



OCT 2 1985
MCGILL UNIVERSITY

TABLE OF CONTENTS

The Corporation	1
Summary of Results	1
Management Report	2
Operations Report	4
Sulbath Exploration Ltd.	10
Financial Review	12
Financial Statements and Notes	15
Five-Year Summaries	36
Corporate Directory and Information	38

ANNUAL MEETING

The Annual General Meeting of Shareholders of Sulpetro Limited will be held in the auditorium, third floor, Bow Valley Square 2, 205 Fifth Avenue S.W., Calgary, Alberta, **at 10:00 a.m. on April 29, 1986.**

STREET NAME SHAREHOLDERS

If your shares are held in a trust or brokerage account and you wish to receive reports directly from the Company, please send your request to the Legal Department, Sulpetro Limited, 3200 Bow Valley Square 3, 255 Fifth Avenue S.W., Calgary, Alberta T2P 3G6.

COVER

A view of the demethanizer tower at the Wapiti liquids extraction facility which commenced operating in October, 1985.

METRIC CONVERSION TABLE

To convert from	To	Multiply by
Thousand cubic feet (mcf) gas	Thousand cubic metres (10^3m^3)	0.028
Barrels (bbl) oil	Cubic metres (m^3)	0.159
Feet (well depths)	Metres (m)	0.305
Miles (distance)	Kilometres (km)	1.609
Acres (land)	Hectares (ha)	0.405

Founded in 1966, Sulpetro Limited is a Canadian independent energy company with operations in Canada and the United Kingdom. The Company is actively engaged in the exploration, development and production of crude oil, natural gas and natural gas liquids; and, is a significant exporter of natural gas to the United States.

The Company's common shares trade on the Toronto and Alberta Stock Exchanges under the symbol "Sul".

SUMMARY OF RESULTS

Financial (thousands of dollars)	1985	1984
Oil and gas sales	\$ 150,594	\$ 210,779
Cash flow from operations	5,160	16,074
per share (in dollars) — before dividends	0.34	1.07
per share (in dollars) — after dividends	(0.53)*	1.07
Capital expenditures	38,698	59,579
Net loss	45,613	87,487
per share (in dollars) — before dividends	3.03	5.81
per share (in dollars) — after dividends	3.90 *	5.81

(For the years ended October 31)

* Preferred share dividends of \$13.1 million

Operations

Wells drilled

working and royalty interest	118	210
success rate	72%	80%

Sales

natural gas (mmcf per day)	82.4	104.9
crude oil and NGL (bbl per day)	5,186	7,157

Sulpetro natural gas export sales

as a percentage of authorized volumes	91.8	80.0
---------------------------------------	------	------

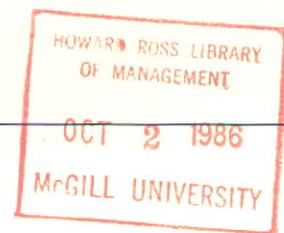
Landholdings (working interest)

gross acres	3,809,256	5,267,447
net acres	873,261	1,163,270

Proven reserves

natural gas (bcf)	613	723
crude oil (mdbl)	18,700	22,429
NGL (mdbl)	19,385	11,869

Operational statistics for previous years are not comparable with 1985 due to the October, 1984, financial restructuring which included the de-consolidation of Sulbath Exploration Ltd. (Sulbath); and, the transfer of properties to Sulbath Ventures (Ventures). Sulbath was formed in 1981, as a joint-venture exploration company by Sulpetro and Consolidated-Bathurst Inc. As part of the financial restructuring, Sulbath's holdings were substantially increased and its ownership restructured (see Notes 4 and 13 in the Notes to Consolidated Financial Statements).



Sulpetro's financial restructuring was completed in October, 1984, to position the Company to take advantage of anticipated future growth. However, international and domestic events beyond our control — lower than anticipated prices for natural gas, crude oil and natural gas liquids (NGL) and their corresponding volumes — have restricted the forecast growth in revenues. In addition, the move towards deregulation of the natural gas industry in Canada and the United States did not provide the expected compensatory benefits of significantly increased sales volumes.

Revenue from oil and gas sales, net of royalties, was \$113.3 million, down from \$159.1 million last year. The seven-month shutdown of the Buchan oil field, the sale of certain properties, and lower net wellhead prices on certain products were largely responsible for the reduction in revenue. Operating figures for the two years are not comparable due to the transfer of certain properties to an affiliate in late 1984.

The recent precipitous drop in oil prices, the confusion in gas markets and the resultant uncertainties of price movements in the months ahead continue to put further strain on cash flow in 1986. In order to conserve cash the Company has placed a moratorium on all but the most essential capital expenditures, and is reducing its staffing levels and expenses to reflect the sharply decreased activity level. Even with these measures, the Company's cash flow is inadequate to service long-term debt and preferred share dividends and to meet capital expenditures. Discussions between the Company and its principal Banker are being held to develop a plan to deal with the Company's financial circumstances.

Notwithstanding the disappointing financial results in 1985, progress continued in the streamlining of operations through the sale of our mining subsidiary for \$13 million in cash, notes and convertible preferred shares of a new company. This move relieved Sulpetro of an annual overhead and exploratory capital burden of about \$3 million while allowing retention of a significant position in a well financed attractive mineral exploration company. This disposition together with the earlier disposal of our United States and Netherlands holdings will allow the Company to concentrate its operations in Western Canada where it has enjoyed considerable success.

During the year, Sulpetro retroactively adopted the policy of accounting for its exploration and development costs on the country-by-country basis which is expected to become mandatory in 1986. The adoption of this change resulted in a one time retroactive charge to deficit of about \$103 million. As a result of the change, the loss for 1985 was reduced by \$2.2 million while that for 1984 increased by \$718,000. The Company's reported net loss for the fiscal year of \$45.6 million compares to a restated net loss of \$47.4 million before an extraordinary item for 1984. This method of accounting more accurately reflects the Company's operations as exploration and development are now primarily in Western Canada.

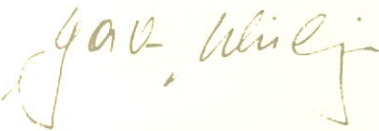
Sulpetro has continued to emphasize control of its capital spending. Expenditures in 1985 declined to \$38.7 million from \$59.6 million the previous year. Approximately \$14 million of the 1985 expenditures were obtained through project financing arrangements. In addition, the Company was relieved of approximately \$5 million in expenditures through the farm-out of its interest in 49 wells during the year. A further \$12.2 million has been committed, through the Sulbath Development Fund, for Sulpetro's share of several development projects. The fund was established in 1984 to allow an affiliate, Sulbath Exploration Ltd., to farm-in on selected Sulpetro properties.

Sulpetro has significantly improved its position as an NGL producer by the installation of extraction facilities at two of its major gas fields during the year. These facilities will allow the Company to capture the economic value of the liquids at the field rather than leaving them in the gas stream to be extracted by others. In 1986, a gas cycling facility will be completed in a third field where Sulpetro has a significant interest in the NGL recovered. Together the three fields will provide an additional NGL producing capacity of 3,500 barrels per day.

Following a comprehensive review of Sulpetro's Canadian hydrocarbon reserves undertaken by our engineers during the year, a number of adjustments were made resulting in an increase in oil and NGL reserves and a decrease in natural gas reserves. The resulting reserves were audited by a leading firm of independent consultants who concluded that the Company's reserves were within ten percent — an industry acceptable variance — of their estimate. The value of these reserves estimated as at October 31, 1985, and shown in the body of this report has been negatively affected by the continuous decline of oil and gas prices since early 1986.

In October, Mr. James P. Saunders resigned from his position as President and Chief Operating Officer and as a Director of Sulpetro. His long service and significant contributions to the Company are gratefully acknowledged. Mr. Michael A. Williams, previously Executive Vice-President, was appointed President and Mr. Norman E. Frost, Executive Vice-President. These changes underline the Company's desire to improve its profitability and to maintain its position as a leader in gas marketing. Messrs. Pierre Arbour, President, Laduboro Oil Ltd. and Brian D. Gregson, Senior Executive Vice-President of The Royal Bank of Canada were appointed to the Board of Directors during the year. Subsequent to year end, Messrs. David J. Butters, Reinhart Freudenberg and Ross A. MacKimmie resigned from the Board. Their contributions to the Company are also gratefully acknowledged.

On behalf of the Board we would like to thank all of Sulpetro's employees for their dedicated service during a year that required extra effort by them.



G. A. Van Wielingen
Chairman of the Board and
Chief Executive Officer



M. A. Williams
President

The undiscounted value of Sulpetro's proven and probable reserves is estimated to be \$5.1 billion.

Introduction

The year 1985 marked the implementation of the financial restructuring completed in October, 1984, and the continuation of the Company's strategy of optimizing near-term revenues from its properties. Emphasis was placed on development drilling with funding provided by the Sulbath Development Fund and third parties; enhancing the recovery of NGL through the construction of new facilities; continuing development of its heavy oil properties; and, maximizing Sulpetro's share of the gas delivered to its export market.

The Company participated in the drilling of 118 wells during the year, resulting in 55 oil wells and 30 gas wells for an overall success rate of 72 percent. Fifty-three of these wells were drilled at no cost to Sulpetro through various joint-venture arrangements. Of the 103 wells drilled in Canada, 48 were oil wells and 30 were gas wells. Drilling was concentrated on development programs in the Irish-Lindbergh, Minnehik-Buck Lake, Valhalla, Hoadley and McKee areas of Alberta, where the potential for early cash flow exists.

Worldwide working-interest landholdings at year end decreased to 3.8 million gross (873,000 net) acres due to extensive farm-outs of less prospective acreage and the surrender of lands which did not have the potential to generate early revenues. The Company estimates the value of its undeveloped landholdings of 3.5 million gross (553,000 net) acres to be approximately \$61 million.

