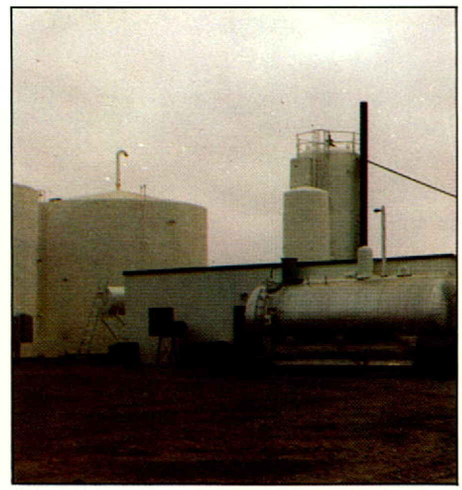
One of the small interest partners that joined Oakwood in 1978 in evaluating the trend was forced to withdraw from the venture at the end of 1979. Oakwood considered it prudent to re-assume this small working interest and so will be involved in a one-sixth larger share in the remaining development activities. It is anticipated that the Company will participate in seven additional evaluation tests along the trend during 1980. During the first five months of 1980, two wells have been drilled and completed, one is drilling, and four are approved.




**EAST TEXAS JURASSIC TREND**

## NORTH WESTERN AUSTRALIA



## AUSTRALIA

Oakwood and its partners during 1979 closely re-evaluated the earlier seismic work done on the two permits comprising the 4,900,000 acre position in the offshore Carnavon Basin of Western Australia. In support of the structural information developed, the team conducted a 340 kilometre in-fill marine seismic survey principally in the vicinity of an outstanding structural anomaly located on the team's lands at the north end of Permit WA 102-P. No further seismic work was done across Permit WA 110-P. Due to the extreme shortage of seismic ships in the area, all programs have been delayed and shortened and it has been necessary to request governmental extensions to work periods, all of which have been granted. Data processing and subsequent mapping have been completed and the team is contemplating the drilling of an exploratory well on Permit WA 102-P. The Tantibiddi structure is located 32 kilometres offshore Northwest Cape; the well would be drilled to a depth of 3100 metres below sea floor in water having a depth of 800 metres.

The Company has developed a strong interest in the oil and gas opportunities in Australia as a result of its activities and studies of the continent. Oakwood has created an Australia subsidiary and stock equity is to be offered to the public. This will allow the new company to seek out additional exploration and development opportunities in Australia and to more actively participate in a broader exploration program. The opportunities in Australia are considered to be most attractive from an exploration and economic viewpoint and it is anticipated that during 1980 the Company's activities will be more aggressive than in previous years.

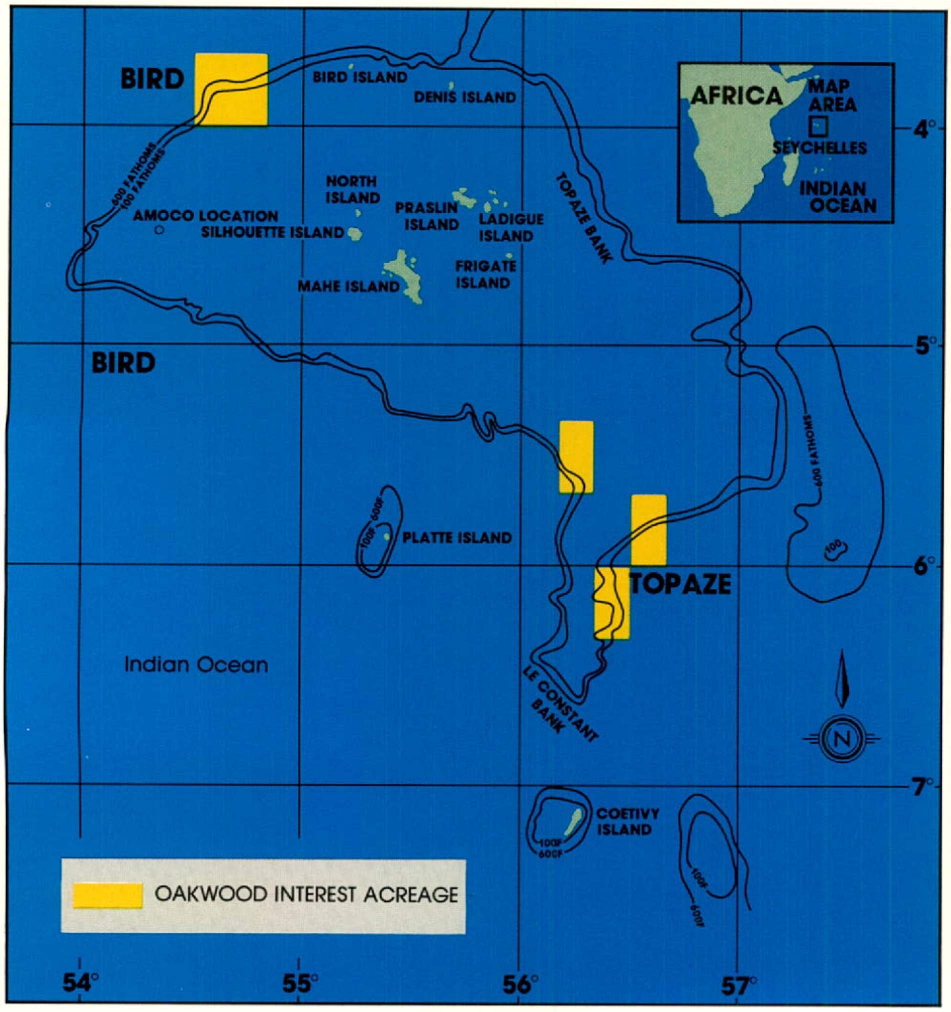
## THE SEYCHELLES ISLANDS

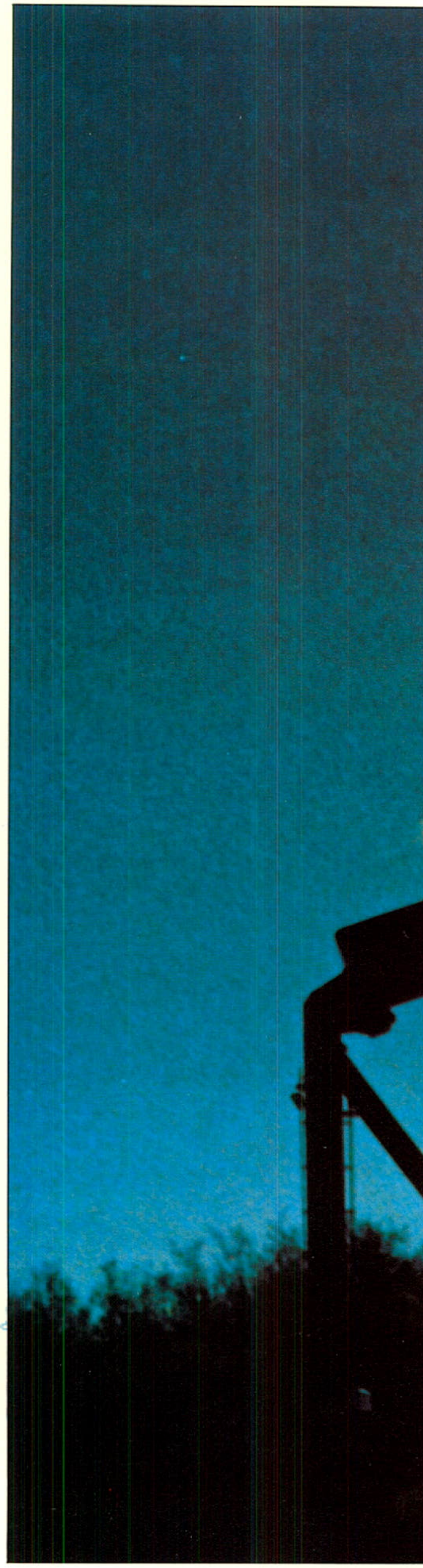
The Company's activities across the Seychelles Banks during 1979 consisted of refining of the existing seismic interpretation. Due to the shortage of marine seismic ships a projected program of a further 100 kilometre seismic data acquisition was unavoidably postponed until April 1980, at which time it was possible to combine the team's requirements with a new program being shot by a major oil company in the immediate area. The new data involves several previously known anomalies under the Topaze acreage.

As a result of the delays in shooting the new lines, the Government of the Republic of Seychelles has granted commitment date extensions so that the team will be able to integrate the latest information before considering a drilling program.

Amoco Petroleums is presently involved in the drilling of the first exploratory well on the Seychelles Bank at a location approximately 278 kilometres northwest of the Topaze block. It is not anticipated that any data from the drilling operation will be readily available but the fact that the hole has been continuously drilled and the time spent on location by the drill ship assuredly indicates that a normal sequence of sediments is being encountered. The team's drilling commitment does not have to be made until December 1, 1980, thus allowing maximum time for consideration of all data available.

**SEYCHELLES**



## 1980

An aggressive exploration program is well under way for the current year. No effort is being made to divide the allocated exploration budget as to the United States and Canada, but it presently appears that the Company may well spend at least half its efforts in the United States where oil is being marketed at world level prices and proven gas is in demand. In the Williston Basin area of Montana, Wyoming, North Dakota and South Dakota, the Company has joined a group in a commitment to drill nine deep exploratory oil prospects based on detailed seismic or subsurface data. The first well of the program is located in North Dakota and is being completed as a potential Ordovician oil well. The second, located in Montana, is drilling ahead toward its projected total depth of 12,700 ft. The other seven wells will be spaced throughout the year. Another highly potential endeavour has been undertaken with an equal interest partner in southwestern New York as a result of the Project Penny announced by Columbia Gas Transmission Company. The team has available to it approximately 35,000 acres along the Silurian Medina Sandstone trend. Four wells have been drilled and cased but none have yet been completed. It is anticipated that the team will drill at least ten wells during the year if the first four wells are satisfactorily tested. Two leasing programs involving the Company are under way in the southern states, one in the Anadarko Basin of Oklahoma, and another in the deep Austin Chalk trend of south Texas. There should be drilling opportunities for the Company in each instance.

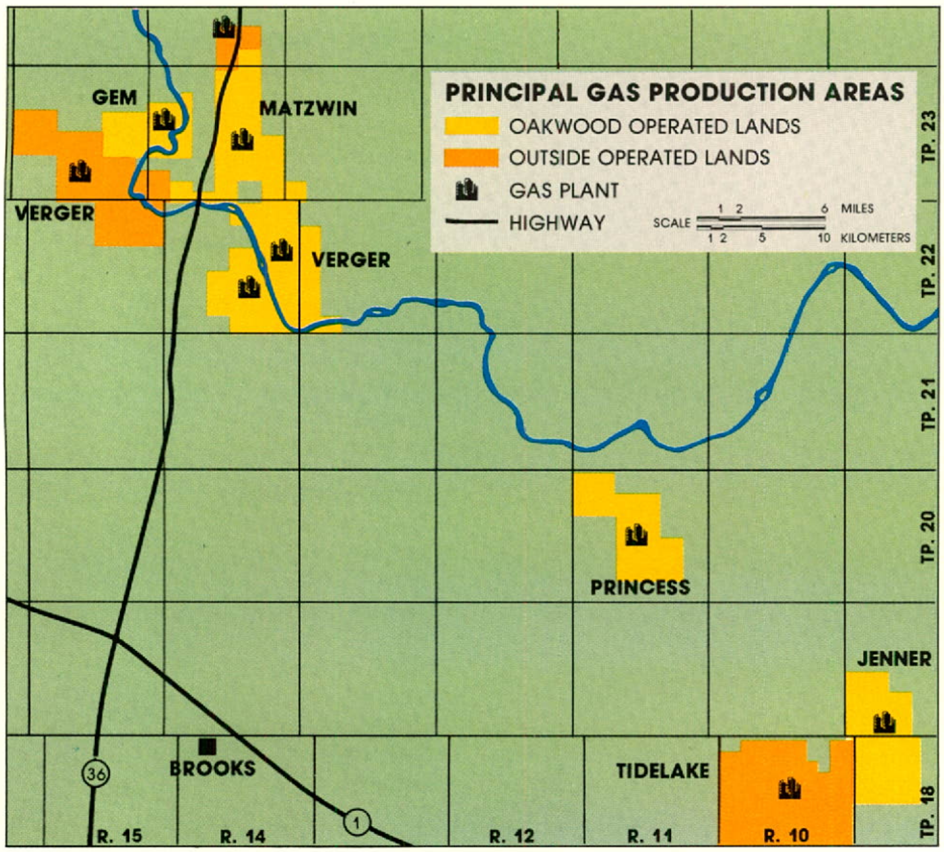
In Western Canada, the Company has been active in both Alberta and British Columbia, having participated in three seismic surveys and ten exploratory holes to date. Coupled with an active lease acquisition philosophy, the year promises to be one of numerous exposures in the exploration for new oil and gas reserves.

