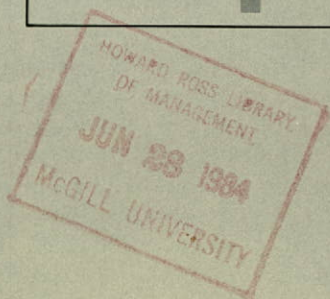


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Lochiel Exploration Ltd.

INTERIM REPORT

FIRST QUARTER
1984



TO THE SHAREHOLDERS

FINANCIAL

For the three months ended April 30, 1984 oil and gas sales were \$3,126,000 compared to \$2,553,000 during the same period of 1983 for an increase of 22 percent. The cash flow from operations increased 35 percent to \$1,196,000 compared to \$885,000 a year earlier. Net income for the period was \$132,000 compared to income of \$49,000 during the same period of 1983 and this represents an increase of 169 percent.

During May the Company successfully completed the sale of 50 units of flow-through preferred shares for a total issue of \$5,350,000. The proceeds of the issue will be spent by Lochiel in the balance of 1984 primarily for exploration and development on provincial lands though a small portion of the proceeds will be spent on frontier exploration in the Beaufort Sea. It is anticipated that the provincial exploration and development drilling activity will have a significant impact in enhancing the conventional reserves and the level of oil and gas production in Canada for the Company and result in increased cash flow and cash flow per common share.

PRODUCTION

Lochiel's production worldwide for the three month period ended April 30, 1984 increased 50 percent for natural gas to 276.8 mmcf (3.1 mmcf per day) and increased 14 percent for oil to 57,107.1 barrels (635 barrels per day) from the same period in 1983. While oil production in Canada increased 148 percent during the period, the oil production in the United Kingdom was sharply reduced due to the Buchan Field operating at a reduced rate of production due to mechanical problems on certain wells.

EXPLORATION AND DEVELOPMENT

Western Canada

During the first quarter the Company drilled two wells, in the very active Peace River Arch play. The Jackpine 5-18 well encountered good porosity in the Slave Point formation but tested only salt water and was abandoned. The Company did earn a 12½ percent working interest in 5,760 acres as the result of drilling this well. The second well, Utikuma 3-24 was drilled as a

Lochiel Exploration Ltd.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

for three months ended April 30, 1984
(unaudited)

	<u>1984</u>	<u>1983</u>
REVENUE		
Oil and gas sales	\$3,126,000	\$2,553,000
Less: royalties and mineral taxes	<u>675,000</u>	<u>566,000</u>
Net sales	2,451,000	1,987,000
Other income	<u>21,000</u>	<u>8,000</u>
	2,472,000	1,995,000
EXPENSES		
Operating	606,000	440,000
General and administrative	300,000	291,000
Interest on long-term financing	470,000	491,000
Royalty tax recovery	<u>(100,000)</u>	<u>(112,000)</u>
	1,276,000	1,110,000
CASH FLOW FROM OPERATIONS	<u>1,196,000</u>	<u>885,000</u>
NON-CASH CHARGES		
Depletion, depreciation and amortization	973,000	836,000
Deferred income taxes	<u>91,000</u>	<u>—</u>
	1,064,000	836,000
NET INCOME FOR THE PERIOD	<u>\$ 132,000</u>	<u>\$ 49,000</u>
RESULTS PER SHARE		
Funds from operations		
Class A common	8.6¢	6.4¢
Class B common	7.3¢	5.4¢
Net income for the period		
Class A common	—	—
Class B common	—	—

CANADIAN FRONTIER

In the Beaufort Sea, and through the Esso Resources-Home Oil consortium, the Kadluk offshore well reached a final total depth of 12,782 feet in early 1984. A total of 22 tests were run which resulted in minor oil shows and gas which flowed at a cumulative rate of 41 mmcf per day from five separate zones. Locations will be prepared this summer to facilitate the drilling of two more offshore wells at Amerk and Nipterk during the 1984-1985 winter season.