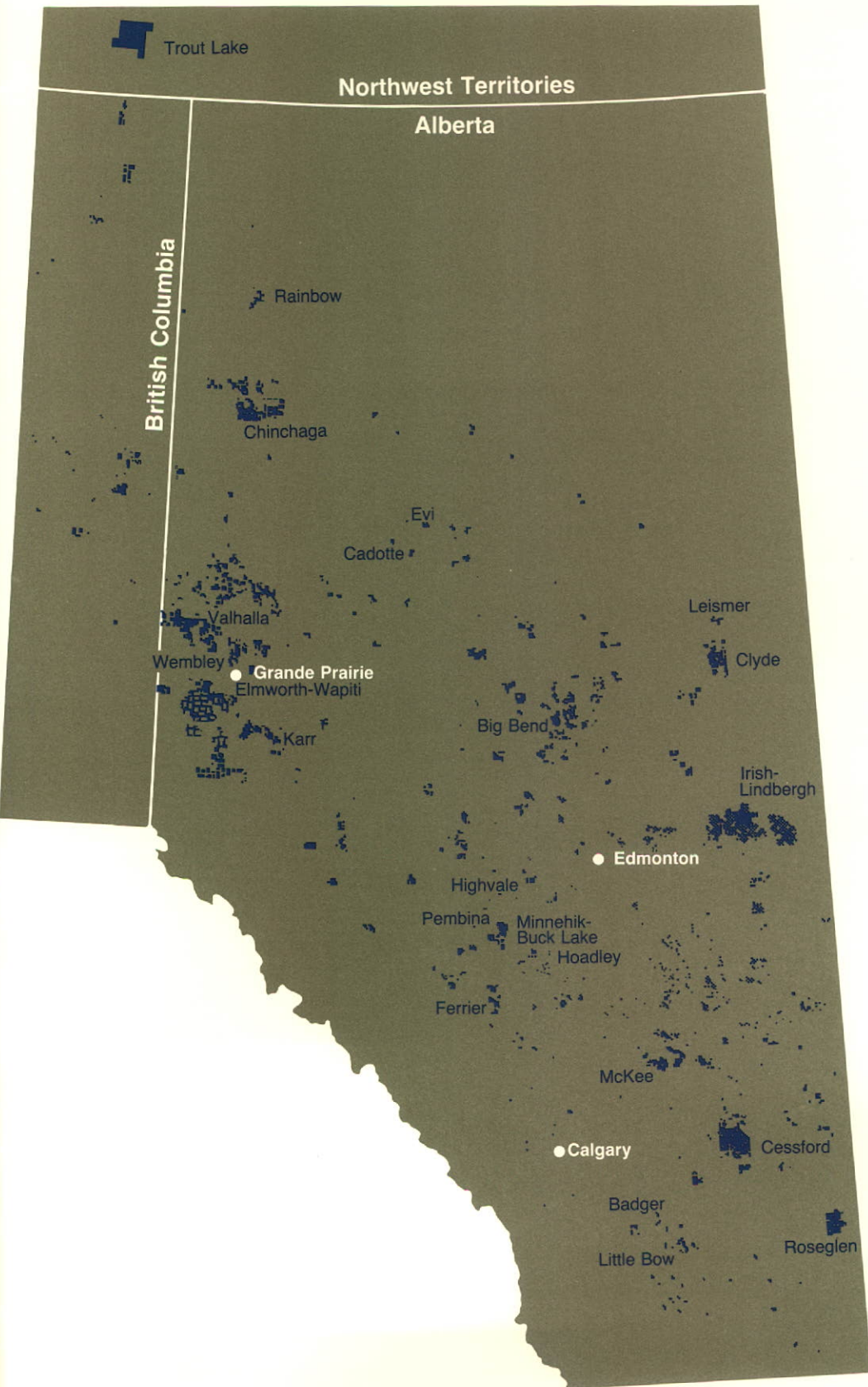
Proven reserves at year end were 613 bcf of natural gas and 38.1 million barrels of crude oil and NGL. Proven plus probable reserves totalled 847 bcf of natural gas and 73.2 million barrels of crude oil and NGL. Installation of new NGL recovery facilities resulted in a significant transfer of reserves from natural gas to NGL. Proven and probable gas reserves decreased by 103 bcf while crude oil and NGL reserves increased by 13.8 million barrels. The Company's reserve life index based on 1985 sales is 28 years for natural gas and 25 years for crude oil.

The undiscounted value of Sulpetro's proven and probable hydrocarbon reserves as at October 31, 1985, as determined by company engineers, is estimated to be \$5.1 billion. Applying discount rates of ten and 15 percent, the present worth value of the Company's reserves, before tax, is \$1.3 billion and \$0.9 billion respectively. The reserves were evaluated by projecting future sales revenues for each property using reasonable engineering assumptions, including the recovery of gas markets by 1989; and, by deducting royalties, operating expenses and capital expenditures. Product prices were assumed to remain relatively constant during the next three years, thereafter gradually increasing to an annual escalation of six percent per year after 1996. Required capital investments and operating costs were inflated at five percent per year. Considera-

Drilling Statistics

(For the years ended October 31)

1985 Wells	Gas		Oil		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Working interest	11	2.4	42	8.3	18	2.8	71	13.5
Royalty interest	19	—	13	—	15	—	47	—
Total — 1985	30	2.4	55	8.3	33	2.8	118	13.5
— 1984	34	8.3	133	30.2	43	9.0	210	47.5



Export deliveries totalled 91.8 percent of authorized volumes versus an industry average of 55.8 percent.

tions were given to the regulatory provisions of the Western Accord of March 28, 1985, and the repayment of gas prepayments under take-or-pay agreements. However, the continuous decline of oil and gas prices since early 1986 would have a significant negative impact on these values, at least in the short term.

Natural Gas

The North American natural gas industry, characterized by surplus supplies and falling prices, is becoming increasingly competitive as both the Canadian and American governments continue to move towards deregulation.

Operations focused on maintaining deliverability from existing fields and preparing for the tie-in of new fields to meet increased market requirements. Significant drilling successes occurred in the McKee and Minnehik areas of Alberta.

Natural gas sales in 1985 averaged 82.4 mmcf per day. In addition, overriding royalty-interest sales volumes were 1.1 mmcf per day. Although, sales were down substantially from the previous year due to the transfer and sale of producing properties, deliveries from remaining properties reflect continued sales to Sulpetro's direct export market; and, increases in the level of sales to the Company's major purchasers.

As a result of renegotiated export pricing procedures, Sulpetro's direct export sales to its United States customer, Transcontinental Gas Pipe Line Corporation (Transco) increased in volume by more than a third. Deliveries totalled 91.8 percent of the volumes authorized for the 1984/85 contract year, comparing favorably with the 55.8 percent averaged by all other Canadian exporters. In addition, Sulpetro successfully concluded a spot market sale to Transco at Emerson, Manitoba, enhancing its potential to obtain short-term interruptible sales in 1986.

Applications to increase the present deliveries of 75 mmcf per day to 125 mmcf per day by 1988 are being reviewed by the Alberta Energy Resources Conservation Board and the National Energy Board. The Company expects favorable responses from both regulatory bodies in 1986.

Reserves

(As at October 31)

	Natural Gas	Crude Oil	NGL
	bcf	mbbl	mbbl
Proven reserves October 31, 1984	723	22,429	11,869
Additions (deletions) from drilling and adjustments	(28)	(422)	7,681
Less: production	(30)	(1,774)	(163)
sale of properties	(52)	(1,533)	(2)
Proven remaining reserves			
October 31, 1985	613	18,700	19,385
Probable additional reserves			
October 31, 1984	227	20,200	4,902
Additions from drilling and adjustments	22	8,616	1,406
Sale of properties	(15)	—	—
Probable additional reserves			
October 31, 1985	234	28,816	6,308
Total proven remaining and probable additional reserves			
October 31, 1985	847	47,516	25,693

Sulpetro and Transco recently entered into an agreement calling for an increase in sales from 125 mmcf per day to 275 mmcf per day effective November 1, 1989, and an extension of the term of the existing agreement to October 31, 2004. These changes are subject to regulatory approval.

In 1986, the installation of inlet compression facilities is planned for the Wapiti plant and significant new production is expected from the Wembley, Clyde, Valhalla, Badger, Minnehik and Pembina areas of Alberta. Exploratory and development efforts will be concentrated in those Alberta areas under gas contract including: Elmworth-Wapiti, Valhalla, Wembley, Clyde and Minnehik.

Natural Gas Liquids

Significant progress was achieved during 1985 in enhancing the profitability of the Company's operations through increased recovery of NGL.

The 19,000 barrel per day capacity Wapiti deep-cut plant, in which Sulpetro has an 18.5 percent working interest, started up in October. This Company-operated facility is designed to process 330 mmcf per day of sales gas from the Wapiti and Wapiti South gas plants. NGL, consisting of ethane, propane, butanes and pentanes-plus, are recovered in this plant and shipped by pipeline to the Edmonton-Fort Saskatchewan area where they are routed to available markets. Sulpetro has a two-year, take-or-pay sales contract with a major company for its share of the NGL.

A propane-plus recovery facility at the Company-operated Minnehik-Buck Lake gas plant started up shortly after year end. Sulpetro holds a 10.6 percent working interest in this facility which is designed to recover 1,825 barrels per day from 50 mmcf of gas.

Through the installation of extraction facilities, NGL production capacity will increase by 3,500 barrels per day.

Sales

(For the years ended October 31)

Natural Gas (mmcf per day)	1985	1984
Elmworth-Wapiti	41.1	45.6
Cessford	11.0	10.4
Roseglen	7.2	7.8
Minnehik-Pembina	6.0	3.5
Valhalla	5.3	3.8
Irish-Lindbergh	2.5	3.0
McKee	1.8	—
Rainbow	1.7	0.9
Others	5.8	29.9
Total	82.4	104.9

Crude Oil and NGL (bbl per day)	1985	1984
Buchan	1,912	3,128
Irish-Lindbergh	1,191	780
Cessford	862	1,145
Elmworth-Wapiti	402	403
Valhalla	222	283
Little Bow	197	120
Minnehik-Pembina	191	227
Others	209	1,071
Total	5,186	7,157

Construction of the Wembley NGL recovery/gas cycling project is in progress. The 100 mmcf per day plant, which will process natural gas from several wet gas fields plus solution gas from nearby oil wells, is scheduled to start up in mid-1986. Gas produced from the principal supply area, the Wembley Triassic field, will be treated for the removal of NGL and acid gas. Over the next ten years, the majority of the dry processed gas will be injected into the reservoir to significantly increase the volume of liquids recovered, following which the field will be produced in a normal manner. The Company's share of production is expected to be 850 barrels per day of ethane, propane, butanes and pentanes-plus.

Crude Oil

Crude oil and NGL sales averaged 5,186 barrels per day, down from last year due to the seven-month shutdown of the Buchan field for the installation of gas lift equipment; the transfer of properties to Ventures; and, the sale of certain mature producing properties. Overriding royalty production totalled an additional 107 barrels per day.

Of the 35 successful working-interest oil wells drilled in Alberta in 1985, 15 were located at Irish-Lindbergh, seven at Hoadley and five at Pembina. In addition, seven oil wells were completed in the Humbly Grove field in southern England.

In Canada, construction of a major waterflood project at the Valhalla-Doe Creek pool is expected to be completed in 1986. Development drilling will continue in the Cessford, Irish-Lindbergh, Little Bow and Valhalla areas of Alberta. In view of recent oil successes in the eastern Peace River Arch area, a minimum of five exploratory wells will be drilled in 1986 on Company lands in the Evi and Cadotte areas of Alberta.

Heavy oil production increased 53 percent at Irish-Lindbergh.

Irish-Lindbergh

At Irish-Lindbergh, a 53 percent increase in heavy oil production was achieved through additional development and by initiating cyclic steaming on two existing Enhanced Oil Recovery (EOR) sections drilled on ten-acre spacing. The Company's 21.25 percent share of production from its 64,960-acre landholdings averaged 1,191 barrels per day in 1985.