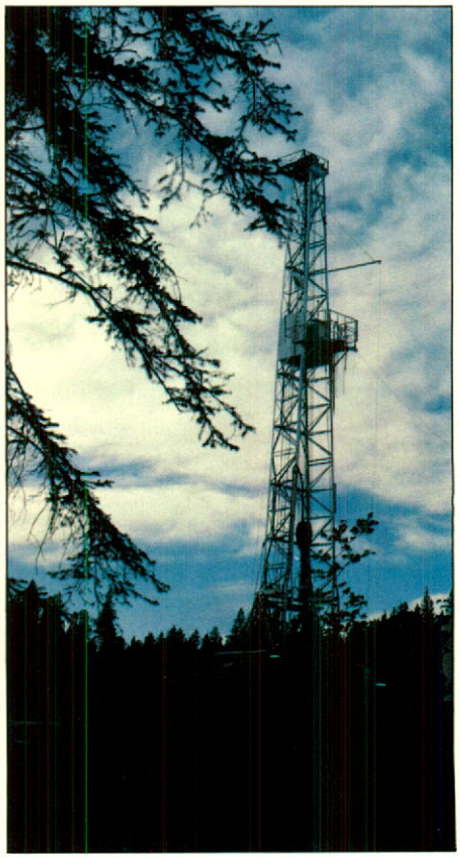
# PRODUCTION AND OPERATIONS

During 1979 your Company's oil reserves increased by 88.6% and gas reserves by 20.4%. The large increase in oil reserves can be attributed mostly to the acquisition of Basset Oil Ltd. which added approximately 23 million net barrels of oil. Part of the increase is also attributable to a very active and successful drilling program. Oakwood and its wholly owned subsidiaries participated in the drilling of 109 wells of which only 28 were dry and abandoned. Of the 81 wells completed, 18 were oil wells and 62 were gas wells, while one was completed as dual zone oil and gas well.

Oakwood's daily oil production averaged 4055 bbls. during 1979. Much of the increase from the 1978 average production rate of 885 bbls. per day can be attributed to the acquisition of Basset Oil Ltd. However, since the acquisition was made during the second half of 1979, the full effect is not reflected in the yearly average. When the Basset properties were acquired, production averaged approximately 3800 bbls. per day to Basset's account. Production from the Basset properties has increased to approximately 6000 bbls. per day to Oakwood's interest. This increase has been obtained by increasing choke sizes, installing larger pumping units and adding additional facilities at the batteries. By mid 1980, it is anticipated that

**BROOKS AREA**



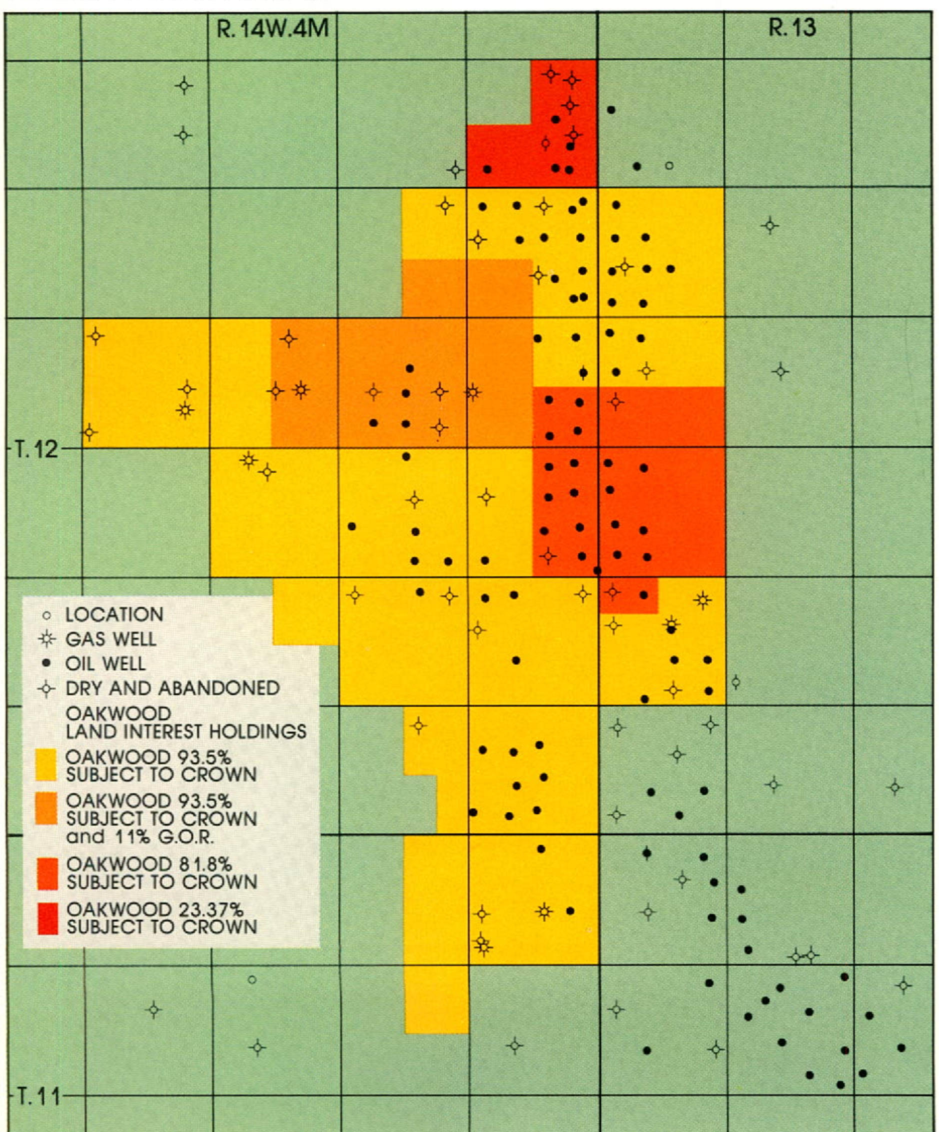
production can be increased to 9500 bbls. per day. This production rate is anticipated when the two new batteries under construction are placed on production and the nine wells drilled during the first four months of 1980 are placed on production. These wells will not only provide the projected production rate of 9500 bbls. per day, but have also added additional reserves.
The acquisition of Basset Oil Ltd. has also made it necessary for Oakwood to maintain a field office at Grand Forks. Oakwood has four full time employees located at this office to supervise production operations and monitor the pressure maintenance program. The daily pumping operations are presently being handled by contract operators.

Activity across the multi-pay Gladys Field led to the drilling of six new tests in 1979, five of which were completed as oil wells from the Cretaceous and one was dry and abandoned. Oakwood participated in the drilling of three of the oil wells. Studies as to the potential size of the pool continue and the team of which the Company is operator has acquired considerable new seismic data from others as well as actually shooting approximately 35 miles of detail control across anomalous trends and features. Final processing and interpretation has not been completed, however, it is believed the team will be involved in more than one evaluation step-out or exploratory well during 1980.

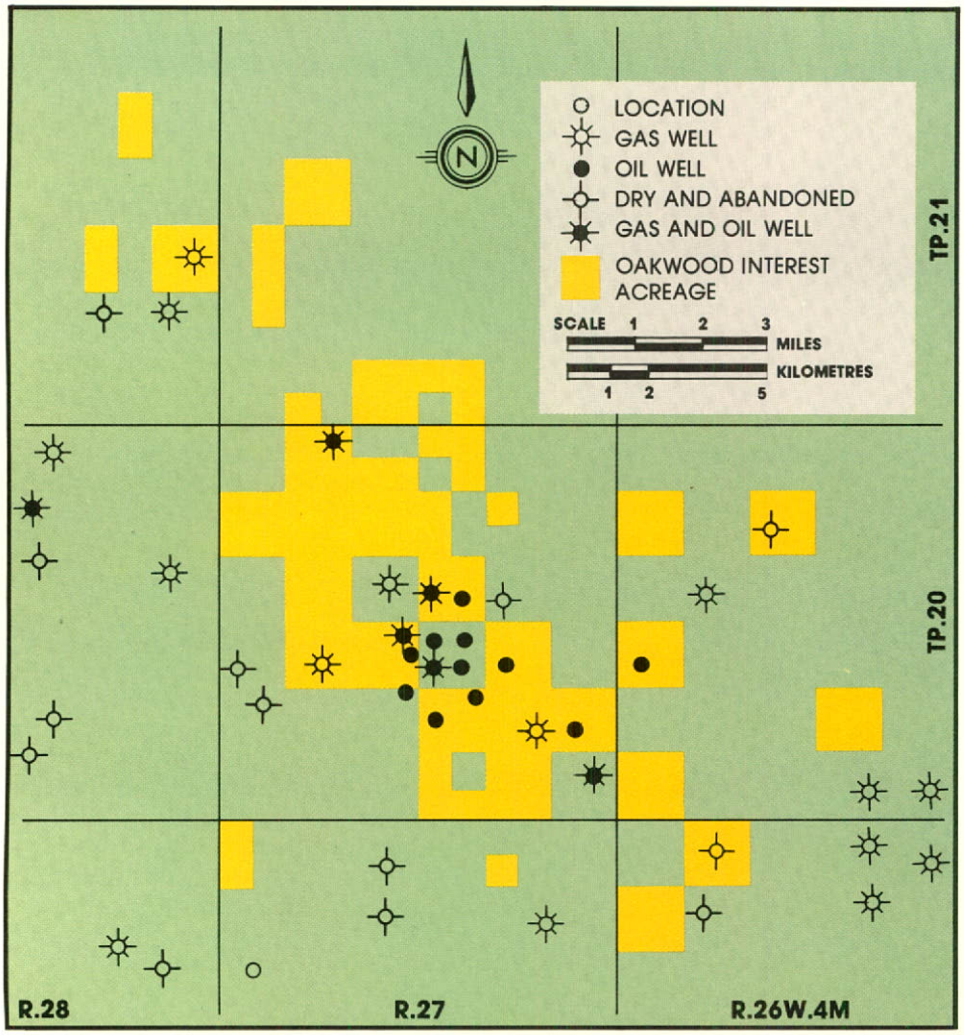
The Alberta Energy Resources Conservation Board has specified that gas reserve and plant feasibility studies for the Okotoks-Gladys Ridge area be prepared and submitted for future planning of gas production from the reserves. Oakwood and others participated in the reviews and it is anticipated that hearings will be held to enable the various producers to get their respective gas to plants and to market. The Company is of the opinion it has economic, viable gas reserves from the Devonian-Crossfield zone, the Mississippian and Basal Cretaceous zones and from the shallow Belly River zones.