UNITED STATES

In New York State, the Hanson #1 gas well which was drilled in December is awaiting clarification of title from one of our partners prior to going on stream. It is anticipated that Seis-Ex Geophysical Ltd. will participate in the drilling of at least three wells in the late fall of this year, one of which has significant potential for oil production. The remaining two wells will be located within the Cherry Creek gas field to increase the current level of gas production capability.

In Kansas, one well was drilled on the Breeden Prospect and is being completed as an oil well. Lochiel's interest in this well is 7.92 percent.

OVERSEAS

The step-out well on the north flank of the Buchan Field has been drilled to total depth and test results on minor oil shows are presently being evaluated by the operator before abandoning.

Lochiel also participated for a 10 percent interest in a well drilled by Tricentrol in the previously unexplored area of the North Sea Aberdeen Sub-Basin. Drilling results are currently being evaluated and an announcement by Tricentrol is expected later this summer.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'N. W. Taylor', with a stylized flourish at the end.

N. W. Taylor
President

Devonian oil well which swabbed 10 barrels of oil per hour. This well, in which the Company has 17.5 percent working interest, will be completed and on production by July 1. Lochiel now has interests in 16 oil wells in the Utikuma Lake region with interests ranging from 2½ percent to 17½ percent, with the average being about 10 percent.

Three Month Production Summary February 1 - April 30

<u>Area</u>	<u>1984</u>	<u>1983</u>
Canada		
oil	26,409.0 bbls.	10,636.0 bbls.
gas	237.8 Mmcf	149.3 Mmcf
U.S.A.		
oil	9,176.1 bbls.	5,706.0 bbls.
gas	39.0 Mmcf	34.9 Mmcf
U.K.		
oil	21,522.0 bbls.	33,544.3 bbls.
Totals		
oil	57,107.1 bbls.	49,886.3 bbls.
gas	276.8 Mmcf	184.2 Mmcf

In Dodsland, Saskatchewan the eight wells drilled late in January were brought on stream and were producing NORP oil by the end of March. The present average level of production is seven barrels per day per well. Pursuant to the same farm-in agreement, two additional wells were drilled in May and the Company has exercised its option to drill a further five wells in the later part of June. The Company's working interest in these five wells is 75 percent reducing to 50 percent after payout.

With the proceeds of the recently completed flow-through share issue, the Company has committed to drill a minimum of four additional wells at Utikuma Lake with interests ranging from 17.5 percent to 35 percent on existing acreage and through farm-ins negotiated in the last two months. At Virginia Hills, located 100 miles northwest of Edmonton, the Company has committed to drill a well to earn a 45 percent working interest in 1280 acres.

Lochiel Exploration Ltd.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for three months ended April 30, 1984
(unaudited)

	<u>1984</u>	<u>1983</u>
SOURCES OF FUNDS		
From operations		
Net income for the period	\$ 132,000	\$ 49,000
Add (deduct) items not requiring current outlay of funds		
Depletion, depreciation and amortization	973,000	836,000
Deferred income taxes . . .	91,000	—
Funds from operations	<u>1,196,000</u>	<u>885,000</u>
Increase in long-term debt, net	938,000	720,000
Unrealized foreign currency translation gain	76,000	222,000
Issue of common shares . . .	32,000	—
	<u>2,242,000</u>	<u>1,827,000</u>
USE OF FUNDS		
Property, plant and equipment	2,178,000	1,985,000
Increase in investments and long-term receivables	82,000	30,000
Dividends paid on preferred shares	38,000	21,000
	<u>2,298,000</u>	<u>2,036,000</u>
DECREASE IN WORKING CAPITAL	56,000	209,000
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	<u>5,073,000</u>	<u>1,588,000</u>
DEFICIENCY AT END OF PERIOD	<u>\$5,129,000</u>	<u>\$1,797,000</u>