Landholdings

(As at October 31)

Working-Interest Lands	1985		1984	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Canada				
Alberta	2,084,073	674,655	2,543,823	839,960
British Columbia	89,831	19,634	104,711	22,568
Saskatchewan	1,290	320	1,275	316
Northwest Territories	349,885	18,294	472,340	21,277
International				
Ireland	—	—	122,315	30,591
New Zealand	—	—	615,526	60,070
United Kingdom — offshore	57,007	6,486	57,006	4,423
— onshore	1,227,170	153,872	1,350,451	184,065
Total working-interest lands	3,809,256	873,261	5,267,447	1,163,270
Total royalty-interest lands	903,242	—	286,005	—

Fifteen wells were drilled during the year on a new EOR section as part of a 60-well program to be completed in 1986. A total of 381 wells have been drilled on Sulpetro's landholdings and completed as oil producers or injection wells. At year end, the Company's share of production from 255 producing wells had increased to 1,221 barrels per day. An application for development of five additional EOR sections received regulatory approval in 1985. Plans call for the drilling of 50 to 60 wells per year for each of the next five years, with cyclic steam being applied to all EOR sections. By 1990, total production from the Irish-Lindbergh project could reach 15,000 barrels per day, of which Sulpetro's net share would be 3,190 barrels per day. The first phase of the five-year development plan calls for an investment of approximately \$7.0 million per year by Sulpetro. The Company has arranged to obtain the required funds through project financing.

Geological evidence has confirmed a broad region of thick oil bearing sands which can be developed using current technology. An independent consultant has estimated the Company's share of proven recoverable heavy oil reserves at 6.7 million barrels and probable additional reserves at 84.0 million barrels. These significant reserves ensure that Sulpetro will be able to develop a stable, long-term oil production base as the present infrastructure continues to grow and economics improve.

United Kingdom

In the United Kingdom sector of the North Sea, the Buchan production platform was towed to shore in October, 1984, for maintenance and the installation of gas lift facilities. Production resumed on May 20, 1985, and Sulpetro's share averaged 4,229 barrels per day for the balance of the year, with the field on stream 90 percent of the time.

In 1986, construction of a pipeline connecting Buchan to the nearby Forties field will commence, replacing the existing tanker shuttle system. Following completion of the pipeline connection in early 1987, Buchan crude will be transferred to shore through the Forties pipeline, allowing for a more consistent production schedule. Operating costs are expected to be reduced by approximately 25 percent and the field life extended by about two years.

Sulpetro's share of remaining proven reserves at Buchan increased by 1.1 million barrels to 4.2 million barrels at year end. The installation of gas lift facilities and lower operating costs resulting from the planned construction of the pipeline accounted for this increase.

The Company holds a 12.7 percent interest in the Humbly Grove oil field, where the installation of field facilities and further development drilling is in progress. Sulpetro's share of proven reserves at the field at October 31, 1985, was 1.1 million barrels. The Company's share of production is expected to average 300 barrels per day following completion of development in May, 1986.

Sulpetro has an average 14 percent working interest in holdings covering 1.3 million acres in southern England. Eight exploratory wells are scheduled to be drilled in 1986, with seven of these wells strategically located on the most prospective flanks of the Weald Basin. Earlier discoveries at Herriard and Horndean are being production tested and evaluated to determine their development potential.

Two wells drilled in prior years at Horndean, where Sulpetro holds a 17.5 percent interest, produced at rates of 191 and 136 barrels of oil per day on extended production tests during the year. Continued development will proceed slowly due to surface access constraints, and the conclusion of studies to determine the best method of stimulating a low permeability section of the reservoir.

Sulpetro's share of remaining proven reserves at Buchan increased by 1.1 million barrels.

SULBATH EXPLORATION LTD.

Significant discoveries were made at Evi, Leismer and Valhalla in Alberta, and at Alma on the Scotian Shelf.

At October 31, 1985, the Company had a 44.4 percent equity interest, on a fully diluted basis, in Sulbath, formed in 1981 as a joint-venture exploration company by Sulpetro and Consolidated-Bathurst Inc.

Sulbath held interests in 3.2 million gross (355,000 net) acres of petroleum and natural gas rights in Canada at year end. Landholdings decreased during the year due to farm-outs and the expiry of certain leases in Alberta and the Scotian Shelf off the east coast of Nova Scotia.

Sulbath participated in the drilling of 50 gross wells in 1985, of which eight were drilled at no cost to the Company, resulting in 25 oil wells and 12 gas wells. Significant discoveries were made at Evi, Leismer and Valhalla in Alberta, and at Alma on the Scotian Shelf. At Evi, Sulbath holds a 50 percent working interest in a well which flowed 820 barrels of oil per day from 37 feet of pay in the Devonian Slave Point formation. Sulbath participated in two Colony Zone gas discoveries at Leismer, where it holds a 60 percent interest in 9,760 acres. A Valhalla oil well, in which Sulbath holds a 100 percent working interest before payout, was completed with an initial potential of 140 barrels per day from 16 feet of pay in the Triassic Halfway formation. Subsequent to year end, a confirmation well, in which Sulbath holds a 25 percent working interest, encountered net oil pay of 26 feet. Sulbath holds a two percent working interest in a well drilled on the Scotian Shelf which tested natural gas at rates up to 30 mmcf per day from zones in the Mississauga formation.

Significant delineation and development successes were drilled in 1985 in the Valhalla, Ferrier, Highvale, Pembina, Hoadley, Chinchaga and Delia areas of Alberta. The majority of the activity was concentrated in Valhalla with the drilling of nine oil wells and two gas wells.

Sulbath Drilling Statistics

(For the years ended October 31)

1985 Wells	Gas		Oil		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Working interest	12	3.0	23	5.3	11	2.8	46	11.1
Royalty interest	—	—	2	—	2	—	4	—
Total — 1985	12	3.0	25	5.3	13	2.8	50	11.1
— 1984	11	4.6	27	8.5	9	5.4	47	18.5

Sulbath Landholdings

(As at October 31)

Working-Interest Lands	1985		1984	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta	503,903	138,620	522,463	149,595
British Columbia	18,046	4,046	17,329	4,045
Northwest Territories	473,402	157,801	473,403	157,804
Eastcoast Offshore	2,211,882	54,480	3,069,656	75,926
Total working-interest lands	3,207,233	354,947	4,082,851	387,370
Total royalty-interest lands	30,341	—	25,103	—

Sulbath's 1986 drilling program will include continued exploration and development of the Evi and Valhalla areas; exploration drilling at Trout Lake in the Northwest Territories; delineation of the Company's Scotian Shelf acreage; development of its major producing areas in Alberta; and, joint ventures through the Development Fund on several Alberta properties held by Sulpetro.

Sales for 1985 totalled 20.7 mmcf per day of natural gas and 1,118 barrels per day of crude oil and NGL. In addition, overriding royalty production reached 1.7 mmcf per day and 12 barrels per day, respectively. Sulbath's main producing areas are located at Chinchaga, Big Bend, Valhalla, Karr, and Clyde in Alberta, and Peejay in British Columbia. Sulbath holds a 0.5 percent interest in the Wapiti deep-cut plant and a 4.0 percent interest in the Wembley NGL recovery/gas cycling project. Completion of a large waterflood project in the Valhalla-Doe Creek pool is scheduled for 1986.

Sulbath's proven reserves at October 31, 1985, were 216 bcf of natural gas and 8.7 million barrels of crude oil and NGL. Proven reserves increased slightly over the previous year. Proven plus probable additional reserves totalled 247 bcf of natural gas and 9.0 million barrels of crude oil and NGL at year end.

Sulbath Sales*

(For the year ended October 31, 1985)

Natural Gas (mmcf per day)		Crude Oil and NGL (bbl per day)	
Chinchaga	7.0	Chinchaga	437
Clyde	2.9	Valhalla	270
Big Bend	2.5	Karr	60
Karr	1.5	Ferrier	45
Others	6.8	Others	306
Total	20.7	Total	1,118

* Prior to October 26, 1984, Sulpetro sales figures included 100 percent of Sulbath's activities.

Sulbath Reserves

(As at October 31)

	Natural Gas	Crude Oil	NGL
	bcf	mbbl	mbbl
Proven reserves October 31, 1984	224	1,991	5,215
Additions from drilling and adjustments	1	369	1,597
Less: production	(8)	(204)	(210)
sale of properties	(1)	—	—
Proven remaining reserves October 31, 1985	216	2,156	6,602
Probable additional reserves October 31, 1984	22	85	487
Additions (deletions) from drilling and adjustments	10	(48)	(299)
Sale of properties	(1)	—	—
Probable additional reserves October 31, 1985	31	37	188
Total proven remaining and probable additional reserves October 31, 1985	247	2,193	6,790

Results of Operations and Revenues

In October, 1984, the Company implemented a corporate reorganization and restructuring designed to better position it to take advantage of exploration and development opportunities and improve operating results in 1986 and beyond. Due to the restructuring, the 1985 results of operations are not comparable with those of 1984.

The Company incurred a net loss of \$45.6 million (\$3.90 per share after deducting preferred share dividends of \$13.1 million) for the year ended October 31, 1985, versus a restated net loss, before an extraordinary item, of \$47.4 million (\$3.14 per share) in 1984. An extraordinary writedown of mineral assets of \$40.1 million increased the 1984 restated net loss to \$87.5 million (\$5.81 per share).

Oil and gas sales, net of royalties, were \$113.3 million for 1985 compared to \$159.1 million the previous year. Canadian crude oil and NGL sales, net of royalties, decreased to \$31.9 million from \$32.5 million last year. Canadian net natural gas sales declined to \$60.7 million from \$67.9 million last year. These decreases are the result of lower net wellhead prices on certain products in the current year, the de-consolidation of Sulbath Exploration Ltd. and the sale of certain properties in late 1984. In the United Kingdom, oil sales net of wellhead taxes declined to \$24.5 million from \$40.3 million due to the seven-month shutdown of production at the Buchan field for the installation of gas lift facilities, and a decline in wellhead prices.

Costs and Expenses

Total cost of sales for 1985 amounted to \$30.0 million compared to \$30.2 million the prior year. Although the sale of properties reduced the 1985 cost of oil and gas sales by approximately \$3.0 million, workover costs incurred in the United Kingdom of \$1.5 million and increased lifting costs of \$1.5 million at the Irish-Lindbergh heavy oil field, reflecting increased production, offset this decrease.

General and administrative costs, before capitalization, declined slightly to \$15.4 million from \$15.8 million in 1984. Reported general and administrative expenses for the year were \$10.8 million compared to \$12.1 million the previous year reflecting higher recoveries and capitalized costs of \$1.3 million.

