Lochiel Exploration Ltd.

INTERIM REPORT

SECOND QUARTER
1984

OCT 2 1984
McGILL UNIVERSITY

TO THE SHAREHOLDERS

FINANCIAL

For the six months ended July 31, 1984 oil and gas sales were $6,199,000 compared to $5,896,000 during the same period in 1983, an increase of five percent. The cash flow from operations was lower by 12 percent to $2,151,000 compared to $2,452,000 a year earlier. A net loss for the period of $418,000 was incurred compared to net income of $291,000 for the first six months of 1983.

During the summer months the Company closed a total of $12,000,000 of flow-through shares. The proceeds will be used to finance the continuing obligations for the remainder of 1984 of Lochiel in the Beaufort Sea where the Company is a participant in a consortium led by Esso Resources and Home Oil.

PRODUCTION

Lochiel's worldwide production for the six month period ended July 31, 1984 decreased nine percent for oil to 125,318.1 barrels (692.4 barrels per day) and for natural gas declined 7.6 percent to 574.6 mmcf (3.2 mmcf per day) from the same period in 1983. While oil production in Canada and the United States was significantly higher, there was a considerable drop of 33 percent in oil production in the United Kingdom due to workovers on certain wells. Gas production was generally fairly constant compared to the previous year though it continues well below capacity due to soft gas markets in Canada and the United States.

EXPLORATION AND DEVELOPMENT

Western Canada

During the second quarter the Company drilled two wells in the Utikuma Lake region for one oil well and one dry hole. To date, the Company has participated in a total of 25 wells in this region, resulting in 16 NORP oil wells. The average interest of Lochiel in the producing wells is about 13.5% and total production, net to Lochiel, is averaging 170 barrels per day. The Company has committed to drill a minimum of five additional wells at

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and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

for six months ended July 31, 1984
(unaudited)

	1984	1983
REVENUE		
Oil and gas sales	$6,199,000	$5,896,000
Less: royalties and mineral taxes	1,221,000	1,259,000
Net sales	4,978,000	4,637,000
Other income	28,000	35,000
	5,006,000	4,672,000
EXPENSES		
Operating	1,110,000	914,000
General and administrative	624,000	577,000
Interest on long-term financing	1,313,000	975,000
Royalty tax recovery	(192,000)	(246,000)
	2,855,000	2,220,000
FUNDS FROM OPERATIONS	2,151,000	2,452,000
NON-CASH CHARGES		
Depletion, depreciation and amortization	2,414,000	2,106,000
Deferred income taxes	155,000	55,000
	2,569,000	2,161,000
NET INCOME (LOSS) FOR THE PERIOD	$ (418,000)	$ 291,000
RESULTS PER SHARE		
Funds from operations		
Class A common	15.4¢	17.7¢
Class B common	13.1¢	14.9¢
Net income (loss) for the period		
Class A common	(3.4¢)	2.1¢
Class B common	(2.9¢)	1.8¢

4,877 metres while Havik is nearing its total depth of 4,750 metres and will soon commence testing. Through the Eno/Home program, the Amerk O-09 offshore well commenced drilling operations on August 22, 1984. This well is expected to take five months to reach total depth of 5000 metres. A second offshore well in this program, Nipterk L-19, will spud in mid-October.

Overseas

In Egypt the Company has opted to continue the second one and one half year period of exploration. This involves relinquishing 25 percent of the original Sheiba concession area and drilling two new wells. Lochiel is currently negotiating a farmout in which the Company will be carried without cost during the next exploration phase.

In Denmark, the Company has been awarded two offshore blocks in the first round of applications. The purchase of approximately 30 kilometres of pre-existing seismic is being concluded and interpretations of data will be undertaken shortly. Lochiel has the option to drill or drop the acreage by June 30, 1986. If the drilling option is exercised, a commitment well would be spudded by June 30, 1989.

Respectfully submitted,

N. W. Taylor
President

Utikuma Lake with interests ranging from 17.5 percent to 100 percent on existing acreage and through farmins negotiated earlier this month.

During the second quarter Lochiel exercised its option on a 600 acre block at Dodsland, Saskatchewan and drilled a further seven NORP oil wells to complete a fifteen well program. Production rates for these wells are expected to stabilize at six to eight barrels per well per day. The interest of Lochiel is 50 percent in this program.

The Company has also negotiated another farmout to earn 50 percent in 11,164 acres in East Dodsland. Two oil wells have been drilled on this acreage on an experimental basis using a new stimulation technique. The results, so far, have been encouraging and two further wells are planned for drilling later in September.

Six Month Production Summary
February 1 - July 31

Area	1984	1983
Canada		
oil	53,117.0 bbls.	43,431.0 bbls.
gas	502.4 Mmcf	555.1 Mmcf
U.S.A.		
oil	17,685.1 bbls.	13,260.0 bbls.
gas	72.2 Mmcf	67.1 Mmcf
U.K.		
oil	54,516.0 bbls.	80,975.0 bbls.
Totals		
oil	125,318.1 bbls.	137,666.0 bbls.
gas	574.6 Mmcf	622.2 Mmcf

Canadian Frontier

In the Beaufort Sea, the Company will be participating in the Dome Natiak O-44 and Havik B-41 offshore wells which are located on lands on which Lochiel is carried at no cost for net carried interests ranging from 1.4 to 3.5 percent and gross overriding royalties of 0.625 to 0.567 percent. The Natiak well was re-entered in early September and is currently drilling toward its final depth of

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for six months ended July 31, 1984
(unaudited)

	1984	1983
SOURCES OF FUNDS		
From operations		
Net income (loss) for the period	$ (418,000)	$ 291,000
Add (deduct) items not requiring current outlay of funds		
Depletion, depreciation and amortization	2,414,000	2,106,000
Deferred income taxes	155,000	55,000
Funds from operations	2,151,000	2,452,000
Increase in long-term debt, net	1,365,000	648,000
Unrealized foreign currency translation gain	—	208,000
Issue of common shares	32,000	—
Issue of preferred shares	621,000	—
	4,169,000	3,308,000
USE OF FUNDS		
Property, plant and equipment	4,431,000	4,293,000
Increase in investments and long-term receivables	100,000	(13,000)
Dividends paid on preferred shares	55,000	21,000
Unrealized foreign currency translation loss	111,000	—
Financing costs	—	37,000
Purchase of subsidiary	—	40,000
	4,697,000	4,378,000
DECREASE IN WORKING CAPITAL	528,000	1,070,000
(WORKING CAPITAL) DEFICIENCY AT BEGINNING OF YEAR	5,073,000	1,588,000
DEFICIENCY AT END OF PERIOD	$5,601,000	$2,658,000

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