Development of the Company's acreage within the Alderson Glauconitic Sand oil pool has added two more oil wells and two gas wells to the total of eight potentially productive wells. There are presently six oil wells and two gas wells in the inventory. One dry hole was drilled on the northeast flank, establishing a probable shut-off in that direction. South of the acreage in which Oakwood has its $12^1/_2$% working interest, the offset lease owner has now completed four oil wells and two gas wells, expanding the pool to 14 capable wells. The Company is to participate in the immediate drilling of at least two evaluation step-outs on the east flank of the pool. Daily oil production from wells in which Oakwood has a working interest amounts to 316 barrels. There is not market for new found gas in the area, accounting for the lack of a follow-up to the Rainier 10-29 gas well.

## GRAND FORKS AREA



## GLADYS RIDGE AREA




NET RESERVES
COMBINED U.S. & CANADIAN PROPERTIES

| | Oil (bbls) | Gas (mmcf) | NGL (bbls) |
|---|---|---|---|
| Proved (1) | 26,064,163 | 158,147 | 56,706 |
| Probable (2) | 185,954 | 8,352 | 271 |
| Proved plus Probable | 26,250,117 | 166,499 | 56,977 |

BEFORE TAX CUMULATIVE CASH FLOW
($000)

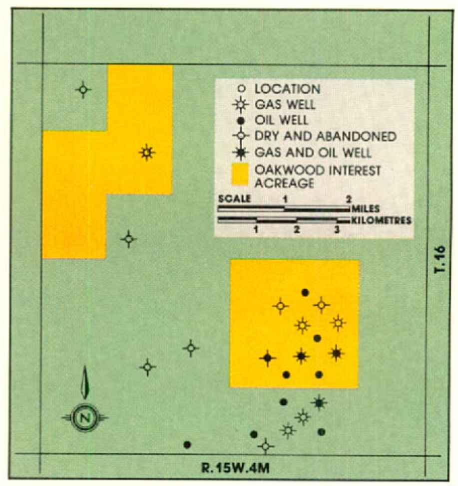
| | Un-discounted | Discounted @ 12% | Discounted @ 15% | Discounted @ 20% |
|---|---|---|---|---|
| Proved (1) | 781,186 | 286,158 | 243,982 | 195,086 |
| Probable (2) | 19,450 | 4,724 | 3,667 | 2,494 |
| Proved plus Probable | 800,636 | 290,882 | 247,649 | 197,580 |

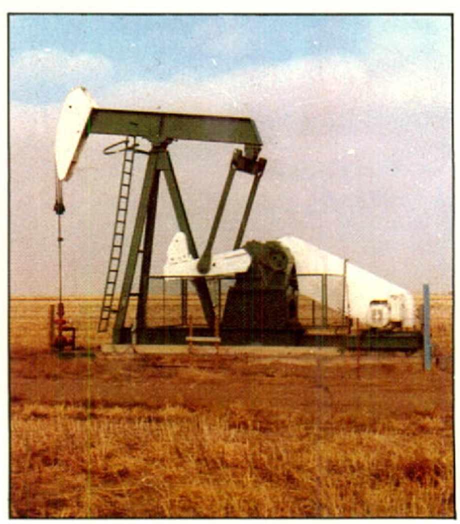
The foregoing proven plus probable reserves are metrically converted to:

4,179,954 $m^3$ cubic meters of oil
4,691,000,000 cubic meters of natural gas
9,043 $m^3$ cubic meters of natural gas liquids

The Company's gas production increased from 8.4 Mmcf/d in 1978 to 14.5 Mmcf/d in 1979. This increase is partially due to a full year's production from the properties purchased in November 1978 from Shenandoah Oil Corporation. However, part of the increase is also due to a very active infill drilling program conducted during 1979 in Matziwin, Verger, Tide Lake and Jenner areas. A total of 32 wells were drilled and completed in these areas during the year. The wells were drilled, fraced and tied into existing gas plants to provide sufficient capacity to maintain existing contracts. With the addition of these wells, 23 of which were operated by Oakwood, the Company's operated wells in the Brooks area has increased to 214. Plans are already under way to drill 25 more infill wells in these areas during 1980.

## ALDERSON-RAINIER AREA

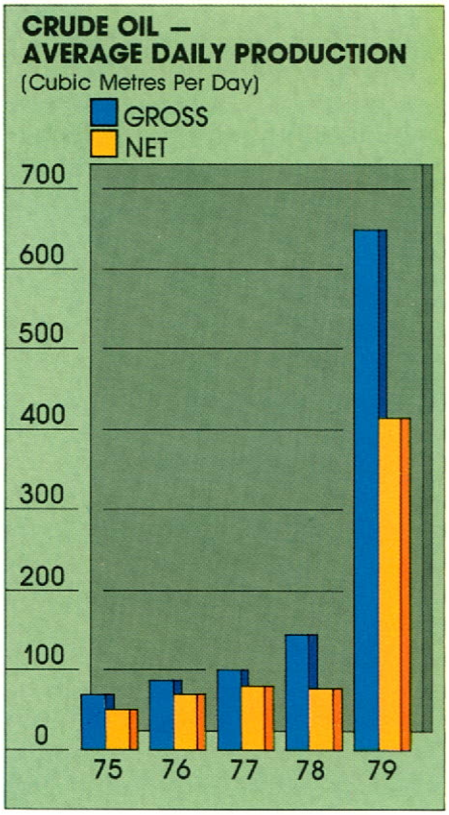


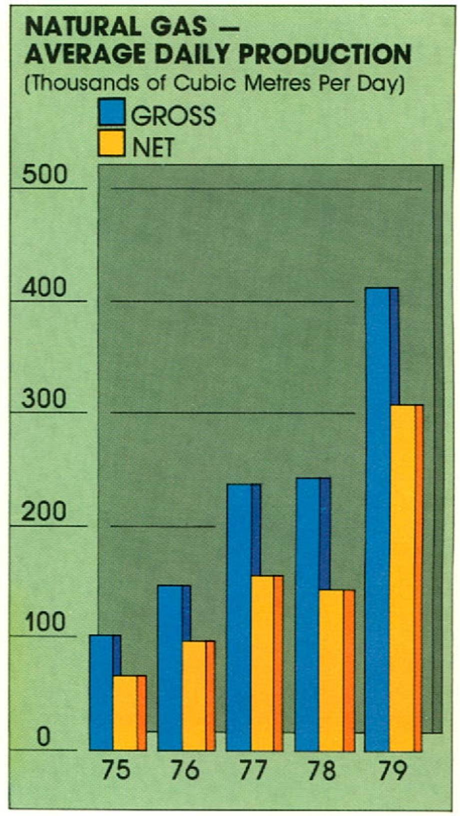



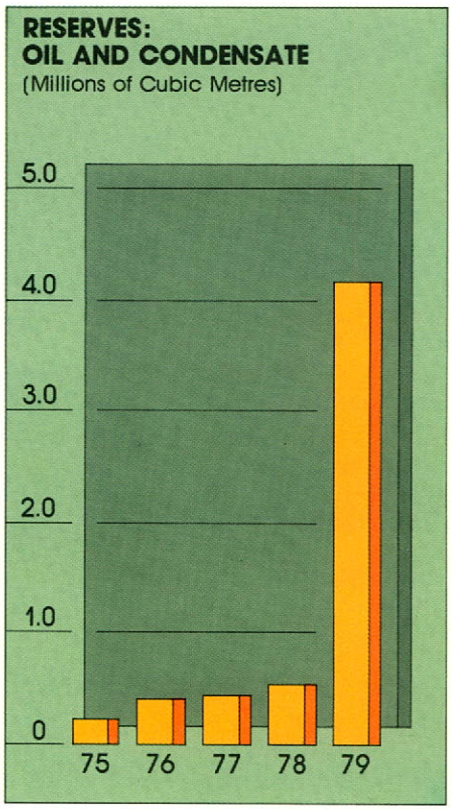
The operation of the 214 Oakwood operated wells in the Brooks area and the seven gas plants are under the direct supervision of our Brooks Field Office which was opened in June of 1979. The Brooks office is staffed by twelve full time Oakwood employees. The change from contract operators to Oakwood personnel has resulted in a much more efficient operation and increased production.

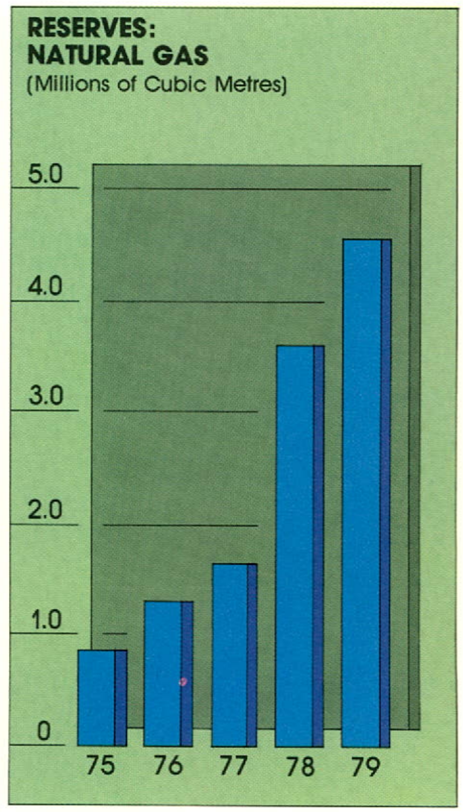
With the addition of field offices in Grand Forks and Brooks, Oakwood's Production and Operations staff now totals 28. This includes twelve employees in our Head Office in Calgary.

Our Company and industry in general, share a concern with respect to the disposition of shut-in gas. Oakwood has contracted most of its shut-in gas to Pan-Alberta Gas Ltd. The areas that have been contracted are Wildmere, Buff Coulee, Beauvallon, Jarvie-Goodrich, Gladys, Rainbow, Dina and Wainwright. Providing Pan-Alberta can meet all the requirements under the National Energy Board's export permit, production could commence from the first four areas by March 1981. Production from the last four areas will start in November 1981. In order to meet this time schedule, Oakwood has under order various compressors and other necessary equipment. Additional drilling in these areas will also be necessary to meet the deliverabilities under these contracts.