Total interest costs incurred in 1985 decreased to \$74.9 million from \$113.5 million the previous year as a result of the reduction of long-term debt through the financial restructuring in October, 1984. After capitalization of \$4.6 million (1984 — \$16.6 million), reported interest expense was \$70.3 million in 1985 and \$96.8 million in 1984. The Company's effective borrowing rate in 1985 was 12.6 percent compared to 12.7 percent last year.

Depletion, depreciation and amortization decreased to \$54.3 million from a restated \$64.9 million in 1984. Lower sales volumes in Canada and the United Kingdom resulted in a decrease in depletion to \$23.1 million in 1985 from \$34.9 million. Depreciation declined to \$8.5 million from \$14.7 million in 1984 as a result of both the shutdown for the installation of gas lift facilities and an increase in crude oil reserves at the Buchan field plus asset dispositions. The significant increase in amortization to \$22.6 million in 1985 from \$15.4 million is accounted for by the amortization of deferred foreign exchange.

Sulpetro's equity in the loss of its affiliate, Sulbath Exploration Ltd., increased from \$112,000 in 1984 to \$3.7 million representing a full year's operations in 1985. Sulbath became an unconsolidated affiliate in October, 1984.

Canadian and United Kingdom corporate income taxes and Petroleum and Gas Revenue Taxes were \$7.4 million in 1985 compared to a restated \$18.9 million the previous year. This decline is the result of lower sales in both Canada and the United Kingdom.

Changes in Financial Position

Funds from operations declined to \$5.2 million from \$16.1 million the previous year reflecting decreased sales revenues.

Proceeds on the sale of property, plant and equipment were \$47.4 million compared to \$204.1 million in 1984 which reflected the corporate reorganization and restructuring that year. The reduction of prepaid gas totalling \$8.3 million (1984 — \$8.6 million) represents the take-or-pay obligations transferred to others on the sale of certain gas properties. In addition, repayments of prepaid gas amounted to \$2.9 million in the current year.

Dividends on the preferred shares issued in the restructuring totalled \$13.1 million compared to \$36,000 in 1984.

Expenditures on property, plant and equipment amounted to \$38.7 million in 1985, compared to \$59.6 million the previous year. The development of properties with a potential for early returns continues as a priority of the Company's capital spending plans. The following table summarizes the capital expenditures for 1985 and 1984:

	1985	1984
	(millions of dollars)	
Oil and Gas		
Canada		
Exploration	\$ 2.3	\$ 5.8
Development	13.5	23.7
	15.8	29.5
International		
Exploration	3.2	0.4
Development	9.3	7.4
	12.5	7.8
Capitalized interest and administrative expense	9.2	20.3
Other	1.2	2.0
	\$38.7*	\$59.6*

* Includes grants under the Petroleum Incentive Payments Program of \$389,000 (1984 — \$6.1 million).

In addition, through the Development Fund (established during the corporate reorganization in October, 1984), Sulbath has farmed in on certain petroleum and natural gas properties to earn a share of Sulpetro's working interest. Under these arrangements, Sulbath has incurred \$3.6 million of capital expenditures on Sulpetro properties, and at October 31, 1985, had committed to spend a further \$5.0 million.

During the year, the Company entered into an agreement to sell the shares of its wholly-owned subsidiary Sulpetro Minerals Limited to Novamin Inc. (formerly Americ Mines Ltd.). The proceeds of disposition included in property sales totalled \$13.2 million. Shares, notes and debentures account for \$12.7 million of the proceeds and have been shown as an increase in investments.

Change in Accounting Policy

In fiscal 1985, the Company retroactively adopted the policy of capitalizing and depleting exploration and development expenditures on a country-by-country cost centre basis. This change, under the full cost method of accounting, resulted in a charge to deficit at November 1, 1983, of \$103.2 million. This method was recommended in a Comment Draft published in July, 1985, by a committee of the Canadian Institute of Chartered Accountants. It is anticipated that the country-by-country method will become mandatory in 1986. Previously, Sulpetro capitalized and depleted expenditures on the worldwide cost centre basis. This change reflects the concentration of the Company's exploration and development activities in Western Canada. The implementation of the change reduced the loss by \$2.2 million in the current year and increased the 1984 loss by \$718,000. The \$103.2 million charge to deficit in 1983 is mainly comprised of increased depletion, net of taxes, in the United Kingdom cost centre of \$30 million together with impairment and increased depletion in the United States cost centre of \$39.6 million and other foreign cost centres of \$44.1 million. In the Canadian cost centre accumulated depletion was reduced by \$10.5 million.

CONSOLIDATED BALANCE SHEET

ASSETS	1985	1984 (Restated)
Current Assets		
Cash and term deposits	\$ 4,009	\$ 11,888
Accounts receivable	33,631	47,994
Inventories	1,261	1,242
Other	102	79
Total current assets	39,003	61,203
Notes and Other Receivables (Note 3)	3,471	4,104
Investments (Note 4)	33,873	23,818
Property, Plant and Equipment (Note 5)	772,276	799,894
Accumulated depletion, depreciation and amortization	213,375	204,454
	558,901	595,440
Deferred Charges — less amounts amortized (Note 6)	61,132	63,902
	\$696,380	\$748,467

October 31, 1985
(with comparative figures for 1984)
(thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Due to bank — secured (Note 7)	\$ 39,468	\$ 12,774
Accounts payable and accrued liabilities	36,548	37,196
Long-term debt and project financing — due within one year (Notes 8 and 9)	22,681	16,766
Prepayment for future gas production — due within one year	3,186	3,600
Income and other taxes payable	4,072	1,565
Total current liabilities	105,955	71,901
Long-Term Debt (Note 8)	474,580	478,025
Project Financing (Note 9)	67,992	75,823
Deferred Income Taxes	80,484	82,123
Prepayment for Future Gas Production	28,144	39,248
Shareholders' Equity		
Share capital and Contributed surplus (Notes 11 and 13)	200,931	204,310
Deficit	(261,706)	(202,963)
	(60,775)	1,347
	\$696,380	\$748,467

Approved on behalf of the Board:

 , Director
  , Director

See Accompanying Notes

CONSOLIDATED STATEMENT OF EARNINGS

Year ended October 31, 1985
(with comparative figures for 1984)
(thousands of dollars)

	1985	1984
		(Restated)
Revenue		
Oil and gas sales	\$150,594	\$210,779
Less: Royalties	37,343	51,692
	113,251	159,087
Other income	18,075	17,219
	131,326	176,306
Expenses		
Cost of sales		
Oil and gas	26,658	27,239
Other	3,364	2,995
General and administrative	10,847	12,100
Interest (Notes 5 and 7)	70,252	96,843
Depletion, depreciation and amortization (Notes 5 and 6)	54,311	64,939
Equity loss of affiliate company (Note 4)	3,707	112
Other	355	562
	169,494	204,790
Loss Before Income and Other Taxes and Extraordinary Item	38,168	28,484
Income and Other Taxes (Note 10)		
Current (recovery)	(1,577)	(2,626)
Deferred	348	6,021
Petroleum and Gas Revenue Tax	8,674	15,517
	7,445	18,912
Net Loss Before Extraordinary Item	45,613	47,396
Extraordinary Item (Note 5(c))	—	40,091
Net Loss	\$ 45,613	\$ 87,487
Net Loss Per Share After Preferred Share Dividends		
Before Extraordinary Item	\$ 3.90	\$ 3.14
Extraordinary Item	—	2.67
Net Loss Per Share	\$ 3.90	\$ 5.81

See Accompanying Notes

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1985	1984	
		(Restated)	Year ended October 31, 1985 (with comparative figures for 1984) (thousands of dollars)
Cash Provided (Used):			
Operating Activities:			
Net loss	\$(45,613)	\$(87,487)	
Add non-cash items principally depletion, depreciation, amortization, gain on disposal of equipment and equity loss of affiliate	50,773	103,561	
Working capital provided by operations	5,160	16,074	
Prepaid gas repaid	(2,857)	—	
Decrease (increase) in working capital	21,681	(423)	
Net cash provided	23,984	15,651	
Financing Activities:			
Decrease in long-term debt (net of increases)	(11,115)	(323,511)	
Decrease in project financing (net of increases)	(10,450)	7,044	
Sale of property, plant and equipment	47,370	204,125	
Less: related prepaid gas liability	(8,247)	(8,572)	
Dividends	(13,130)	(36)	
Issuance of share capital	—	200,001	
Deferred charges	(8,131)	(22,932)	
Other (net)	(2,748)	(4,168)	
	(6,451)	51,951	
Investing Activities:			
Acquisition of property, plant and equipment	(38,698)	(59,579)	
Increase in investments	(12,700)	—	
Advances to affiliate	(708)	—	
Cash invested	(52,106)	(59,579)	
(Decrease) increase in cash	(34,573)	8,023	
Net cash deficiency at beginning of year*	(886)	(8,909)	
Net cash deficiency at end of year*	\$(35,459)	\$ (886)	

* Net cash deficiency is after deduction of short-term bank indebtedness.

See Accompanying Notes

CONSOLIDATED STATEMENT OF DEFICIT

	1985	1984
Year ended October 31, 1985 (with comparative figures for 1984) (thousands of dollars)		(Restated)
Deficit at beginning of year	\$ 99,000	\$119,811
Retroactive adoption of the country-by-country cost centre basis in respect of costs capitalized under the full cost method of accounting for oil and gas properties (Note 1(j))	103,963	103,245
Reduction of deficit on restructuring of common share capital	—	(107,700)
	202,963	115,356
Add		
Net Loss	45,613	87,487
Dividends on 14% Stock Dividend Convertible Preferred Shares	—	84
Dividends on Class A Preferred Shares, Series One	13,130	36
	58,743	87,607
Deficit at end of year	\$261,706	\$202,963

See Accompanying Notes

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Sulpetro Limited as at October 31, 1985, 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 October 31, 1985, and 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 the method of accounting for cost centres under the full cost method of accounting for oil and gas properties as set out in Note 1(j) to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Canada
January 14, 1986

Peat, Marwick, Mitchell & Co.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The financial statements have been prepared by the Company in accordance with accounting principles generally accepted in Canada ("GAAP") and which are also in conformity with the historical cost accounting standards of the International Accounting Standards Committee. The Company's internal controls have been designed and maintained by Management to provide reasonable assurance that assets are safeguarded, and that the financial records are sufficiently reliable to allow preparation of financial statements in accordance with GAAP. Due to the nature of the Company's operations, certain estimates are involved in the preparation of such statements. In the Company's opinion, the financial statements have been prepared within reasonable limits of materiality and within the framework of the significant accounting policies as summarized below:

October 31, 1985
(tabular figures in
thousands of dollars)

(a) Principles of Consolidation

The consolidated financial statements include, in addition to the accounts of the Company, the accounts of its wholly-owned subsidiaries and 95 percent owned Degra-Sul Fertilizer Production Ltd. The Company accounts for its 44.372 percent interest in Sulbath Exploration Ltd. ("Sulbath") on the equity basis. Prior to October 26, 1984, the Company accounted for its 50.005 percent interest in Sulbath on a consolidated basis. The Company accounts for its 1.966 percent interest in a partnership ("Sulbath Ventures") on the proportionate consolidation basis.

