

sunlite  
oil  
company  
limited

1978  
annual  
report

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
AUG 21 1979  
MCGILL UNIVERSITY

### **Description of Business**

The company was incorporated March 2, 1945, under the laws of the Province of Alberta, Canada. Sunlite is engaged in the exploration for and development of oil and gas properties and the exploration for mineral properties. Producing interests are held in Alberta, British Columbia and Saskatchewan and in Louisiana, U.S.A. The principal exploratory interests of the company are located throughout Canada and the U.S.A. and in the British, Dutch and German Sectors of the North Sea.

### **Annual Meeting and Form 10-K**

The Annual General Meeting of shareholders will be held on Thursday, December 14, 1978, at ten o'clock A.M. (local time) at the 18th Floor Auditorium of the Norcen Tower, 715 - Fifth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with a proxy statement and information circular and form of proxy, is being mailed with this report.

Sunlite will provide its Form 10-K Annual Report upon written request from its shareholders.

# To Our Shareholders

Of major importance to the company was the continued exploratory success in the Beaufort Sea, where Sunlite owns a 1 percent gross overriding royalty on 3 million acres of permits. While there were no exploratory tests on Sunlite's holdings during the year, a major oil discovery is indicated in Dome's Kopanoar M-13 located approximately ten miles to the east of Sunlite's acreage. Another test is projected to be drilled on Sunlite interest permits next year to the south of the Nektoralik K-59 discovery reported last year. The area continues to have large potential, with three and possibly four discoveries to date. Although production for the Beaufort Sea is not projected before 1985, our holdings could contribute substantially to Sunlite's earnings in future years.

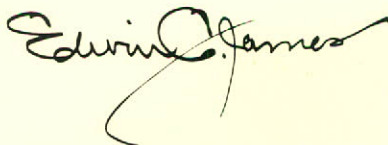
Exploratory efforts continue to be successful in Canada with the completion of six gas discoveries out of eight exploratory tests. Because of the continued lack of market for new gas, drilling was limited to that required to hold acreage or increase capacity in producing fields.

In the United States, twelve prospects in Texas were farmed out for drilling exploratory wells at no cost to Sunlite with the company retaining interests ranging from 10 percent royalty to 25 percent carried working interest. The first of these, McFarlane Sunset Ranch No. 1, has been drilled and is currently being evaluated. It is expected that two additional wells on other prospects will be commenced before year-end and the balance of the prospects are projected to be drilled within twelve to eighteen months.

Overseas, Sunlite relinquished its interest in Dutch Block Q/7 and the Ras al Khaimah Arabian Gulf Concession rather than participate in further drilling. Dry holes were subsequently drilled on both of these. Our interest in Dutch Block P/6 was farmed out for cash and a 25 percent net profits interest. A well, P/6-4, is currently being tested on this block. In Germany, we have been advised that an exploratory well will be started on the Jade Plate Block early next year.