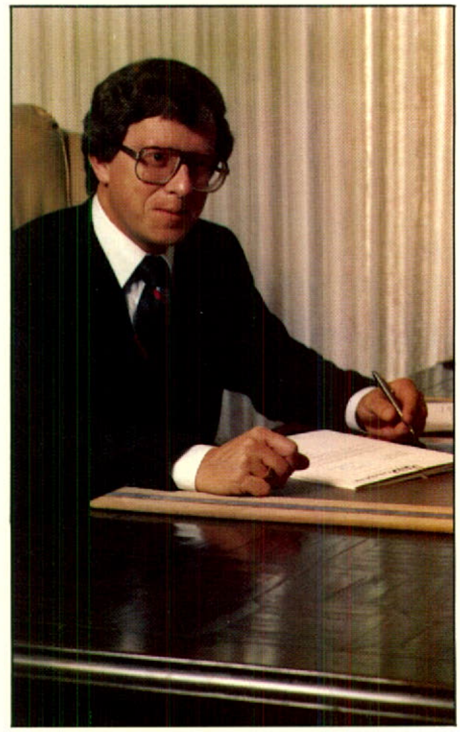



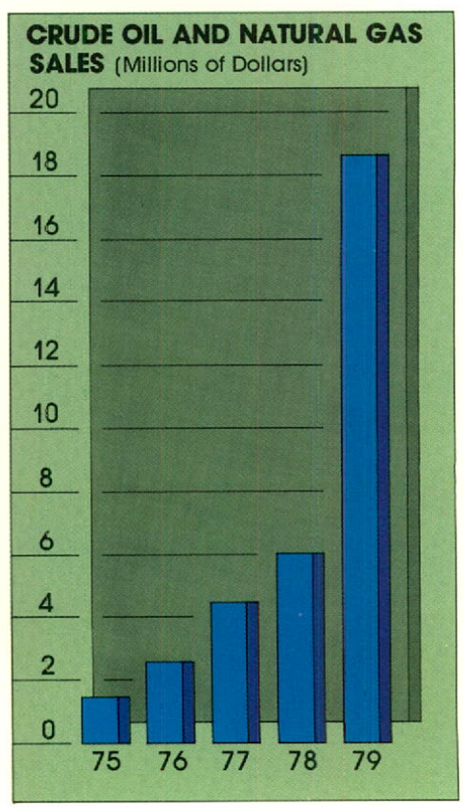



# FINANCIAL REVIEW

As is depicted graphically in this report, 1979 was a year of unparalleled growth for Oakwood in terms of operating revenues and cash flows. In 1979 total revenues exceeded 19.4 million dollars as compared to 6.3 million dollars for the 1978 fiscal year, a growth rate of approximately 210%. Cash flow from operations exceeded $8,400,000 — an increase of approximately 150% from the 3.3 million dollars cash flow of 1978. These two indicators point out clearly the impact of the acquisition program of proven and producing properties which your Company has been following during the past few years, and as mentioned in last year's Annual Report. In addition of course, as mentioned earlier in this report, during 1979 your Company made probably its most significant acquisition ever in the purchase of Basset Oil Ltd. This acquisition which resulted in the expenditure of approximately $81,000,000, and was completed on July 31, 1979 did yield some positive impact to the Company's reported earnings and operations for the year 1979. However the full impact of the purchase will not really become obvious until 1980 as the properties formerly owned by Basset Oil Ltd. become more effectively exploited by Oakwood. Unfortunately, rising interest costs during 1979 had a severe negative impact on Company earnings, with a reported net loss of $2,068,530 for the year as compared to a reported profit in 1978 of approximately $900,000. This of course was after recognizing in excess of $11,000,000 in interest charges relative to the Company's long-term debt incurred in funding the Basset purchase mentioned above as well as prior years' acquisitions. On January 31, 1980, the Company successfully completed a long-term fixed rate financing arrangement which yielded your Company approximately $100,000,000, and carrying an effective interest rate of 11.2% over the next sixteen years. This refinancing, coupled with the convertible preferred share issue which is presently being finalized, will have a most significant positive impact on 1980 reported earnings and cash flows. The issuance of the convertible preferred shares also significantly improves Oakwood's debt — equity ratio relative to the December 31, 1979 position as shown in the accompanying financial statements.

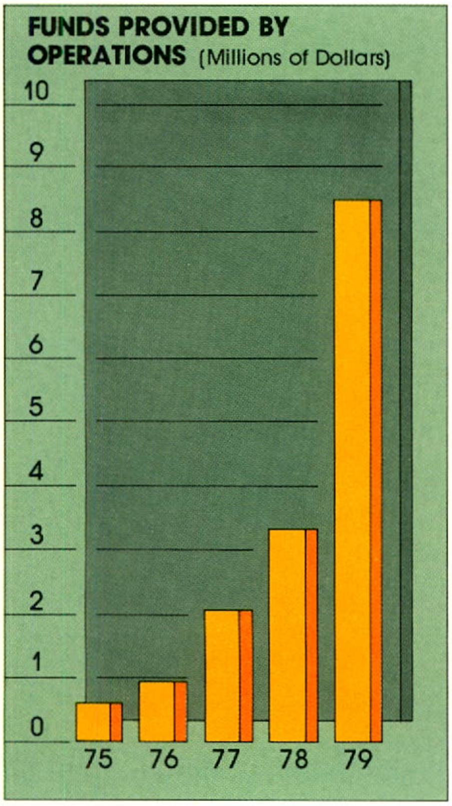


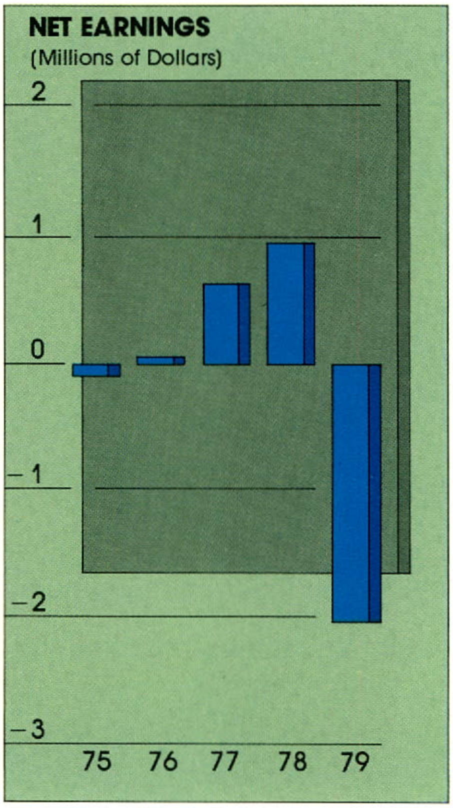


## STOCK PRICE

The following table indicates the quarterly high bid and low prices for the common stock of the Company on the Toronto Stock Exchange.

| | 1980 | | 1979 | | 1978 | |
|---|---|---|---|---|---|---|
| First Quarter .......... | $25.75 | $13.50 | $ 7.13 | $ 4.50 | $ 6.25 | $ 4.15 |
| Second Quarter ..... | | | 13.75 | 5.75 | 5.88 | 3.40 |
| Third Quarter ........ | | | 16.13 | 10.13 | 5.00 | 3.85 |
| Fourth Quarter ....... | | | 17.25 | 11.00 | 4.90 | 3.37 |




To the Shareholders of
Oakwood Petroleums Ltd.

# AUDITORS' REPORT

We have examined the consolidated balance sheet of Oakwood Petroleums Ltd. as at December 31, 1979 and the consolidated statements of 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, 1979 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, after giving retroactive effect to the change in accounting as described in note 2, on a basis consistent with that of the preceding year.

Calgary, Canada
April 15, 1980

Thorne Riddell
Chartered Accountants

# CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1979

| | 1979 | 1978 (note 2) |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and term deposits | **$ 5,490,056** | $ 5,306,884 |
| Accounts receivable | | |
| — trade | **12,211,802** | 5,860,706 |
| — sale of property (note 3) | **4,149,250** | 974,597 |
| Receivable from related companies | **409,093** | — |
| Income taxes recoverable | **6,234,837** | — |
| | **28,495,038** | 12,142,187 |
| INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD. (note 4) | **2,217,971** | 2,401,357 |
| PROPERTY AND EQUIPMENT, at cost (note 5) | **158,078,698** | 45,930,523 |
| Accumulated depletion and depreciation | **19,580,074** | 10,007,890 |
| | **138,498,624** | 35,922,633 |
| OTHER ASSETS | **785,360** | 506,134 |
| | **$169,996,993** | $50,972,311 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Bank indebtedness | **$ —** | $ 1,530,113 |
| Accounts payable and accrued liabilities | **13,537,111** | 6,769,258 |
| Income taxes payable | **—** | 70,475 |
| Current maturities on long-term debt | **—** | 112,500 |
| | **13,537,111** | 8,482,346 |
| LONG-TERM DEBT (note 6) | **141,021,959** | 33,698,394 |
| DEFERRED INCOME TAXES | **10,799,173** | 2,385,521 |
| **SHAREHOLDERS' EQUITY** | | |
| CAPITAL STOCK (note 7) | | |
| Authorized | | |
| Preferred shares without nominal or par value, issuable in series | | |
| Common shares without nominal or par value | | |
| Issued | | |
| 5,450,011 Common shares (5,373,611 in 1978) | **10,353,794** | 10,052,564 |
| CONTRIBUTED SURPLUS | **768,152** | 768,152 |
| | **11,121,946** | 10,820,716 |
| DEFICIT | **(5,798,561)** | (3,730,031) |
| | **5,323,385** | 7,090,685 |
| Less 595,334 Common shares held by wholly-owned subsidiary company | **(684,635)** | (684,635) |
| | **4,638,750** | 6,406,050 |
| | **$169,996,993** | $50,972,311 |

Approved by the Board

Director

Director

# CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1979

| | 1979 | 1978 |
|---|---|---|
| | | (note 2) |
| Revenue | | |
| Sale of oil and gas | **$18,589,913** | $6,017,942 |
| Interest and other | **874,824** | 300,798 |
| | **19,464,737** | 6,318,740 |
| Expenses | | |
| Production | **3,067,475** | 1,552,536 |
| General and administrative | **1,882,015** | 947,003 |
| Interest on long-term debt | **11,081,085** | 1,440,925 |
| Other interest | **240,079** | 238,937 |
| Depletion and depreciation | **4,953,197** | 1,372,101 |
| | **21,223,851** | 5,551,502 |
| Earnings (loss) before the under noted | **(1,759,114)** | 767,238 |
| Gain on sale of property | **—** | 864,753 |
| Share of loss of American Eagle Petroleums Ltd. | **(183,386)** | (116,330) |
| | **(183,386)** | 748,423 |
| Earnings (loss) before income taxes | **(1,942,500)** | 1,515,661 |
| Income taxes (note 3) | | |
| Provincial royalty tax credit | **(1,285,853)** | (357,479) |
| Current | **(3,998,268)** | 50,580 |
| Deferred | **5,410,151** | 888,322 |
| | **126,030** | 581,423 |
| NET EARNINGS (LOSS) | **$ (2,068,530)** | $ 934,238 |
| EARNINGS (LOSS) PER SHARE | **$ (0.43)** | $ 0.20 |

# CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1979

| | 1979 | 1978 |
|---|---|---|
| BALANCE AT BEGINNING OF YEAR | | |
| As previously reported | **$(3,473,840)** | $(4,212,637) |
| Adjustment resulting from change in accounting policies (note 2(a)) | **(256,191)** | (451,632) |
| As restated | **(3,730,031)** | (4,664,269) |
| Net earnings (loss) | **(2,068,530)** | 934,238 |
| BALANCE AT END OF YEAR | **$(5,798,561)** | $(3,730,031) |

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1979

| | 1979 | 1978 (note 2) |
|---|---|---|
| WORKING CAPITAL DERIVED FROM | | |
| Operations (note 3) | **$ 8,445,212** | $ 3,333,669 |
| Proceeds on sale of property and equipment | **14,207,294** | 1,907,061 |
| Increase in long-term debt | **107,954,544** | 25,300,671 |
| Issue of common shares | **301,230** | 23,090 |
| Other assets | **309,912** | 18,900 |
| | **131,218,192** | 30,583,391 |
| WORKING CAPITAL APPLIED TO | | |
| Investment in acquired subsidiary | **82,344,613** | — |
| Less working capital acquired | **5,343,489** | — |
| | **77,001,124** | — |
| Additions to property and equipment | **41,688,478** | 23,611,323 |
| Reduction of long-term debt | **630,979** | 757,239 |
| Other assets | **599,525** | 502,005 |
| | **119,920,106** | 24,870,567 |
| INCREASE IN WORKING CAPITAL | **11,298,086** | 5,712,824 |
| WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR | **3,659,841** | (2,052,983) |
| WORKING CAPITAL AT END OF YEAR | **$ 14,957,927** | $ 3,659,841 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1979

## 1. ACCOUNTING POLICIES

### (a) CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Acquisitions of subsidiaries 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 the consideration paid for shares of subsidiary companies over the book value of their net assets at dates of acquisition is included in property and equipment in the consolidated balance sheet and is amortized on the same basis as such assets, or is deducted from shareholders' equity to the extent of the carrying value of the Company's shares held by the purchased company.

### (b) INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

The investment in American Eagle Petroleums Ltd. is recorded on the equity basis. The investment therefore includes the Company's share of undistributed earnings since acquisition and the consolidated statement of earnings includes the Company's share of net earnings for the year. The excess of the consideration paid for shares of American Eagle over the book value of its net assets at dates of acquisition has been assigned to property and equipment and is amortized on the same basis as such assets.