(b) Full Cost Method of Accounting

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and nonproductive wells, overhead related to exploration and development activities, as well as interest related to funds borrowed to acquire nonproducing properties. The costs capitalized less accumulated depletion and depreciation in each cost centre are limited to the present value of estimated future net revenues from proven reserves (based on current prices and costs) plus the lower of cost or estimated value of unproven properties.

Costs capitalized, except unproven property costs, are being depleted on the unit-of-production method in each cost centre based on estimated proven reserves, as determined by Company engineers. Unproven property costs, including capitalized interest, are not depleted until proven reserves are recognized or impairment of value has occurred for each property. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on the approximate relative energy content of each product.

(c) Joint Venture Accounting

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

1. Summary of Significant Accounting Policies — cont'd.

(d) Depreciation

Depreciation of Canadian lease and well equipment, gas plants and equipment is provided by the diminishing balance method at annual rates expected to amortize the costs over the estimated useful lives as follows:

- Lease and well equipment — 10 percent.
- Gas plant and related facilities — 4 percent.
- Other — 10 percent to 30 percent.

Production facilities in the United Kingdom are depreciated using the unit-of-production method based on estimated proven reserves as determined by Company engineers.

(e) Translation of Foreign Currencies

The Company translates the activities of its foreign operations using the temporal method, whereby monetary items are translated at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at applicable historical rates. The items on the consolidated statement of earnings are translated at the rates in effect on the transaction dates except for depletion and depreciation, which are translated at the same rate as is used for the related assets.

Foreign currency denominated long-term debt carried on the books of the Company is translated at year-end rates. Foreign currency transactions during the year are translated into Canadian dollars using the exchange rate in effect on the transaction date.

(f) Deferred Charges

Foreign exchange gains or losses on the translation of foreign currency denominated long-term debt are deferred and amortized over the life of the related debt.

Costs incurred on the debt and corporate restructuring have been deferred and are being amortized over periods varying from one to ten years depending upon the nature of the charge.

(g) Income Taxes

The Company follows the tax allocation method of accounting for income taxes, whereby deferred taxes are provided to the extent that current taxes have been reduced by claiming capital cost allowances and exploration, development and lease acquisition costs in excess of the related depletion, depreciation and amortization provided in the financial statements.

(h) Prepayment for Future Gas Production

Amounts received for annual contracted gas volumes not taken by purchasers are recorded as deferred revenue at the end of contract years in which shortfalls occur. These amounts are reported as revenue upon the subsequent delivery of gas the timing of which depends on market conditions.

1. Summary of Significant Accounting Policies — cont'd.

(i) Earnings Per Share

Basic earnings per share, after preferred share dividends, are calculated using the weighted average number of common shares outstanding during the year. Earnings per share on a fully diluted basis are anti-dilutive and therefore are not presented.

(j) Change in Accounting Policy

During the year, the Company retroactively adopted the policy of capitalizing and depleting costs on a country-by-country cost centre basis under the full cost method of accounting for exploration and development expenditures. Previously the costs were capitalized and depleted on the worldwide cost centre basis. The effect of this change was to reduce the loss before income and other taxes by \$1.9 million (\$2.2 million inclusive of income tax recoveries) in the current year and increased the loss by \$2.9 million (\$718,000 net of income taxes) in 1984. As a result of this change, the deficit as of November 1, 1983, has been increased by \$103.2 million.

2. Financial Position of the Company

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles on the basis that the Company will be able to realize assets and discharge liabilities in the normal course of business. The significant accounting policies underlying the financial statements are based on this assumption. The prior restructuring of the Company's activities was made to best position the Company to take advantage of anticipated future growth. However, events beyond the Company's control, with respect to the prices the Company receives for its oil, natural gas liquids, and natural gas, and with respect to the sales volumes of these products, have restricted the forecast growth in revenues. As a result, the Company's ability to generate sufficient funds from operations to satisfy debt obligations and preferred share dividends, as well as capital requirements has been adversely affected and will require the continued support of the Company's Bank.

3. Notes and Other Receivables

At October 31, notes and other receivables were comprised of the following:

	1985	1984
From directors, officers and employees:		
Non-interest bearing secured notes as payment for shares (Note 11)	\$ —	\$ 3,379
Non-interest bearing secured note (Note 12)	3,000	—
Other receivables	471	725
	<u>\$ 3,471</u>	<u>\$ 4,104</u>

4. Investments

At October 31, investments were comprised of the following:

	1985	1984
Investment in affiliate — Sulbath	\$21,173	\$23,818
Investment and long-term receivable — Novamin Inc.	12,700	—
	\$33,873	\$23,818

During October, 1984, the Company's investment in Sulbath was re-organized as follows:

- (a) As a result of a series of transactions the Common Shares of Sulbath were held, at October 31, 1984, as follows: Sulpetro 49.9 percent; Consolidated-Bathurst Inc. ("C-B Inc.") 40.2 percent; and the Company's principal banker (the "Bank") 9.9 percent. In addition the Bank purchased 10,000 non-voting Class A Convertible preferred Shares, Series Two of Sulbath representing all of the issued and outstanding shares of that class.
- (b) The Company may require the Bank and C-B Inc. to convert, in accordance with a predetermined formula, all of their preferred and common shares of Sulbath into Class D Preferred Shares, Series One of the Company prior to October 31, 1988, provided the Company's Common Shares reach a defined minimum trading price. The Class D Preferred Shares, Series One shall be convertible, on a one for one basis, at any time to Common Shares of the Company. At any time, the Company may make a proposal to the other shareholders of Sulbath to purchase their shares or to exchange them for share capital of Sulpetro. Such a proposal must be of equal value to each shareholder of Sulbath.
- (c) Subsequent to October 31, 1988, the Bank will be entitled to cause a sale of all of the shares of Sulbath, provided all shareholders receive the same price and terms, or cause Sulbath to sell all or a portion of its assets. If the shares are not sold, the Bank shall be entitled to cause Sulbath to be wound up or its assets to be otherwise distributed. In the event that the properties are to be sold or Sulbath is to be liquidated, the Company may elect, subject to certain conditions, to receive its proportionate share of Sulbath's properties.

Condensed financial information of Sulbath at October 31, is as follows:

	1985	1984
Current assets	\$ 6,707	\$ 9,190
Property, plant and equipment — net	222,447	221,510
	\$229,154	\$230,700
Current liabilities	\$ 7,168	\$ 3,885
Long-term debt	153,371	150,000
Shareholders' equity and other	68,615	76,815
	\$229,154	\$230,700
Net (loss) income for the year	\$ (7,554)	\$ 562

4. **Investments — cont'd.**

A Development Fund of \$70 million has been established for a three year period enabling Sulbath to farm-in on Company oil and gas properties (subject to Bank approval) for a share of the Company's working interest. The Development Fund is financed by the Bank through the purchase of Sulbath Class A Preferred Shares, Series Two which are convertible into Common Shares of Sulbath. At October 31, 1985, Sulbath has issued an additional 681 Class A Preferred Shares, Series Two to the Bank for an aggregate consideration of \$681,000, pursuant to the terms of this agreement.

During the year, the Company entered into a memorandum of understanding to sell the shares of its wholly-owned subsidiary, Sulpetro Minerals Limited to Novamin Inc. (formerly Americ Mines Ltd.). The proceeds of disposition are as follows:

Cumulative Convertible Redeemable Retractable Preferred Shares of Novamin Inc.	\$ 7,500
Promissory Note	3,500
Income Debenture	1,500
Common Shares of Novamin Inc.	200
	<u>12,700</u>
Cash	500
	<u>\$13,200</u>

5. (a) **Property, Plant and Equipment — At cost**

At October 31, property, plant and equipment were comprised of the following:

	1985			1984
	Cost	Accumulated Depletion, Depreciation and Amortization	Net	(Restated) Net
Petroleum and natural gas leases and rights including exploration and development thereon	\$648,150	\$163,273	\$484,877	\$510,871
Mineral properties	—	—	—	16,331
Production and other equipment:				
Gas plants and related facilities	31,539	2,502	29,037	22,719
Lease and well equipment	81,301	42,289	39,012	38,041
Other, including assets under capital leases at cost of \$4,139,000	11,286	5,311	5,975	7,478
	<u>124,126</u>	<u>50,102</u>	<u>74,024</u>	<u>68,238</u>
	<u>\$772,276</u>	<u>\$213,375</u>	<u>\$558,901</u>	<u>\$595,440</u>

5. (a) **Property, Plant and Equipment — At cost — cont'd.**

In accordance with the Company's full cost method of accounting, general and administrative costs related to exploration and development activities, as well as interest related to funds borrowed to acquire nonproducing properties, have been capitalized as follows:

	1985	1984
Interest incurred	\$ 74,885	\$113,457
Expensed	70,252	96,843
Capitalized	4,633	16,614
General and administrative costs incurred (net of recoveries)	15,394	15,792
Expensed	10,847	12,100
Capitalized	4,547	3,692
Total capitalized	\$ 9,180	\$ 20,306

(b) **Depletion, Depreciation and Amortization**

Components of depletion, depreciation and amortization expense in the consolidated statement of earnings for 1985 and 1984 were as follows:

	1985	1984
Depletion	\$ 23,134	(Restated) \$ 34,883
Depreciation	8,535	14,665
Amortization	22,642	15,391
	\$54,311	\$64,939

(c) **Extraordinary Item**

In 1984, the Company wrote down the carrying value of its mineral resource properties by \$40.1 million (net of deferred income taxes of \$750,000) reflecting the continued depressed markets for minerals.

6. **Deferred Charges**

At October 31, deferred charges were comprised of the following:

	1985	1984
Deferred foreign exchange	\$71,692	\$54,919
Refinancing costs	18,355	16,919
Other	4,340	4,174
	94,387	76,012
Less: Accumulated amortization	33,255	12,110
	\$61,132	\$63,902

7. **Due to Bank**

The amount due to bank of \$39,468,000 (1984 — \$12,774,000), consists of demand bank loans secured by a general assignment of accounts receivable and other corporate collateral. Interest expense on the consolidated statement of earnings includes \$2,415,000 (1984 — \$581,000) related to short-term borrowings.