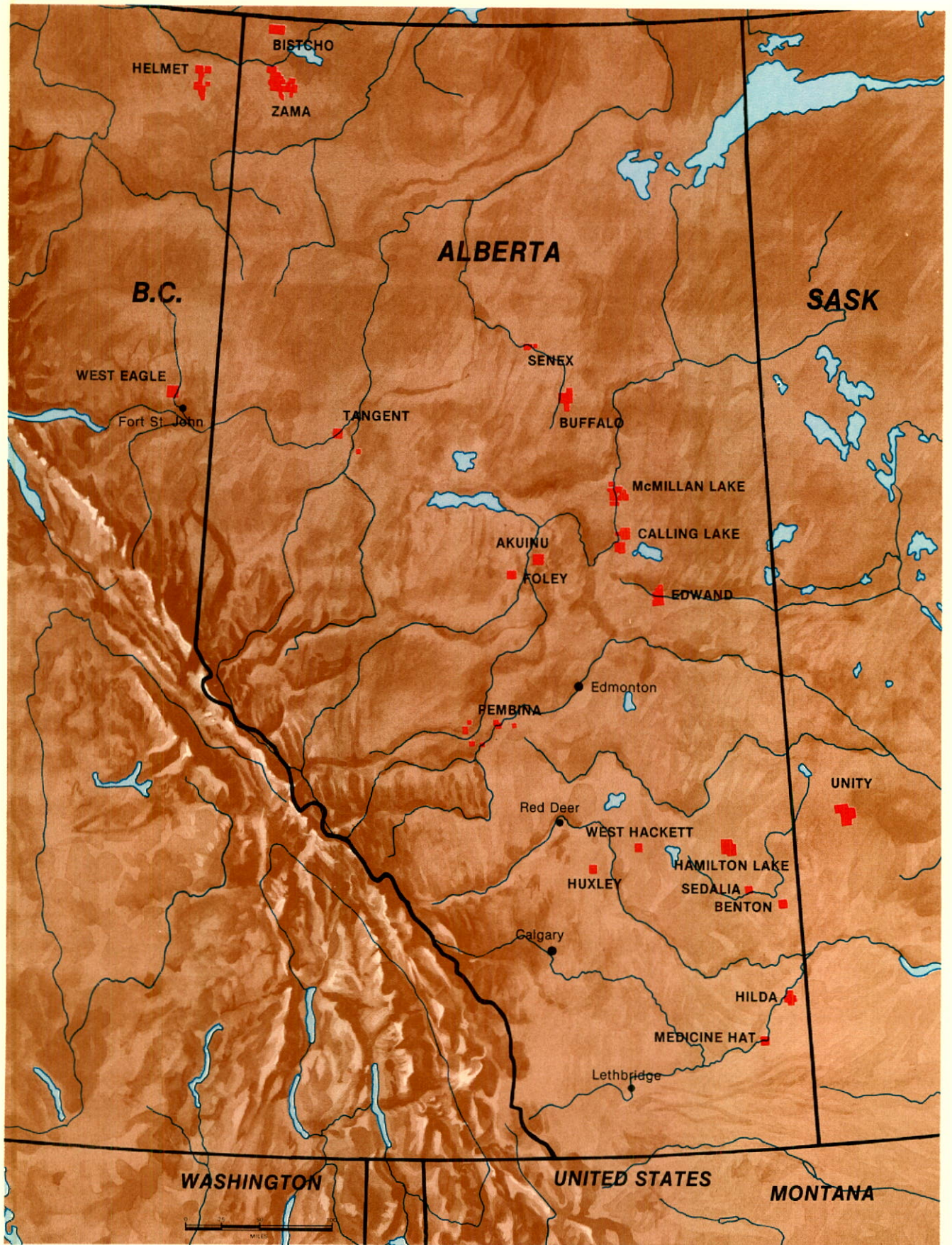
Revenues from oil and gas production were approximately 10 percent less than in the 1977 fiscal year principally due to declines in production from Canadian fields, Hamilton Lake and Benton, and proration and production problems in the Helmet gas field. With continued oversupply problems in Canada, sale of Sunlite's shut-in gas reserves are dependent on governmental action to export gas to the United States. This is under consideration, but a decision is not expected until next year. With this situation it is not expected that revenue from Canadian sources will increase during the next fiscal year.

For the Board of Directors



Edwin C. James  
President  
November 1, 1978





**WESTERN CANADA**

■ SUNLITE INTEREST ACREAGE



# Exploration

## CANADA

Sunlite's drilling program in Western Canada was limited to wells which would increase deliverability under existing gas contracts or which were required to be drilled to maintain leases. This type of restricted drilling program was initiated due to the lack of gas contracts for new reserves. During the period under review, your company participated in drilling four development oil wells at Hamilton Lake and one development gas well at Huxley. Sunlite also drilled six discovery gas wells and two exploratory abandonments including wells in the Calling Lake, Edwand and Hackett areas of south central Alberta, and the Fort St. John area of north-eastern British Columbia.