### (c) PETROLEUM AND NATURAL GAS OPERATIONS

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, and related overhead expenses. Such costs, net of proceeds from minor disposals of property, are accumulated and depleted on a country by country basis (except for frontier areas of Canada which are considered separate cost centres), using the unit of production method based upon estimated proven developed reserves as determined by the Company's engineers. In calculating depletion, natural gas reserves are converted to equivalent units of crude oil based on the relative energy content of each product.

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 the Company's total reserves in the particular cost centre.

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

(d) DEPRECIATION

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the unit of production method based upon estimated proven developed reserves as determined by the Company's engineers.

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

(e) INCOME TAXES

The Company follows the tax allocation method of accounting under which the income tax provision is based on earnings reported in the consolidated financial statements. Accordingly, the Company 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 the Company's income debentures (see note 6) which is included in interest on long-term debt expense in the consolidated statement of earnings.

(f) FOREIGN CURRENCIES

The accounts of foreign subsidiaries 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, depletion and depreciation, and non-current liabilities, 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 notes 1(c) and (d). Realized gains or losses are reflected in earnings.

(g) 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.

## 2. CHANGE IN ACCOUNTING POLICIES

(a) PETROLEUM AND NATURAL GAS OPERATIONS

Prior to 1979, the Company followed the practice of capitalizing the acquisition costs of both producing and non-producing properties and charging the costs to earnings if the property was subsequently surrendered. The cost of drilling a productive well was capitalized and the cost of a non-productive well was charged to earnings when the well was determined to be dry. The costs of producing leases and development thereon were amortized using the unit of production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

Prior to 1979, depreciation of production equipment and related facilities was calculated on a straight-line basis using the annual rate of 10%.

In 1979, the Company adopted, on a retroactive basis, the full cost method of accounting for petroleum and natural gas operations, as outlined in note 1(c), and the unit of production method of depreciating production equipment and related facilities, as outlined in note 1(d).

The effect of this retroactive change is to increase previously reported net earnings for 1978 by $195,441 ($.05 per share) and decrease the loss by $1,223,000 ($0.26 per share) for the year ended December 31, 1979.

(b) INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

Effective January 1, 1977 the accounts of American Eagle Petroleums Ltd. were consolidated because management considered that to be the more informative presentation. The excess of the consideration paid for shares of American Eagle over the book value of its net assets at dates of acquisition was included in property and equipment in the consolidated balance sheet and was amortized on the same basis as such assets.

In 1979, the Company adopted, on a retroactive basis, the equity basis of accounting for its investment in American Eagle, as outlined in note 1(b). This change, which does not affect net earnings, was made in accordance with accounting recommendations of the Canadian Institute of Chartered Accountants, which recommendations were revised in 1979 to exclude the consolidation of companies other than subsidiaries.

## 3. ACQUISITION OF BASSET OIL LTD.

Effective June 1, 1979, the Company acquired all the issued shares of Basset Oil Ltd. The net assets acquired and values assigned thereto are as follows:

| | Net Book Value | Increase to Fair Value | Cash Consideration |
|---|---|---|---|
| Property and equipment | $ 9,148,084 | $70,002,727 | $79,150,811 |
| Working capital | 5,296,795 | 46,694 | 5,343,489 |
| | 14,444,879 | 70,049,421 | 84,494,300 |
| Deferred income taxes | 3,003,500 | — | 3,003,500 |
| Net assets acquired | $11,441,379 | $70,049,421 | 81,490,800 |
| Acquisition expenses | | | 853,813 |
| Total consideration | | | $82,344,613 |

Effective August 1, 1979, the Company sold to officers and directors of the Company certain of the petroleum and natural gas properties so acquired for $4,149,250, which amount was equal to their fair value at the date of acquisition of Basset. The amount was received by the Company in February 1980, together with interest thereon at prime plus 2%.

Subsequent to the acquisition of Basset, the Company completed certain property transactions which resulted in the recovery of current income taxes of $4,223,000 which amount had been expensed by Basset prior to the date of acquisition. This amount is included in working capital derived from operations in the consolidated statement of changes in financial position. There is no effect on net earnings as deferred income taxes have been increased by an amount equal to the current income taxes recovered.

Intercompany transactions completed subsequent to the acquisition of Basset resulted in income and related deferred income taxes of approximately $33 million. Such income and taxes are eliminated on consolidation. No portion of such taxes will become payable prior to 1982; if they become payable they are not anticipated to have an effect on future net earnings of the Company.

## 4. INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

At December 31, 1978 and 1979 the Company effectively controlled American Eagle Petroleums Ltd. through ownership of 2,030,623 shares (42.25% interest; 44.19% in 1978).

| | **1979** | 1978 |
|---|---|---|
| Shares, at cost | **$3,066,458** | $3,066,458 |
| Share of losses since acquisition | **(848,487)** | (665,101) |
| | **$2,217,971** | $2,401,357 |

The aggregate quoted market value of the shares at December 31, 1979 was $7,614,836 (1978, $4,467,371). The quoted market value is not necessarily indicative of the amount which may ultimately be realized on this investment.

## 5. PROPERTY AND EQUIPMENT

| | 1979 | | | 1978 |
|---|---|---|---|---|
| | **Cost** | **Accumulated Depletion and Depreciation** | **Net** | Net |
| Petroleum and natural gas leases and rights including exploration, development and equipment thereon | **$156,786,383** | **$19,364,198** | **$137,422,185** | $34,968,859 |
| Other property and equipment | **1,292,315** | **215,876** | **1,076,439** | 953,774 |
| | **$158,078,698** | **$19,580,074** | **$138,498,624** | $35,922,633 |

## 6. LONG-TERM DEBT

| | Interest Rate | Maturity Date | Payment Terms | **1979** | 1978 |
|---|---|---|---|---|---|
| Term note | Prime +2% | December 1, 1987 (repaid January 31, 1980) | Principal and interest totalling net production proceeds from certain petroleum producing properties payable monthly | **$ 79,920,354** | $ — |
| Demand production bank loans | Prime +3/4% | | | **22,500,000** | 10,428,828 |
| Term note | Prime + 1% | June 1, 1985 | Payable out of production proceeds $50,000 monthly in 1979 escalating to $416,700 monthly in 1985 | **19,550,000** | 5,000,000 |
| Income debentures | 1/2 Prime + 1 1/4% | January, 1987 | $541,667 quarterly commencing January 1981 | **13,000,000** | 13,000,000 |
| Income debentures | 1/2 Prime +3% | October 15, 1993 (October 1983 or 1988 at option of the holder) | Annual sinking fund payments of $400,000 required 1982 to 1992 and $600,000 in 1993; redeemable after October 15, 1980 | **5,000,000** | 5,000,000 |
| Prepayments under gas sales contracts | | | | **1,051,605** | 382,066 |
| | | | | **141,021,959** | 33,810,894 |
| Less current maturities included in current liabilities | | | | **—** | 112,500 |
| | | | | **$141,021,959** | $33,698,394 |

The long-term debt of the Company is secured by certain petroleum and natural gas properties. The bank indebtedness is also secured by accounts receivable and shares of American Eagle. The term notes are also secured by floating charges on all other assets of the Company.

The demand production bank loans and the term notes are repayable out of future production proceeds and are not expected to require the use of existing working capital. Accordingly, no portion of such loans has been reclassified to current liabilities.

On January 31, 1980, the Company received $99,075,000 in long-term debt financing, through the issue of the following notes which are secured by certain petroleum and natural gas properties:

| | |
|---|---|
| 10.90% Series B Senior Secured Notes, payable $1,230,000 U.S. June 15, 1984 and $2,430,000 U.S. semi-annually thereafter, maturing June 15, 1995 ($55,000,000 U.S.) | $64,075,000 |
| 11-7/8% Series A Senior Secured Notes, payable $770,000 June 15, 1984 and $1,565,000 semi-annually thereafter, maturing June 15, 1995 | 35,000,000 |
| | $99,075,000 |

Net proceeds of approximately $98,125,000, after deducting estimated costs of issuance of $950,000, were used to retire the term note outstanding at December 31, 1979 of $79,920,354 and reduce the demand production bank loans.

At December 31, 1979 the estimated principal payments on long-term debt within each of the next five years, after reflecting the effects of the Senior Secured Notes financing referred to above, are approximately as follows: 1980 — $1,500,000; 1981 — $4,666,000; 1982 — $6,067,000; 1983 — $7,067,000; 1984 — $14,184,000.

## 7. CAPITAL STOCK

(a) AUTHORIZED

In 1979, the authorized number of preferred and common shares was changed to unlimited from 1,000,000 and 7,000,000 respectively.

(b) ISSUED

Changes in the issued capital stock for the years ended December 31, 1978 and 1979 are as follows:

| | Number of Shares | Carrying Value |
|---|---|---|
| Balance December 31, 1977 | 5,367,611 | $10,029,474 |
| Issued for cash pursuant to share option agreements | 6,000 | 23,090 |
| Balance December 31, 1978 | 5,373,611 | 10,052,564 |
| Issued for cash pursuant to share option agreements | 76,400 | 301,230 |
| Balance December 31, 1979 | 5,450,011 | $10,353,794 |

(c) SHARE OPTIONS

At December 31, 1979, 272,100 common shares have been reserved for issuance to directors, officers and employees as follows:

| Number of Optioned Shares | Option Price | Expiry Date |
|---|---|---|
| 77,500 | $ 4.17 | January 26, 1981 |
| 85,600 | 4.05 | September 7, 1983 |
| 109,000 | 12.49 | November 20, 1984 |
| 272,100 | | |

(d) Dividend Restriction

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

## 8. COMMITMENTS

(a) The aggregate rentals payable to the expiry dates of the long-term operating leases which the Company has entered into for office space, net of recoveries from sub-lessees, amount to $4,304,614. Future minimum lease payments, net of recoveries, for each of the next five years are as follows: 1980 — $181,700; 1981-1984 — $396,800.

(b) The Company has contracted for the use of drilling rigs. At December 31, 1979, the aggregate minimum standby charges, net of recoveries from third parties, are as follows: 1980 — $1,336,400; 1981 — $1,757,800; 1982 — $633,500.

## 9. STATUTORY INFORMATION

In 1979, the Company and its subsidiaries paid $7,600 to the Company's nine directors in their capacity as directors and $372,073 to five officers of the Company, all of whom are also directors.

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PRINTED IN CANADA

Corporate Evaluation 1979

# OAKWOOD PETROLEUMS LTD.

# OAKWOOD PETROLEUMS LTD.

Incorporated under the laws of Canada on November 28, 1925
Capital: 7,000,000 shares without nominal or par value, of which 4,778,277 (net) shares are issued and outstanding.

## DIRECTORS

**DALLAS E. HAWKINS II,**
*Spokane, Washington, U.S.A.*
President of the Company
Chairman of the Board of
American Eagle Petroleums Ltd.

**BRIAN S. EKSTROM,** *Calgary, Alberta*
Vice-President of the Company
Treasurer of American Eagle
Petroleums Ltd.
President of Brian Ekstrom
Management Ltd.

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

**R. ROSS HAMILTON,** *Calgary, Alberta*
President of Great Basins Petroleum Co.
President of Scoteire Exploration Ltd.

**RICHARD D. JENSEN,** *Calgary, Alberta*
Executive Vice-President
of the Company

**GERHARD KASDORF,** *Calgary, Alberta*
Vice-President of the Company
and President of
American Eagle Petroleums Ltd.

**BRIAN G. McCOMBE,** *Calgary, Alberta*
Partner, McCombe, Cameron & Cormie

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

**JACK WAHL,** *Calgary, Alberta*
Chairman of the Board and
Chief Executive Officer of
Great Basins Petroleum Co.

## OFFICERS

DALLAS E. HAWKINS II, President
RICHARD D. JENSEN, *Executive Vice-President*
BRIAN S. EKSTROM, *Vice-President, Finance*
KENNETH W. GERMOND, *Vice-President, Exploration*
GERHARD KASDORF, *Vice-President, Production and Operations*
BRIAN G. McCOMBE, *Secretary*

## HEAD OFFICE

2700 Shell Centre
400 - 4th Avenue S.W.
Calgary, Alberta T2P 0J4

## SUBSIDIARY COMPANIES

Marwood Petroleum Ltd.
Bayview Oil & Gas Ltd.
Flamingo Oils Limited (N.P.L.)
Orient Investments Ltd.
Oakwood Petroleum Corporation
Oakwood Petroleums (U.K.) Limited
Oakwood Petroleums (Ireland) Ltd.
Oakwood Petroleums Italiana S.p.A.
Lochaber Oil Corporation Ltd.
Bueno Oils Ltd.
Coronado Consultants Ltd.
Huron Resources Management Ltd.
American Eagle Petroleums Ltd.
American Eagle Petroleums, Inc.
Gulf Oil & Gas Ltd.