8. Long-Term Debt

At October 31, the following long-term debt was outstanding:

	1985	1984
Credit Agreement		
Tranche A — \$173,000,000 U.S. and 69,000,000 Swiss francs	\$283,379	\$269,329
Tranche B — \$13,477,000 Canadian and \$28,094,000 U.S. (1984 — \$42,933,000 Canadian and \$5,436,000 U.S.)	51,871	50,080
	335,250	319,409
Gas Indexed Debenture	75,000	75,000
Redeemable Convertible Debenture — Series A	50,000	50,000
10 $\frac{5}{8}$ % Secured Debentures	11,000	12,500
Operating Loan	—	17,499
9% Subordinated Debentures of \$1,875,000 U.S.	2,562	2,465
Obligation under capital leases	2,306	2,701
Other	513	676
	476,631	480,250
Less: Amounts due within one year	2,051	2,225
	\$474,580	\$478,025

Credit Agreement

The Credit Agreement is secured by the Company's interest in certain petroleum and natural gas interests and a \$600 million floating charge debenture. The three parts of the Credit Agreement are as follows:

- (a) Tranche A is a term credit facility for an amount of up to \$266,300,000 Canadian at defined exchange rates until April 30, 1988. At that time any excess will be repaid, otherwise retired or secured. The maximum which can be denominated in foreign currencies is 69,000,000 Swiss francs and \$173,000,000 U.S. Interest is payable monthly and is determined from time to time at LIBOR plus 1 percent, the Canadian bank prime rate, Bankers' Acceptance Fees or the U.S. Base Rate all plus $\frac{5}{8}$ of 1 percent. Tranche A is repayable in 28 equal quarterly installments commencing January 31, 1988. The Credit Facility contains a provision for prepayment whereby the Company will apply 50 percent of surplus cash flow, as defined, to the amount outstanding, plus a defined percentage of the proceeds of any future equity issue.
- (b) Tranche B is a demand revolving credit facility in the amount of up to \$50,000,000 Canadian or the equivalent amount in U.S. dollars at defined exchange rates until April 30, 1988. At that time any excess will be repaid, otherwise retired or secured. The maximum amount that can be denominated in U.S. dollars is \$30,000,000 U.S. Interest is payable monthly and is determined from time to time at LIBOR plus 1 percent, the Canadian bank prime rate, Bankers' Acceptance Fees or the U.S. Base Rate all plus $\frac{1}{2}$ of 1 percent. The loan is a continuous revolving facility, and accordingly no repayments have been scheduled in the next five years.
- (c) Tranche C is a standby line of credit in the amount of \$150,000,000 Canadian available in the event that the Company's Class A Preferred Shares, Series One are redeemed by the Company after October 31, 1987, (See Note 11). If the borrowing is required, the terms and conditions of Tranche C will be determined at that time.

8. Long-Term Debt — cont'd.

Gas Indexed Debenture

The Debenture, which bears interest at the lesser of ten percent or the Bank's prime rate plus $\frac{1}{2}$ of 1 percent calculated and payable on a monthly basis, is secured by a floating charge on certain Canadian assets of the Company. In addition, the holder of the Debenture will participate on an annual basis subsequent to October 31, 1988, at the rate of ten percent of any incremental net operating revenue from natural gas as defined. The Debenture matures on October 31, 1999 or, if the holder has not participated in any net operating revenue from November 1, 1988, to October 31, 1991, on October 31, 1994.

Redeemable Convertible Debenture

The Series A Debenture, which matures February 15, 1993, and bears interest at the Bank's prime rate plus $\frac{1}{2}$ of 1 percent, is secured by a floating charge on all present and future Canadian assets of the Company. The Debenture is redeemable, subject to certain conditions, after March 1, 1988, at a premium of 4.8 percent declining to zero in 1993. The Series A Debenture is convertible into Common Shares of the Company at \$7.50 per share at any time prior to February 15, 1993. The Debenture places certain restrictions on the payment of dividends, other than stock dividends, on the common shares of the Company if the shareholders' equity is less than \$200 million.

10 $\frac{5}{8}$ Percent Secured Debentures

The 10 $\frac{5}{8}$ percent Secured Debentures, maturing September 30, 1992, are secured by certain petroleum and natural gas properties and provide for annual sinking fund payments of \$1.5 million.

9 Percent Subordinated Debentures

The 9 percent Subordinated Debentures, maturing March 1, 1989, are unsecured and are subordinated to all other indebtedness of the Company.

Repayments

The minimum estimated repayments of long-term debt and project financing (See Note 9), in each of the next five years are: 1986 — \$22.7 million, 1987 — \$17.8 million, 1988 — \$56.0 million, 1989 — \$57.5 million and 1990 — \$54.1 million.

9. Project Financing

The Company has entered into the following project financing arrangements:

	1985	1984
Buchan Development Loans:		
Production Loan \$30,940,000 U.S. (1984 — \$34,000,000 U.S.)	\$42,282	\$44,700
Credit Facility of \$10,000,000 U.S. (1984 — \$18,000,000 U.S.)	13,666	23,664
Irish-Lindbergh Non-Recourse Secured Debentures		
Series A	15,000	15,000
Series B	7,000	7,000
Humbly Grove Credit Agreement \$3,420,000 U.S.	4,674	—
Wapiti Deep Cut Debenture	6,000	—
	88,622	90,364
Less: Amounts due within one year	20,630	14,541
	\$67,992	\$75,823

Buchan Development Loans Production Loan

The Production Loan for the development of the Buchan oil field is secured by assignments of certain petroleum and natural gas properties and, in certain circumstances, the production proceeds therefrom. It is repayable as follows: \$6,120,000 U.S. due May 1, 1986; and the balance in 16 equal quarterly installments commencing July 1, 1987. Interest rates are determined from time to time, at LIBOR plus up to 1½ percent or U.S. Base Rate plus up to 1 percent.

Credit Facility

The Credit Facility for the development of the Buchan oil field is secured by the Company's interest in two Alberta gas fields and the Buchan field and bears interest at ¾ of 1 percent above LIBOR. The loan of \$10 million U.S. is repayable in seven quarterly installments of \$1.2 million U.S. and the balance of \$1.6 million U.S. on February 28, 1986.

Irish-Lindbergh Non-Recourse Secured Debentures

During 1984 the Company issued Series A and Series B Non-Recourse Secured Debentures, bearing interest at 11 percent and 12.75 percent respectively, in the amount of \$22 million for the development of the Irish-Lindbergh heavy oil project. On the fifth anniversary of issue the interest rate will be redetermined by subtracting 1.75 percent from the five year Average Mortgage Rate, as defined. The maximum available under this project financing is \$54 million.

The Debentures, which mature June 1, 1994, are secured by the Company's working interest in certain Irish-Lindbergh heavy oil rights. Principal repayments on the Series A Debentures commence in June, 1986, and in December, 1986, for the Series B Debentures. Principal plus interest is to be paid solely from revenue received from the heavy oil project.

The Debenture Agreement also provides for the payment of a Term Bonus, to the Debenture holder, based upon production from a defined land area. The Term Bonus is calculated using a sliding scale ranging from 0.5 percent to two percent on net proceeds depending on the level of net monthly production revenue.

9. Project Financing — cont'd.

Humbly Grove Credit Agreement

The Credit Agreement, which provides up to \$6 million U.S. for the development of the Humbly Grove oil field in the United Kingdom is secured by the Company's working interest in Humbly Grove, a \$6 million U.S. first fixed and floating charge debenture and is guaranteed by the Company's United Kingdom subsidiary. The Credit Agreement bears interest at LIBOR plus 1 $\frac{5}{8}$ percent until the completion date of the development program and plus 1 $\frac{3}{8}$ percent thereafter. Repayments are to be made semi-annually commencing after the earlier of December 31, 1986, or the completion date and are a defined percentage of the project's net cash flow. Revenues from the project are dedicated to the service of the debt.

Wapiti Deep-Cut Debenture

The Debenture which provides \$6 million for the construction of the Wapiti Deep-Cut Plant is secured by a fixed and specific mortgage and charge, and a floating charge on the Wapiti Deep-Cut Plant. The Debenture bears interest at the Bank's prime rate plus $\frac{3}{4}$ of 1 percent. The principal is repayable in 24 monthly installments of \$200,000 commencing in January, 1986, and the balance in 36 monthly installments commencing in January, 1988. Revenues from the project are dedicated to the service of the debt.

Repayments

Project financing repayments have been included in the repayments disclosed in Note 8.

10. Income and Other Taxes

Total income and other taxes amounted to \$7,445,000 (1984 — \$18,912,000) and were comprised of the following:

	Canada	United Kingdom	Total
1985			
Corporate income taxes			
Current (recovery)	\$ (1,991)*	\$ 414	\$ (1,577)
Deferred	—	348	348
Petroleum and Gas Revenue Tax	8,674	—	8,674
	<u>\$ 6,683</u>	<u>\$ 762</u>	<u>\$ 7,445</u>
1984 (Restated)			
Corporate income taxes			
Current (recovery)	\$ (4,079)*	\$1,453	\$ (2,626)
Deferred	3,668	2,353	6,021
Petroleum and Gas Revenue Tax	15,517	—	15,517
	<u>\$15,106</u>	<u>\$3,806</u>	<u>\$18,912</u>

* After the deduction of the Alberta Royalty Tax Credit.

10. Income and Other Taxes — cont'd.

	1985	1984
		(Restated)
Computed "expected" tax expense	\$(18,168)	\$(13,387)
Increase in income taxes resulting from:		
Nondeductible expenses including; royalties, lease rentals and mineral taxes payable to the Crown net of provincial rebates and credits	16,302	13,562
Petroleum and Gas Revenue Tax	8,674	15,517
U.K. Corporation Tax	722	3,806
U.K. Petroleum Revenue Tax	40	—
Amortization of excess of attributed value over book value of assets acquired on purchase of subsidiary companies	7,684	9,978
Losses of subsidiaries and affiliated companies	3,472	3,042
Foreign exchange	2,968	4,894
Other	—	369
	21,694	37,781
Decrease in taxes resulting from:		
Tax depletion on Canadian production income	(2,835)	(2,679)
Resource allowance on Canadian production income	(11,359)	(16,190)
Other	(55)	—
	\$ 7,445	\$ 18,912

Foreign tax credits available in Canada to October 31, 1985, with respect to the Company's operations in the United Kingdom aggregate \$21 million (1984 — \$20 million). The Company's U.S. subsidiary has net operating losses available, for application against future taxable income, totalling approximately \$35 million U.S. (1984 — \$33 million U.S.) as at October 31, 1985. No provision has been made in the accompanying financial statements for the potential benefit which may be derived therefrom.

11. Share Capital and Contributed Surplus

The share capital and contributed surplus at October 31 were as follows:

	1985	1984
Class A Preferred Shares, Series One without nominal or par value. Authorized and issued 6,000,000 shares (1984 — 6,000,000)	\$150,000	\$150,000
Class B Preferred Shares, Series One without nominal or par value. Authorized and issued 500,000 shares (1984 — 500,000)	500	500
Common Shares without nominal or par value. Authorized unlimited, issued 15,062,834 shares (1984 — 15,062,829)	1,065	1,065
	151,565	151,565
Contributed Surplus	52,745	52,745
Deduct Notes Receivable	(3,379)	—
	\$200,931	\$204,310

11. Share Capital and Contributed Surplus — cont'd.

Class A Preferred Shares

The non-voting shares, which are issuable in series, are entitled to preference over all other shares with respect to payment of dividends.