## SHARES LISTED

The Toronto Stock Exchange

## BANKERS

The Royal Bank of Canada
Calgary, Alberta

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

## AUDITORS

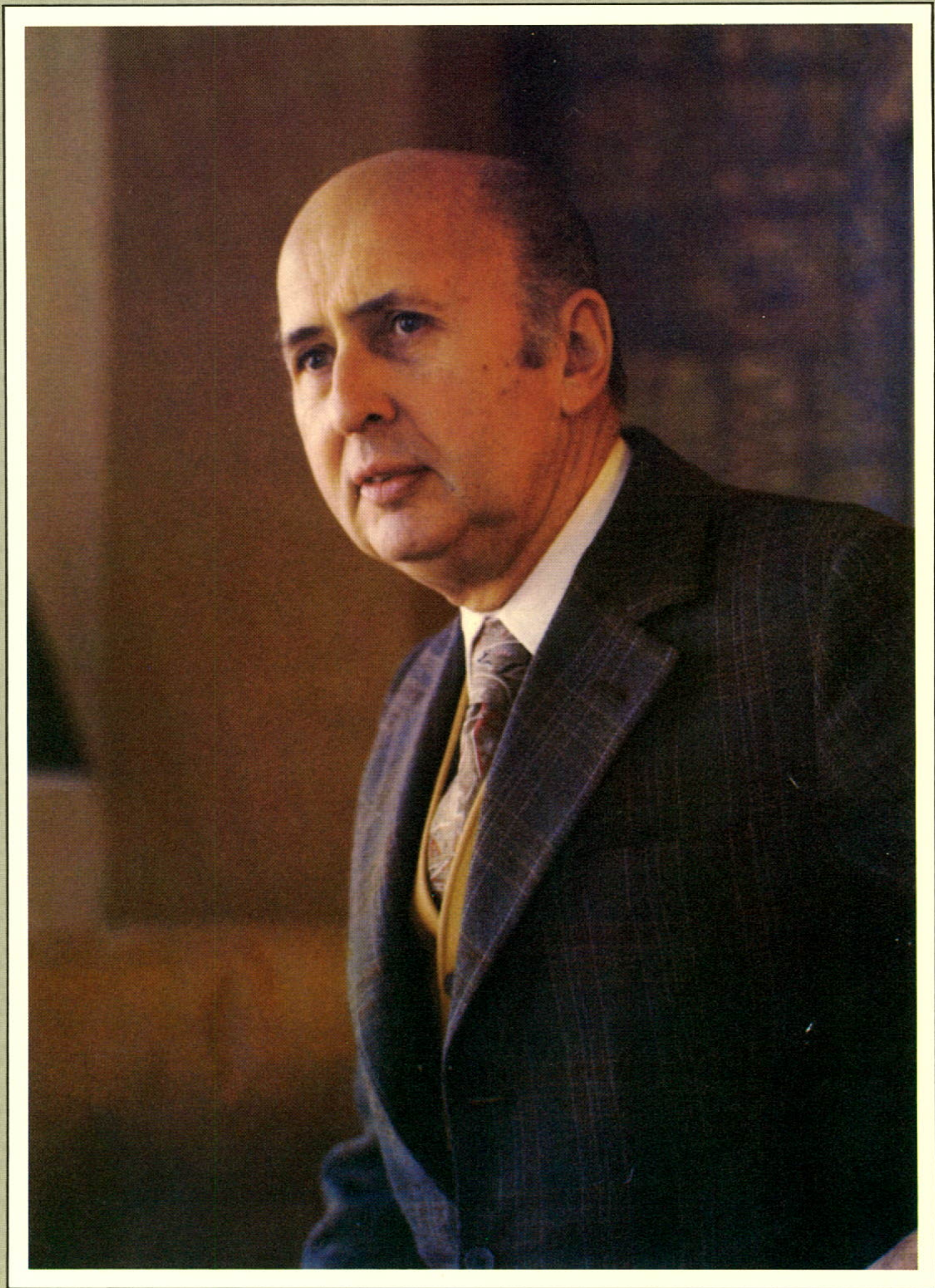
Thorne Riddell & Co.
Calgary, Alberta

## REGISTRAR

Canada Trust Company
Calgary, Alberta

## TRANSFER AGENTS

Canada Trust Company, Calgary, Alberta
and Toronto, Ontario



**DALLAS E. HAWKINS II**
**President**

OAKWOOD PETROLEUMS LTD.

2700 Shell Centre 400 - 4th Avenue S.W. Calgary, Alberta, Canada T2P 0J4 (403) 265-6040 Telex 03-822846

February 15, 1979

TO THE SHAREHOLDERS

The year just passed has been a most eventful one for your Company. The acquisition of highly valuable assets combined with the introduction of an intensified and successful exploration program has prompted your management to reassess Oakwood's assets and update the appriasal provided to you in November, 1977.

As in previous years, we are fortunate in obtaining the services of Mr. George R. Hugo, a professional economist and appraiser with many years of experience in the Canadian petroleum industry. The enclosed new assessment prepared by Mr. Hugo endeavours to measure the impact on the Company of events since the last formal evaluation. In particular, Mr. Hugo's appraisal includes the acquisitions recently concluded by your management. It provides estimates and future cash flows and postulates share values based on this forecast.

Besides monetary growth, the Company has grown in personnel and expertise. To the already hard-working staff and officers, several additions have been made, giving depth and strength to the Company. We are fortunate to have been able to acquire capable, dedicated people.

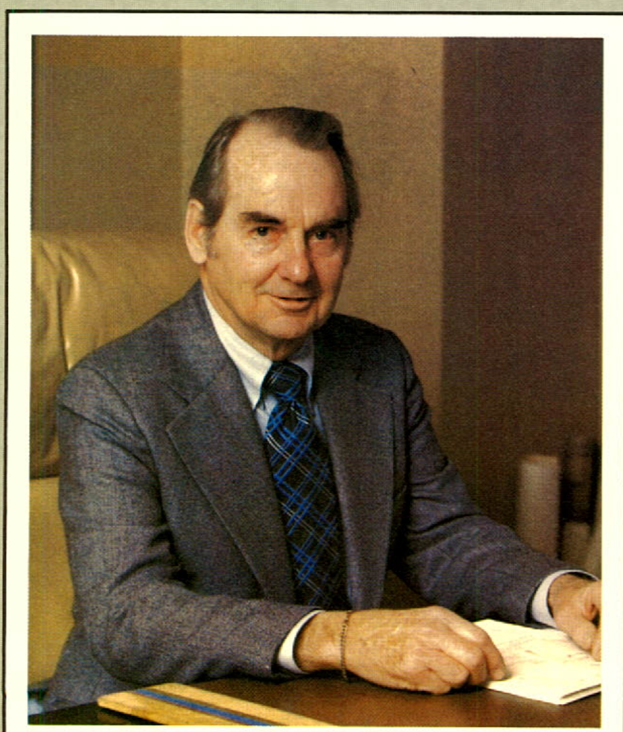
Although we are pleased with past achievements and take pride in the values assigned by Mr. Hugo, we intend to maintain a growth posture by way of additional selective acquisitions and profitable exploration opportunities. We therefore welcome and appreciate your continuing interest and hope you will find the enclosed evaluation useful.

Dallas E. Hawkins II

Dallas E. Hawkins II
President

RICHARD D. JENSEN
Executive Vice-President

BRIAN S. EKSTROM
Vice-President, Finance



KENNETH N. GERMOND
Vice-President, Exploration

GERHARD KASDORF
Vice-President, Production & Operations

# OAKWOOD PETROLEUMS LTD.

## EVALUATION BY GEORGE R. HUGO
## FEBRUARY 15th, 1979

**OAKWOOD**

**Common Shares:**

Current Price (Feb. 15th, 1979) . . . .$4.85

Price Range 1978 . . . . . . .High $6.25 Low $3.37
Cash Flow Est. 1978 . . . . . . . . . . . . . .$0.84
Cash Flow Est. 1979 . . . . . . . . . . . . . . 1.57
Net Income Est. 1978 . . . . . . . . . . . . . 0.34
Net Income Est. 1979 . . . . . . . . . . . . . 0.59

Estimated Asset Value Per Share at 15% R. of R. after Tax $10.35.

N.B. Cash Flow and Net Income Represent Consolidated figures for Oakwood and American Eagle.

**Listing:** Toronto Stock Exchange

**Marketability**

In the last four months of 1978 and the first month of 1979 a total of 1,508,200 shares were traded as follows:

| | | |
|---|---|---|
| 1978 | Sept. | 239,900 |
| | Oct. | 254,500 |
| | Nov. | 344,700 |
| | Dec. | 280,900 |
| 1979 | Jan. | 388,200 |

During the entire year of 1978 5,443,700 shares of the company were traded for average of 21,775 per day based on 250 trading days.

**Capital Stock as at December 31st, 1978**

Authorized 7,000,000 common shares without par value.

*Issued 5,373,611 common shares.

*Of the issued common shares 595,334 are held by a wholly owned subsidiary company of Oakwood. Consequently the figure used in the analysis to determine asset value is 4,778,277.

**AMERICAN EAGLE** (44.2% owned by Oakwood)

**Common Shares:**

Current Price (Feb. 15th, 1979) . . . .$2.55
Price Range 1978 . . . . . . .High $4.10 Low $1.43
Cash Flow Est. 1978 . . . . . . . . . . . . . .$0.08
Cash Flow Est. 1979 . . . . . . . . . . . . . . 0.22
Net Income Est. 1978 . . . . . . . . . . . . . 0.02
Net Income Est. 1979 . . . . . . . . . . . . . 0.07

Estimated Asset Value Per Share at 15% R. of R. After Tax $3.50

**Listing:** Toronto Stock Exchange

**Marketability:**

In 1978 7,443,500 shares of the company were traded.

**Capital Stock as at December 31st, 1978:**

Authorized 20,000,000 common shares.
Issued 4,595,229 common shares

**Summary and Conclusions:**

**1. The Company**

Oakwood Petroleums Ltd. is a junior Western Canadian Oil and Gas company which has achieved remarkable growth over the last five years. The writer has prepared analyses of the company for more than seven years and has witnessed progressive increases in all facets of the company's operations. In 1971 the net asset value per share of Oakwood was $1.35; today it is estimated at $10.35 per share for a compound growth rate of approximately 30% per annum.

**2. Management and Sponsorship**

Only Capsule comments are appended below since the potential investor will surely take it upon himself to learn more details of the company's management.

D. E. (Dallas) Hawkins II, is the President of Oakwood and the man responsible for directing his management and staff to the growth record of the last few years. He has had more than thirty years experience in the business and has made a specialty of acquisitions.

R. D. (Dick) Jensen, is Executive Vice-President of the Company and joined Oakwood in March, 1978. He has some twenty-five years experience in the industry and a B.Sc. in Petroleum Engineering. He was for many years Director of Oil and Gas Services for a major Canadian financial institution.

B. (Brian) Ekstrom is Vice-President of Finance for the Company as well as being Treasurer of American Eagle. He has a B. Comm. in Accounting and was appointed Vice-President of Oakwood in 1976. Since 1965 he has had wide experience in oil industry financial management both as a consultant and in his present capacity.