The Series One shares were issued for a cash consideration of \$25 per share and bear a cumulative fixed cash preferential dividend at the annual rate of 8.75 percent payable quarterly, for the period October 30, 1984, to October 31, 1987, and thereafter payable monthly at the rate of 72 percent of the Bank's average monthly prime rate. The shares are retractable, at the option of the holder, on October 31, 1994, at \$25 per share plus accrued and unpaid dividends. The Company has the option of redeeming the shares at the later of October 31, 1987, or the date of redemption of the Class B Preferred Shares, Series One, at \$25 per share plus accrued and unpaid dividends. The shares are also subject to a "Put and Call" agreement between the holder and the Bank. The holder can require the Bank to purchase the shares, at \$25 per share plus one quarterly accrued and unpaid dividend, on May 2, 1986, and on November 3, 1987, or, in the event the Company does not declare and pay the full dividend, at any time prior to November 3, 1987. After November 3, 1987, the Bank can require the holder to sell its shares to the Bank at the redemption price.

Class B Preferred Shares

The non-voting shares, which are issuable in series, are subordinate to the Class A Preferred Shares, but have preference over all other shares with respect to the payment of dividends.

The Series One shares were issued for a cash consideration of \$100 per share, of which \$1 per share was credited to stated capital and the balance to contributed surplus. The Series One shares bear a fixed cumulative preferential cash dividend of \$0.01 per share payable annually. The Company may redeem the shares at any time at \$100 per share plus all accrued and unpaid dividends. The shares are retractable, at the option of the holder, on the earlier of:

- (a) the acquisition by any party, other than C-B Inc., the Bank or any person holding more than 20 percent of the common shares of the Company on October 26, 1984, of more than 20 percent of the Company's common shares;
- (b) April 30, 1988; or
- (c) the completion of any offering of equity securities of the Company; at a price of \$100 per share plus accrued and unpaid dividends.

Contributed Surplus

Non-interest bearing secured notes given as payment for common shares of the Company, by directors and officers, have been deducted from Contributed Surplus.

11. Share Capital and Contributed Surplus — cont'd.

Share Options

The following table summarizes transactions during the year ended October 31, 1985, under the share option agreements;

	Common Shares
Balance at beginning of year	676,595
Granted to directors and employees	1,220,025
	1,896,620
Cancelled and/or expired	685,855
Balance at end of year	1,210,765

Options are exercisable, as to Common Shares, at prices ranging from \$2.80 to \$2.90 on varying dates to April 30, 1990.

12. Related Party Transactions

- (a) The Company has loaned \$3.0 million to Gus A. Van Wielingen, a shareholder. The non-interest bearing loan (secured by shares of the Company) is for a period of four years and may be extended for a further two years at the option of the borrower.
- (b) Pursuant to the terms of the management agreements whereby the affairs of Sulbath and Sulbath Ventures are managed by the Company, management fees, which are consistent with those charged in the industry, of \$2,439,000 were paid to the Company in 1985.

13. Debt Restructuring and Corporate Reorganization — 1984

During October 1984, the Company, the Bank and a major shareholder, C-B Inc. executed formal agreements with respect to the following:

- (a) The transfer of \$153.1 million of producing oil and gas properties (net of the liability for prepaid gas of \$4.8 million) to a partnership (Sulbath Ventures) formed by the Company, a wholly-owned subsidiary and Sulbath. As consideration for the transfer, the partnership assumed long-term debt of Sulpetro amounting to \$150 million. The balance of \$3.1 million represented the Company's contribution to the partnership. Sulbath's contribution to the partnership totalled \$150 million.
- (b) The issuance, on a private placement basis, of \$150 million of redeemable retractable non-voting Class A Preferred Shares, Series One as more fully described in Note 11. The proceeds were used to reduce long-term debt.
- (c) The issuance of \$50 million of redeemable retractable non-voting Class B Preferred Shares, Series One as more fully described in Note 11. The Bank and C-B Inc. each subscribed for the equivalent of \$25 million of these shares. The proceeds were used to reduce long-term debt.
- (d) The purchase by the Bank of a \$75 million Gas Indexed Debenture due October 31, 1999, as more fully described in Note 8.
- (e) The rescheduling of long-term debt in the amount of \$319.4 million.
- (f) The sale of certain proven non-producing Canadian natural gas properties to Sulbath for \$10 million.

13. Debt Restructuring and Corporate Reorganization — 1984 — cont'd.

- (g) The giving of an undertaking by the Company to raise \$150 million of new equity capital by October 31, 1987, pursuant to which the Bank and C-B Inc. have each undertaken to subscribe for \$35 million. Proceeds of \$50 million would be used to redeem the issued and outstanding Class B Preferred Shares, Series One. If the equity offering is not completed, the Company has agreed to a rights offering to raise \$50 million to effect the redemption of the Class B Preferred Shares, Series One.
- (h) The reorganization of the Company's investment in Sulbath as described in Note 4.

14. Comparative Figures

Certain reclassifications have been made to the 1984 comparative figures to conform with the current year's presentation.

15. Business Segment Information

	Oil and Gas Capitalized Costs					
	1985			1984 (Restated)		
	Proved Properties	Unproved Properties	Total	Proved Properties	Unproved Properties	Total
Canada	\$526,135	\$ 46,800	\$572,935	\$463,429	\$116,564	\$579,993
United Kingdom	197,949	—	197,949	185,024	—	185,024
	<u>\$724,084</u>	<u>\$ 46,800</u>	<u>770,884</u>	<u>\$648,453</u>	<u>\$116,564</u>	<u>765,017</u>

Accumulated depletion, depreciation and amortization:						
Canada			100,652			86,363
United Kingdom			112,466			101,161
			<u>213,118</u>			<u>187,524</u>
			<u>\$557,766</u>			<u>\$577,493</u>

	Oil and Gas Capital Additions					
	1985			1984		
	Property Acquisition Costs	Exploration Costs	Development Costs	Property Acquisition Costs	Exploration Costs	Development Costs
Canada	\$1,390	\$1,011	\$22,418	\$1,101	\$5,810	\$42,432
United Kingdom	27	3,317	9,581	8	(347)	7,742
Other	37	35	(2)	595	191	490
	<u>\$1,454</u>	<u>\$4,363</u>	<u>\$31,997</u>	<u>\$1,704</u>	<u>\$5,654</u>	<u>\$50,664</u>

15. Business Segment Information — 1985

Segment Summary				
	Assets	Capital Expendi- tures	Revenue	Operating Profit
Industry				
Oil and gas	\$693,720	\$37,814	\$121,446	\$ 94,788
Other	2,660	884	2,415	(949)
	<u>\$696,380</u>	<u>\$ 38,698</u>	<u>\$123,861</u>	<u>93,839</u>
Less:				
Depletion, depreciation and amortization				54,311
Interest				70,252
Other				7,444
				<u>132,007</u>
Loss before income and other taxes				<u>\$ (38,168)</u>
Geographic				
Canada	\$594,876	\$25,773	\$ 99,257	\$ 79,534
United Kingdom	101,504	12,925	24,604	14,305
	<u>\$696,380</u>	<u>\$ 38,698</u>	<u>\$123,861</u>	<u>93,839</u>
Less:				
Depletion, depreciation and amortization				54,311
Interest				70,252
Other				7,444
				<u>132,007</u>
Loss before income and other taxes				<u>\$ (38,168)</u>
Depletion, Depreciation and Amortization Expense				
	Industry		Geographic	
Oil and gas	\$ 52,223	Canada		\$ 39,158
Other	2,088	United Kingdom		14,422
		Other		731
	<u>\$ 54,311</u>			<u>\$ 54,311</u>

Canadian natural gas export sales for the year ended October 31, 1985, totalled \$34,523,000.

15. Business Segment Information — 1984 (Restated)

	Segment Summary			
	Assets	Capital Expenditures	Revenue	Operating Profit
Industry				
Oil and gas	\$727,769	\$58,022	\$174,219	\$146,980
Mining	17,346	1,283	1,017	(142)
Other	3,352	274	1,070	(766)
	<u>\$748,467</u>	<u>\$59,579</u>	<u>\$176,306</u>	<u>146,072</u>
Less:				
Depletion, depreciation and amortization				64,939
Interest				96,843
Other				12,774
				<u>174,556</u>
Loss before income and other taxes and extraordinary item				<u>\$ (28,484)</u>
Geographic				
Canada	\$643,439	\$50,900	\$132,856	\$112,203
United Kingdom	92,268	7,404	40,461	32,002
Other	12,760	1,275	2,989	1,867
	<u>\$748,467</u>	<u>\$59,579</u>	<u>\$176,306</u>	<u>146,072</u>
Less:				
Depletion, depreciation and amortization				64,939
Interest				96,843
Other				12,774
				<u>174,556</u>
Loss before income and other taxes and extraordinary item				<u>\$ (28,484)</u>
Depletion, Depreciation and Amortization Expense				
	Industry		Geographic	
Oil and gas	\$60,262	Canada		\$39,514
Mining	4,075	United Kingdom		24,366
Other	602	Other		1,059
	<u>\$64,939</u>			<u>\$64,939</u>

Canadian natural gas export sales for the year ended October 31, 1984, totalled \$46,044,000.