K. W. (Ken) Germond is Vice-President, Exploration. He joined Oakwood in 1977 and prior to that he had extensive world-wide and Canadian exploration experience. He has been Exploration Superintendent in Calgary for a major oil company, and Canadian Vice-President in charge of Exploration for several successful independent companies.

G. (Gerry) Kasdorf is President of American Eagle, and Vice-President of Production and Operations for Oakwood. He has a B.Sc. in Petroleum Engineering and many years of experience in the Canadian oil and gas industry.

### 3. Corporate Objectives

(a) A principal corporate objective is to continue an emphasis on the profitability of operations. To this end, Oakwood will also remain growth oriented, but in keeping with historic activity, this growth will parallel enhanced profitability.

(b) The Company will continue to make acquisitions if, as, and when this can be profitably undertaken.

(c) Exploration will play a progressively larger role in Oakwood's overall operations. For a period of years the company grew largely from acquisitions, but beginning in 1977 a new emphasis was placed on exploration; this trend will continue.

(d) Consistent with objectives (b) and (c) Oakwood looks to a continued enlargement of its operations in the U.S.

(e) A process of corporate consolidation will take place. Precise plans have not yet been formulated but definitive announcements will take place over the next twelve months.

(f) Corporate moves will see the ratio of debt to equity reduced and an associated reduction in debt service take place. Such developments will be directly reflected in the company's balance sheet.

### 4. Reserves

Net Reserves after Royalties for both Oakwood and American Eagle are as tabulated below. These are official company estimates as at January 1, 1979 and as such vary very slightly from the values carried in the Lewis reports of October 1, 1978, and later used in evaluating the two companies.

| | Oil and N.G.L. | Natural Gas |
|---|---|---|
| | (Bbls) | (mcf) |
| Oakwood Petroleums Ltd. | 3,048,399 | 127,979,138 |
| American Eagle Petroleums Ltd. | 921,312 | 23,056,858 |

### 5. Production and Cash Flow

Production and Cash Flow for Oakwood Petroleums is expected to increase substantially in 1979 both as a consequence of normal growth and the recent acquisitions. Oil production is expected to average close to 1600 BPD while natural gas production will be about 29 million cubic feet per day. As a consequence cash flow should increase from an estimated 4 million dollars in 1978 to 7.5 million dollars in 1979, or an increase of 87.5 per cent.

(See later, tabulation for Production and Cash Flow Details)

### Recommendation

At its present price of $4.85 per share Oakwood is trading 53.2 per cent below my appraised value of $10.35 per share using a 15% Rate of Return After Tax estimate.

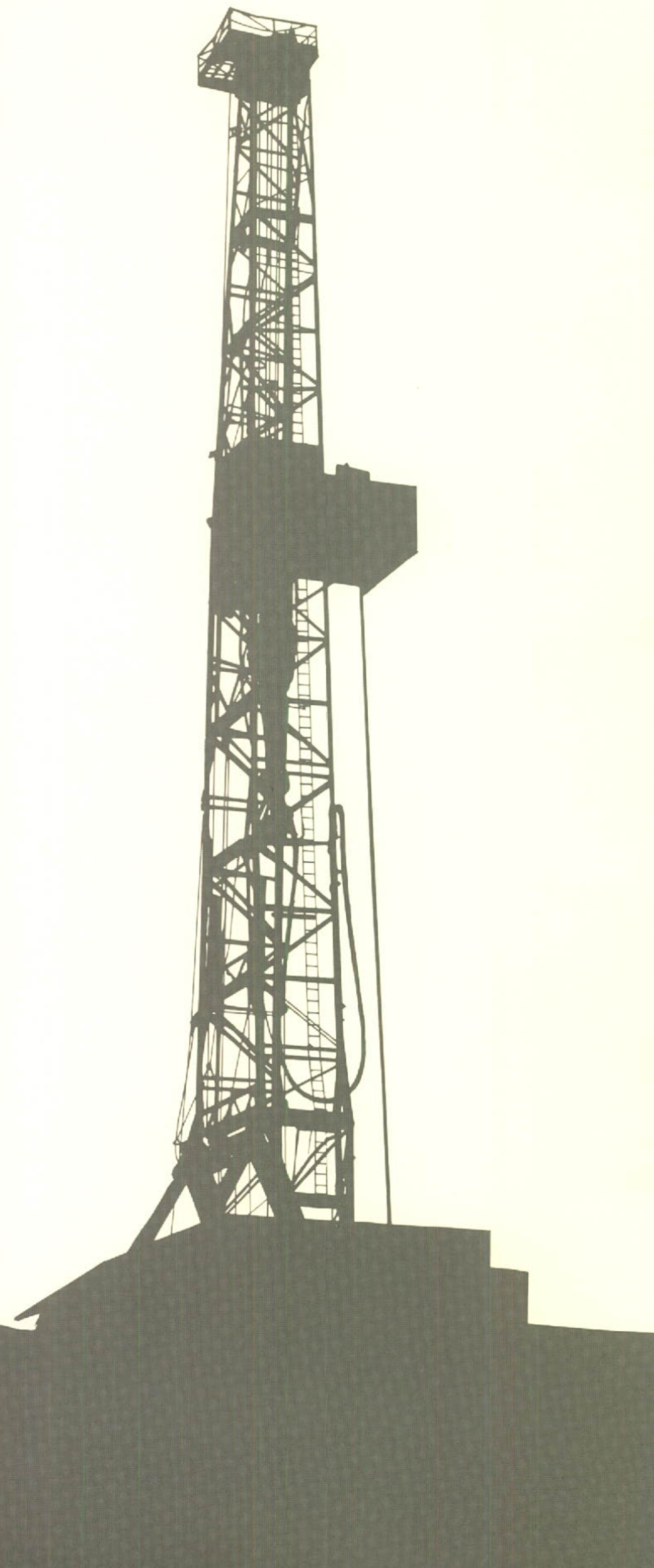
Oakwood will participate in a 4 million dollar drilling fund in Canada in 1979 and will earn one third of the resultant reserves and net revenues. In the U.S. the company will spend 1.5 million dollars on exploration in 1979. Exploration results represent a potential plus in what is currently an undervalued situation.

Ambitious corporate acquisition programs of the last several months will bring substantial ongoing changes to the company. As a consequence of these acquisitions Oakwood has a high debt to equity ratio at the present time. This highly leveraged situation carries both risk and opportunity because of the potential for rapid change. However, the company has shown remarkably good judgement in its historical acquisitions which have been numerous, and possesses excellent banking connections.

The recent acquisitions appear to have been well conceived against a background of rising energy prices (the spot price for oil on world markets is presently $20 per barrel), and could look like pure genius within twelve months. In the meantime the role of management will be critical, and a careful monitoring of operations will be required in order to nurture the new "asset" members of the corporate family.

The stock is rated a BUY for those willing to assume some risk in owning a situation which has a very high growth potential from present levels.

G. R. Hugo,
February 15, 1979.



OAKWOOD PETROLEUMS LTD.

### Recent History of the Company

The company in its present form was originated in May, 1970 when the Company acquired all of the common shares of Marwood Petroleum Ltd. As a result of the initial re-organization Oakwood became the parent company to Bayview Oil & Gas Ltd., Marwood Petroleum Ltd., and its subsidiary Flamingo Oils Ltd., which is 95.84 per cent owned by Marwood. Later other subsidiaries were either formed or acquired and all of these are owned 100% by Oakwood Petroleums Ltd. The complete list reads as follows.

Oakwood Petroleum Corporation
Marwood Petroleum Ltd.
Bayview Oil & Gas Ltd.
Oakwood Petroleum (U.K.) Ltd.*
Oakwood Petroleums Ireland Ltd.
Oakwood Petroleums Italiana S.I.A.
Lochaber Oil Corporation Ltd.
Bueno Oils Ltd.
Orient Investments Ltd.
Coronado Consultants Ltd.
Flamingo Oil Ltd. (N.P.L.)

### Business

The company and its subsidiaries have been and will continue to be engaged in the business of exploring for, developing and producing natural gas and crude oil. At the present time, exploration operations are conducted primarily in the four Western Provinces of Canada, the United States, and off shore United Kingdom, West Germany, Australia and the Seychelle Islands. The company's crude oil and natural gas reserves are primarily in Alberta, Saskatchewan and the United States, and it also owns interests in natural gas plants.

*Presently being sold.

**LAND HOLDINGS**

| | Gross | Net |
|---|---|---|
| Petroleum & Natural Gas | | |
| Lease and Permit Acres ...... | 10,197,602 | 1,269,405 |
| Mining Claims — Acres ........ | 9,416 | 787 |

### Exploration Programs 1978 - 1979

During 1978 Oakwood participated in 18 gross exploratory wells in Western Canada, for an average working interest of 28 per cent. Of these exploratory wells, seven were gas discoveries and one is an oil discovery. The oil discovery has now been followed by two good offset wells, and in addition these have led to the finding of another oil zone and another gas zone.

All of Oakwood's exploratory drilling in Western Canada in 1978 was conducted through the Oakwood #1 Drilling Fund. It is anticipated that 1979 will see a continuation of this arrangement through an expanded 4 million dollar drilling program. The operating arrangement calls for Oakwood to pay 10% of exploratory well costs, to earn 33.3% in the resultant cash flow. Limited Partners, contributing 90% of the costs earn 66²/₃% of the reserves and resulting production proceeds.

Of particular significance to Oakwood is the Gladys area of Southern Alberta where drilling by the company and others has proven the existence of 2 oil zones as well as 2 gas zones; drilling in the area is expected to recommence shortly after new data has been evaluated. The company is also currently involved in three seismic programs on exploratory acreage in Alberta.

In East Texas (Freestone and Limestone Counties) Oakwood and its partners have now drilled 10 wells in a deep Jurassic trend. These wells capable of producing 1-2 MMcfd after fracturing, will enjoy sales under a contract paying more than $2 per MCF. No dry holes have been drilled by the company to date and its interests in the wells varies up to a maximum of 25%. Oakwood expects to spend approximately 1.5 million dollars on the play in 1979 and the program is viewed as being quite significant to the company.

Future plans call for the company to increase its exploratory expenditures as the necessary funding becomes available.

### American Eagle Activities 1978 - 1979

Most of the company's projects in 1978 were of a development or semi-development nature. During the year American Eagle and its partners were successful in extending an oil discovery at Grand Forks in Southern Alberta. The company now has a 25% interest in four oil wells all completed in the Upper Manville "B: horizon. An application has been made to

Alberta's Energy Resources Conservation Board to waterflood the pool, and it is expected that the project will be completed shortly.

At Vermilion, Alberta, which is a heavy oil pool the company participated in the drilling of 7 wells during the year, and now has an interest of 25 per cent in the 37 wells in the pool. The oil is of 15-16° API gravity and it is felt that a waterflood project will increase the recovery from the reservoir by 50% and give an ultimate recovery of 15% of oil in place. The operator of the project is Canadian Hunter Explorations Ltd. and an application has been made to the E.R.C.B. for permission to waterflood the pool.

Off the East Coast of Canada Chevron drilled a well on a 393,688 acre block in which American Eagle retains slightly more than a 3% interest. The Hopedale K-33 well flowed gas at an aggregate daily rate of 32 MMcf from 2 zones. Gas production was accompanied by significant quantities of condensate. Chevron now has an option to drill a well this summer to earn a 55% interest in a contiguous 339,816 acre block. Should this option be exercised Chevron will be drilling a separate structure not connected to the Hopedale reservoir.

American Eagle could be involved in substantial development drilling activity if an application by Pan Alberta to export natural gas is approved. Gas contracts on the Wildmere and Blackfoot properties have been signed, and if gas export receives the necessary approvals the company would have significantly more development activity than that outlined in the following section.

**Oakwood and American Eagle Development Activity 1979.**

The major components of 1979 activity will be as follows, and in each case provide for production facilities for the following.

**A) Oakwood**

Purchase Matziwin Gas Plant, drill 8 wells
Princess, drill 2 wells
Tide Lake, drill 4 wells
Jenner, tie in 3 new zones, drill 4 wells
Thorhild, 1 well
Connorsville, 1 well
Pembina, 1 well
Big Bend, 3 wells
Verger, 5 wells
Saddle Lake, 2 wells
Gladys, 4 wells
Fireweed - Jeans, 2 wells

**B) American Eagle**

Wildmere, 3 wells
Blackfoot, 10 wells
Countess, 5 wells
Vermilion, 6 wells
Tide Lake, 4 wells
Saddle Lake, 2 wells
Pembina, 1 well
Grand Forks, 1 well

**Sandhills Project**

The 1977 Annual Report of Oakwood Petroleums Ltd. ascribed 103 billion cubic feet of gas reserves, net after all royalties, to its Sandhills property in southwestern Saskatchewan. There the company remains varying 10 to 50 per cent working interests in 236,486 gross acres for a net position of approximately 65,617 acres.

The area is just east of the large Medicine Hat gas field in Alberta although the play is for shallow Milk River gas rather than the Medicine Hat sand. The formation has an average thickness in excess of 300 feet and consists of interbedded sandstones, siltstones and shales. Approximately 30 per cent of the zone is found to be gas bearing and is composed of a series of thin lenses. Depth to the top of the Milk River formation is approximately 1,500 - 1,700 feet.

To date the Operating Group consisting of Oakwood 25 per cent, Canadian Occidental 25 per cent and Union Gas Company of Canada 50 per cent has drilled a total of 31 productive wells and two dry holes. It should be borne in mind that the development of large shallow gas reserves is a capital-intensive pursuit, and that the economics are very sensitive to the contracted gas price.

At the present time, although the reserves are proven in every sense of the word, they are currently uneconomic under the gas pricing regime in force in Saskatchewan. For this reason the Operating Group has suspended further drilling activity. In the meantime, discussions are continuing with the Saskatchewan Government to arrive at some kind of arrangement under which the property can be produced economically.

From an evaluation point of view the conservative way of handling the Sandhills prospect is to assign it zero value. This is what has been done in this study, although the claim is not made that is a satisfactory solution. The present worth of an Mcf of gas in Alberta varies considerably but much of it has a value in the 20 - 40 cents range. If a compromise were to be reached in Saskatchewan which would give the natural gas even a 5 cents per Mcf present worth value the effect upon Oakwood Petroleums Ltd. would be significant. Indeed it would increase the pre-tax asset value by over $5 million, and on an after tax basis would increase the asset value per share by approximately 75 cents.

**Asset Acquisitions**

During 1978 Oakwood completed several major property acquisitions which will, in total, play a very important role in the company's future.

Briefly these were:

(a) The purchase of a 50% interest in the Canadian oil and gas properties formerly held by Shenandoah Oil Corporation of Fort Worth, Texas. Oakwood's share of the acquisition price was $23.65 million in Canadian funds.

(b) The acquisition of all of the Canadian oil and gas properties of Chief Seneca Oil and Gas Ltd. which is a subsidiary of Prudential Funds Inc. of N.Y. This purchase was completed in two separate closings and in aggregate amounted to $8.55 million Canadian.

(c) The acquisition of all of the Canadian Oil and Gas assets of Hanover Petroleum Corporation of Dallas, Texas for $2.85 million Canadian.

(d) The acquisition of a 100% working interest in the Canadian oil and gas properties of Consumers Gas Company of Toronto subject to a 90% net profits interest. This is the equivalent of a 10% working interest to Oakwood's account. Acquisition cost of this transaction was $2 million Canadian.

**EVALUATION OF AMERICAN EAGLE PETROLEUMS LTD.**
**NECESSARY TO EVALUATE OAKWOOD PETROLEUMS**
**At 15% Rate of Return Pre-Tax and Post-Tax**

| | **MM$** |
|---|---|
| Net Proven & Probable Oil and Gas Reserves | |
| Per Lewis Report October 1, 1978 | |
| Oil — 914,000 Bbls | |
| N.G.L. 26,000 Bbls | |
| Gas — 22.4 Bcf | 20.46 |
| Non-Producing Properties | 4.50 |
| Sub Total | 24.96 |
| Working Capital Deficit | 0.25 |
| Long Term Debt $2,500,000. | |
| Present Worth of Long Term Debt After Debt Amortization | 1.72 |
| | 22.99 |
| NET ASSETS | |
| Shares Outstanding 4,595,229 | |
| Net Asset Value Per Share Pre-Tax | $5.00 |
| Est. Net Asset Value Per Share Post-Tax | $3.50 |

## EVALUATION OF OAKWOOD PETROLEUMS LTD.
### At 15% Rate of Return Pre-Tax and Post-Tax

| | $MM |
|---|---|
| **Net** Proven and Probable Oil and Gas Reserves | |
| Per Lewis Reports Oct. 1, 1978 | |
| Oil — 3,076,000 Bbls | |
| N.G.L. — 40,000 Bbls | |
| Gas 129.4 Bcf | |
| Long Term Debt — $51.8 MM | |
| Present Worth of Producing Properties | |
| After Debt Amortization | $48.8 |
| Non-Producing Properties | 9.7 |
| Net Working Capital | 2.0 |
| Sub Total | 60.5 |
| Value of Investment in American Eagle: | |
| 2,030,623 shares at $5.00 per share | 10.1 |
| Net assets | 70.6 |
| Shares Effectively Outstanding 4,778,177 | |
| Net Asset Value Per share Pre-Tax | $14.78 |
| Est. Net Asset Value Per Share Post-Tax* | $10.35 |

*In its present status Oakwood would not expect to pay income taxes during the next five years.

### COMMENTARY ON EVALUATION RESULTS

In October 1977 the writer prepared a formal analysis of Oakwood Petroleums Ltd. at the request of the company. My evaluation of that date showed the After Tax value of the company at 15% Rate of Return to be $4.42 per share. As a consequence of this current analysis dated February 15th 1979, I estimate the value of the company at 15% Rate of Return After Tax to be $10.35 per share. This sizeable increase has come about for several reasons: the most important of these are:

1. Significant reserve increases arising from revisions and new discoveries.

2. Product price increases

3. Major asset acquisitions.

It should further be pointed out that the present analysis includes more complete and up-to-date reserve estimates than were ever available before. Similarly the present report employs a complete tabulation of outside consultants' reports on the value of non-producing acreage. These have enabled a timely and thoroughly professional assessment of these properties never completely possible before. For these reasons I consider the present evaluation to be the most complete analysis I have ever been able to make of the company.

The choice of an After Tax Assessment of Net Asset Value at 15% Rate of Return is in my opinion rigorous, and the value of Oakwood's Sandhill property has been conservatively treated by making it the subject of a commentary rather than including it in the evaluation proper.

## OAKWOOD PETROLEUMS LTD.
## HISTORICAL AND PROJECTED FINANCIAL DATA*

| | 1975 | 1976 | 1977** | 1978** | 1979** |
|---|---|---|---|---|---|
| Gross Revenue | $1,429,000 | $3,383,000 | $6,448,000 | $7,230,000 | $17,700,000 |
| Cash Flow From Operations | 485,000 | 1,460,000 | 2,782,000 | 4,000,000 | 7,500,000 |
| Depletion and Non-Cash Charges | 328,000 | 483,000 | 1,340,000 | 1,400,000 | 2,000,000 |
| Net Earnings (Loss) | (126,000) | 422,000 | 993,000 | 1,600,000 | 2,800,000 |
| Number of Shares Outstanding | 3,643,781 | 4,424,451 | 4,772,277 | 4,778,277 | 4,778,277 |
| Cash Flow/Share | .13 | .34 | .61 | .84 | 1.57 |
| Net Income/Share | (.03) | .10 | .22 | .34 | .59 |

### HISTORICAL AND PROJECTED PRODUCTION DATA

| | 1975 | 1976 | 1977** | 1978** | 1979** |
|---|---|---|---|---|---|
| Production | | | | | |
| Oil (bbl) | 161,182 | 204,345 | 336,736 | 450,000 | 580,000 |
| Daily Average | 442 | 560 | 923 | 1,233 | 1,589 |
| Gas (mcf) | 1,317,963 | 1,906,542 | 3,564,276 | 3,725,000 | 10,520,000 |
| Daily Average | 3,611 | 5,223 | 9,765 | 10,205 | 28,820 |

*Actual data for 1975 - 1977 inclusive
Estimated data for 1978
Projected data for 1979

**1977 - 1979 amounts reflect full consolidation of operating results for American Eagle Petroleums Ltd.

## AMERICAN EAGLE PETROLEUMS LTD.*
## HISTORICAL AND PROJECTED FINANCIAL DATA

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|
| Gross Revenue | $361,000 | $530,000 | $1,026,000 | $1,410,000 | $2,375,000 |
| Cash Flow from Operations | (141,000) | (184,000) | 198,000 | 375,000 | 1,000,000 |
| Depletion and Non-Cash Charges | 166,000 | 176,000 | 267,000 | 210,000 | 300,000 |
| Net Earnings (Loss) | (402,000) | (318,000) | (133,000) | 80,000 | 320,000 |
| Number of Shares Outstanding | — | 4,151,629 | 4,471,309 | 4,595,229 | 4,595,229 |
| Cash Flow/Share | (.03) | (.04) | .04 | .08 | .22 |
| Net Income/Share | (.09) | (.08) | (.03) | .02 | .07 |

### HISTORICAL AND PROJECTED PRODUCTION DATA

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|
| Production | | | | | |
| Oil (bbl) | N/A | N/A | 106,282 | 127,000 | 145,000 |
| Daily Average | N/A | N/A | 291 | 348 | 397 |
| Gas (mcf) | N/A | N/A | 530,687 | 645,000 | 1,320,000 |
| Daily Average | N/A | N/A | 1,454 | 1,767 | 3,616 |

*Actual data for 1975 - 1977 inclusive
Estimated data for 1978
Projected data for 1979

## DOSSIER OF G. R. HUGO

Mr. George R. Hugo, President of G. R. Hugo and Associates of Calgary, was born in Lancaster, England, in 1932. He attended university at the London School of Economics and the University of Alberta. He obtained a B.A. degree in Economics and holds advanced certificates from Columbia University of New York and the Massachusetts Institute of Technology.

Mr. Hugo has held various analytical and economics positions in the petroleum industry. He was a senior member of the Mobil Oil Company, Calgary and New York economics team and prior to the establishment of his own company, he participated in this company's economic planning and budget function. After forming G. R. Hugo and Associates, he has been exposed to a multitude of petroleum economics situations and has enjoyed activity with a number of Canadian and North American oil companies. A partial list of clients includes the following:

- Socony Mobil Oil Company
- Home Oil Company
- Texas Gulf Sulphur Company
- Bow Valley Industries
- Canadian Industrial Gas & Oil
- King Resources
- French Petroleum Company
- Banff Oil
- Standard Oil of New Jersey
- Colorado Oil and Gas
- Rock Island Refining Company
- Murphy Oil
- Tenneco
- Western Decalta Petroleums
- Supertest Petroleums

In addition to his professional economics consulting services, Mr. Hugo has been associated with investments and securities as Manager of Dominion Securities Commission from 1970 through 1971. He was also a senior partner of Peters, Hugo & Co. Ltd., members of the Toronto Stock Exchange. Mr. Hugo is the founding president of the Economic Society of Alberta and has held various positions and served on numerous committees in the Canadian Petroleum Association and Independent Petroleum Association of Canada. He has served as a world-wide lecturer for the American Association of Petroleum Geologists and is a frequent contributor of articles on petroleum economics in Oilweek magazine and other petroleum journals.

Mr. Hugo is married and has two children.

Corporate Evaluation 1979

# OAKWOOD PETROLEUMS LTD.