QUARTERLY FINANCIAL DATA 1985

	Three Months Ended				Year 1985	(Unaudited)
	Jan. 31	Apr. 30	July 31	Oct. 31		
	(thousands of dollars except per share amounts)					
Revenue	\$32,367	29,007	35,522	34,430	131,326	
Cost of sales, administrative and other expense	10,481	11,840	9,902	9,001	41,224	
Interest expense	17,325	16,581	18,484	17,862	70,252	
Depletion, depreciation and amortization	9,960	13,765	15,891	14,695	54,311	
Equity in loss of affiliate	1,009	1,355	817	526	3,707	
Income and other taxes	2,136	2,258	2,073	978	7,445	
Net Loss	\$ 8,544	16,792	11,645	8,632	45,613	
Net Loss per share	\$ 0.79*	1.33*	0.99*	0.79*	3.90*	
Funds from Operations	\$ (6,072)	(80)	5,245	6,067	5,160	
Funds from Operations — per share	\$ (0.62)*	(0.22)*	0.13*	0.18*	(0.53)*	

* After preferred share dividends

Share Trading Ranges
Common Shares

— High	\$ 4.00	3.75	2.90	2.54	4.00
— Low	\$ 2.20	2.30	1.80	1.75	1.75

QUARTERLY FINANCIAL DATA 1984

	Three Months Ended (Restated)				Year 1984	(Unaudited)
	Jan. 31	Apr. 30	July 31	Oct. 31		
	(thousands of dollars except per share amounts)					
Revenue	\$41,565	41,520	43,163	50,058	176,306	
Cost of sales, administrative and other expense	8,744	10,267	10,329	13,556	42,896	
Interest expense	23,042	22,975	24,538	26,288	96,843	
Depletion, depreciation and amortization	13,786	15,074	19,204	16,875	64,939	
Equity in loss of affiliate	—	—	—	112	112	
Income and other taxes	5,704	3,357	4,454	5,397	18,912	
Net loss before extraordinary item	9,711	10,153	15,362	12,170	47,396	
Extraordinary item (net)	—	—	—	40,091	40,091	
Net Loss	\$ 9,711	10,153	15,362	52,261	87,487	
Net Loss per share before extraordinary item	\$ 0.65	0.67	1.02	0.80	3.14	
Extraordinary item	—	—	—	2.67	2.67	
Net Loss per share	\$ 0.65	0.67	1.02	3.47	5.81	
Funds from operations	\$ 5,384	5,230	4,262	1,198	16,074	
Funds from operations — per share	\$ 0.36	0.35	0.28	0.08	1.07	

Share Trading Ranges
Common Shares

— High	\$ 6.87	5.75	5.87	4.75	6.87
— Low	\$ 4.80	4.10	3.80	3.50	3.50

FIVE-YEAR OPERATIONS SUMMARY

	1985	1984	1983	1982	1981 (1)
Production (2)					
Natural Gas (mmcf per day)					
Canada	82.4	103.4	90.0	95.3	74.4
International	—	1.5	2.6	3.6	4.0
Total	82.4	104.9	92.6	98.9	78.4
Crude Oil and NGL (bbl per day)					
Canada	3,213	3,884	3,429	3,895	2,505
International	1,973	3,273	3,732	4,185	2,347
Total	5,186	7,157	7,161	8,080	4,852
Proven Reserves (2)					
Natural Gas (bcf)					
Canada	613	723	990	986	919
International	—	—	19	20	18
Total	613	723	1,009	1,006	937
Crude Oil and NGL (mmbbl)					
Canada	32,013	28,754	36,845	35,419	33,866
International	6,072	5,544	4,952	6,334	6,605
Total	38,085	34,298	41,797	41,753	40,471
Working-Interest					
Oil and Gas					
Landholdings (2)					
(acres)					
Canada					
Gross	2,525,079	3,122,149	9,563,296	10,380,000	6,713,449
Net	712,903	884,121	1,740,251	1,705,698	1,739,408
International					
Gross	1,284,177	2,145,298	5,472,538	5,761,895	5,443,102
Net	160,358	279,149	2,579,539	2,669,041	979,592
Total					
Gross	3,809,256	5,267,447	15,035,834	16,141,995	12,156,551
Net	873,261	1,163,270	4,319,790	4,374,739	2,719,000
Drilling (2)					
(working and royalty- interest wells)					
Canada					
Gas	30	34	68	139	152
Oil	48	129	150	117	159
Dry	25	40	38	62	70
International					
Gas	—	—	2	5	3
Oil	7	4	7	7	19
Dry	8	3	4	5	26
Total	118	210	269	335	429

(1) Includes seven months of CanDel Oil Ltd. statistics for sales and drilling activity. Includes proven reserves and landholdings of CanDel at October 31, 1981.

(2) The 1985 and 1984 numbers for proven reserves and landholdings plus the 1985 numbers for production and drilling are not comparable with prior years, due to the financial restructuring and the de-consolidation of Sulbath Exploration Ltd. which occurred in October, 1984.

FIVE-YEAR FINANCIAL SUMMARY

	1985	Restated			1981 (1)
		1984	1983	1982	
Revenue					
Oil	\$150,594	210,779	183,139	194,354	127,699
Less: Royalties	37,343	51,692	37,535	42,588	31,900
	113,251	159,087	145,604	151,766	95,799
Metal sales	218	759	801	2,427	6,972
Contract drilling	8	—	1,263	4,173	4,087
Interest and other income	17,849	16,460	7,064	8,734	5,489
	131,326	176,306	154,732	167,100	112,347
Costs and Expenses					
Cost of sales					
Oil and gas	26,658	27,239	23,915	24,981	12,619
Metal	804	1,159	1,239	1,697	8,086
Other	2,560	1,836	3,032	5,743	3,717
General and administrative	10,847	12,100	9,638	9,873	8,554
Depletion, depreciation and amortization	54,311	64,939	138,413	74,347	38,289
Loss (gain) on foreign exchange	355	562	2,817	6,522	393
Interest	70,252	96,843	91,349	106,708	65,715
Equity loss of affiliate	3,707	112	—	—	—
Other	—	—	1,955	1,084	—
	169,494	204,790	272,358	230,955	137,373
Earnings (loss) before income and other taxes and extraordinary item	(38,168)	(28,484)	(117,626)	(63,855)	(25,026)
Income and Other Taxes					
Current (recovery)	(1,577)	(2,626)	(2,919)	(4,485)	(893)
Deferred (recovery)	348	6,021	3,721	4,768	(2,655)
Petroleum and Gas Revenue Tax	8,674	15,517	11,640	10,432	5,745
	7,445	18,912	12,442	10,715	2,197
Net Earnings (Loss) before extraordinary item	(45,613)	(47,396)	(130,068)	(74,570)	(27,223)
Extraordinary item	—	(40,091)	—	—	—
Net (Loss)	\$ (45,613)	(87,487)	(130,068)	(74,570)	(27,223)
Funds Provided from Operations					
	\$ 5,160	16,074	15,413	9,497	8,411
Capital Expenditures					
Acquisition of subsidiaries	\$ —	—	—	—	624,059
Exploration and development	38,698	59,579	52,466	112,884	116,213
	\$ 38,698	59,579	52,466	112,884	740,272
Balance Sheet					
Net cash (deficiency)	\$ (35,459)	(886)	(8,909)	(24,458)	13,927
Property, plant and equipment — net	\$558,901	595,440	706,448	993,723	959,373
Long-term debt and project financing	\$542,572	553,848	821,093	809,401	783,100
Deferred income taxes	\$ 80,484	82,123	78,553	74,832	70,064
Shareholders' equity (deficit)	\$ (60,775)	1,347	(110,531)	19,201	92,629

(1) Includes seven months of CanDel Oil Ltd. operations for net earnings, funds and capital expenditures.

Directors

Pierre Arbour

President
Laduboro Oil Ltd.
Montreal, Quebec

John B. Ballem, Q.C. (3)

Partner
Ballem McDill & MacInnes
Calgary, Alberta

Raphael Bernstein (1)

Managing Director
Bear Stearns & Co. Inc.
New York, New York

Simon Chilewich (1,3)

Partner
Chilewich Sons & Company
New York, New York

Marshall A. Crowe (2)

President
M. A. Crowe Consultants Inc.
Ottawa, Ontario

Norman E. Frost

Executive Vice President
Sulpetro Limited
Calgary, Alberta

Brian D. Gregson

Senior Executive Vice President
The Royal Bank of Canada
Montreal, Quebec

William C. Leuschner (2)

President
Leuschner International Resources Ltd.
Calgary, Alberta

Rolf A. Merton (1, 3, 4)

Vice Chairman of the Board
Financial Consultant
Smith Parish, Bermuda

John A. Rae (1, 3)

Vice President
Power Corporation of Canada
Montreal, Quebec

William I. M. Turner, Jr. (1, 4)

Chairman and Chief Executive Officer
Consolidated-Bathurst Inc.
Montreal, Quebec

Robert A. Utting (1)

Retired Banking Executive
Montreal, Quebec

Gus A. Van Wielingen (1)

Chairman of the Board and
Chief Executive Officer
Sulpetro Limited
Calgary, Alberta

Michael A. Williams (1)

President
Sulpetro Limited
Calgary, Alberta

Note:

- 1 — Member of the Executive Committee
- 2 — Member of the Audit Committee
- 3 — Member of the Compensation Committee
- 4 — Member of the Nominating Committee

Corporate Officers

Gus A. Van Wielingen
Chairman of the Board and
Chief Executive Officer

Michael A. Williams
President

Norman E. Frost
Executive Vice President

Ardley H. Caldwell
Vice President
Human Resources

Wilfred L. Mitzel
Vice President and Treasurer

Margaret A. Nazarchuk
Corporate Secretary

Gregory L. Osmond
Vice President
Accounting and Control

Douglas A. Proll
Vice President
Taxation and Budgets

David R. E. Parry
Controller

Martin W. Stewart
Assistant Treasurer

Canadian Oil and Gas Division

Norman E. Frost
President

Donald J. Bobyn
Group Vice President
Planning and Development

Douglas H. Church
Group Vice President
Production and Operations

Lloyd S. Manz
Group Vice President
Exploration and Land

Denis C. Fonteyne
Vice President
Marketing

Randall S. Marshall
Vice President
Operations

Kenneth R. Murray
Vice President
Exploration

Morley W. Mychaluk
Vice President
Land and Contracts

Russell J. Zaharko
Vice President
Production

International Division

Michael A. Williams
President

Donald M. Ericson
Senior Vice President
Exploration

Martin W. Stewart
Managing Director
Sulpetro (UK) Limited

CORPORATE INFORMATION

Sulpetro Limited

Head Office
3200 Bow Valley Square 3
255 Fifth Avenue S.W.
Calgary, Alberta, Canada T2P 3G6
(403) 232-1500

Subsidiaries

Degra-Sul Fertilizer Production Ltd.

3200 Bow Valley Square 3
255 Fifth Avenue S.W.
Calgary, Alberta, Canada T2P 3G6

Sulpetro (UK) Limited

55 Park Lane
London W1Y 3DM, England

Affiliate

Sulbath Exploration Ltd.

3200 Bow Valley Square 3
255 Fifth Avenue S.W.
Calgary, Alberta, Canada T2P 3G6

Banker

The Royal Bank of Canada
Calgary, Alberta, Canada

Auditors

Peat, Marwick, Mitchell & Co.
Calgary, Alberta, Canada

Solicitors

Ballem, McDill & MacInnes
Calgary, Alberta, Canada

Registrar and Transfer Agent

The Canada Trust Company
Calgary, Alberta, Canada

Stock Exchange Listings

Alberta Stock Exchange
Toronto Stock Exchange

Shareholder Information

At October 31, 1985, the major common shareholders of Sulpetro Limited were: Freudenberg & Co., West Germany, 21.7 percent; Consolidated-Bathurst Inc., Montreal, 19.3 percent; and G. A. Van Wielingen, Calgary, 12.6 percent.

Annual Report

To obtain copies of the Company's 1985 Annual Report, contact the Public Affairs Department at Sulpetro Limited, 3200 Bow Valley Square 3, 255 Fifth Avenue S.W., Calgary, Alberta T2P 3G6 (403) 232-1500.



3200 Bow Valley Square 3
255 Fifth Avenue S.W.
Calgary, Alberta, Canada
T2P 3G6