### Hackett

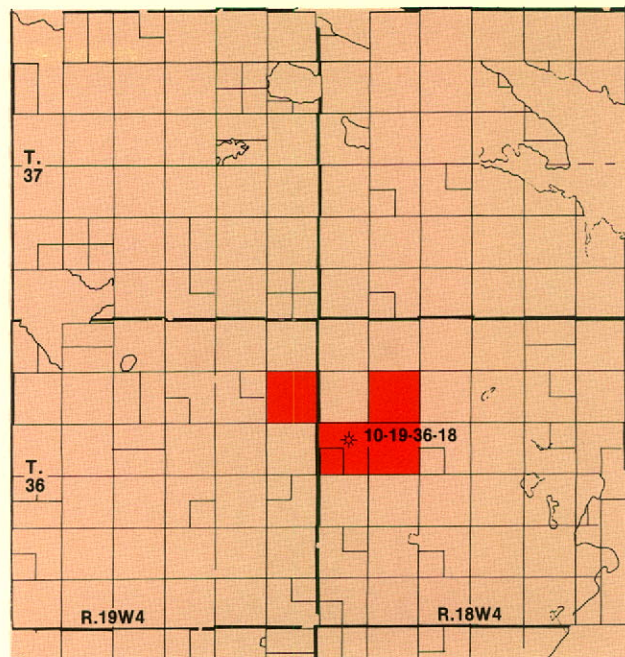
Sunlite et al Hackett 10-19-36-18-W4, an exploratory well drilled on acreage farmed in from others, discovered gas in the Sparky sand flowing at rates up to 2.5 million cubic feet per day. Sunlite's interest in the well and the four sections of land involved in a farmout and pooling agreement is 60 percent until payout and 30 percent thereafter. It is expected that at least two additional wells will be drilled to develop this acreage when a gas contract is finalized.

### Edwand

Your company has a 25 percent interest in the exploratory well Figure 11-9-63-16-W4, a Sparky sand gas discovery which flowed at rates up to 1.5 million cubic feet per day. The discovery well also had significant shows from other zones which will require evaluation by further drilling. The well is presently shut-in awaiting a market. It was drilled on a 6 section farmout block in which your company elected to maintain its interest by participating in the well.

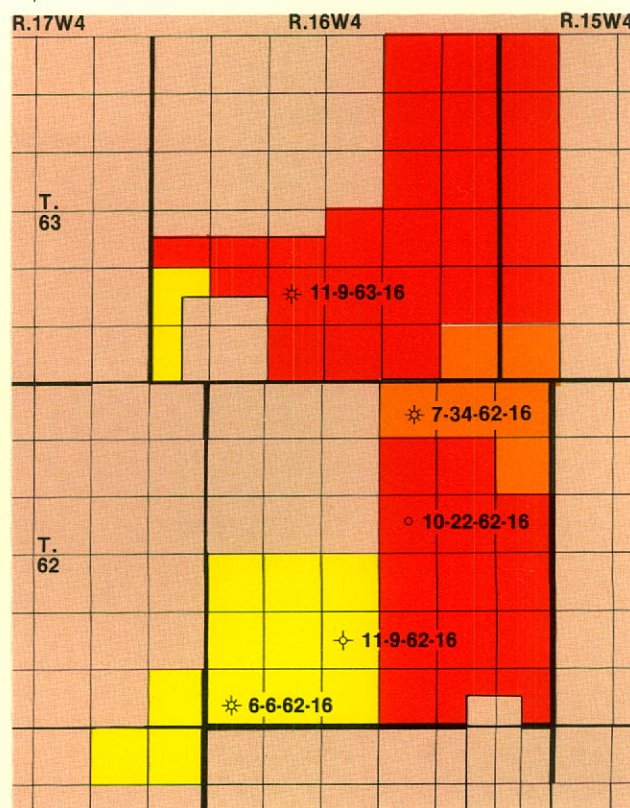
A second exploratory test in the Edwand area, Figure 6-34-62-16-W4, also tested gas from the Sparky sand at rates up to 1.1 million cubic feet per day. Sunlite retained a 12½ percent interest in this test.

A third test, located six miles south of the discovery, was drilled and abandoned at no cost to Sunlite. The farmer has continuing options on acreage involving 29½ sections and will drill two more tests during the next winter drilling season. Sunlite is well represented in the immediate Edwand area with interests ranging from 5 to 25 percent in 52 sections of land.



### WEST HACKETT

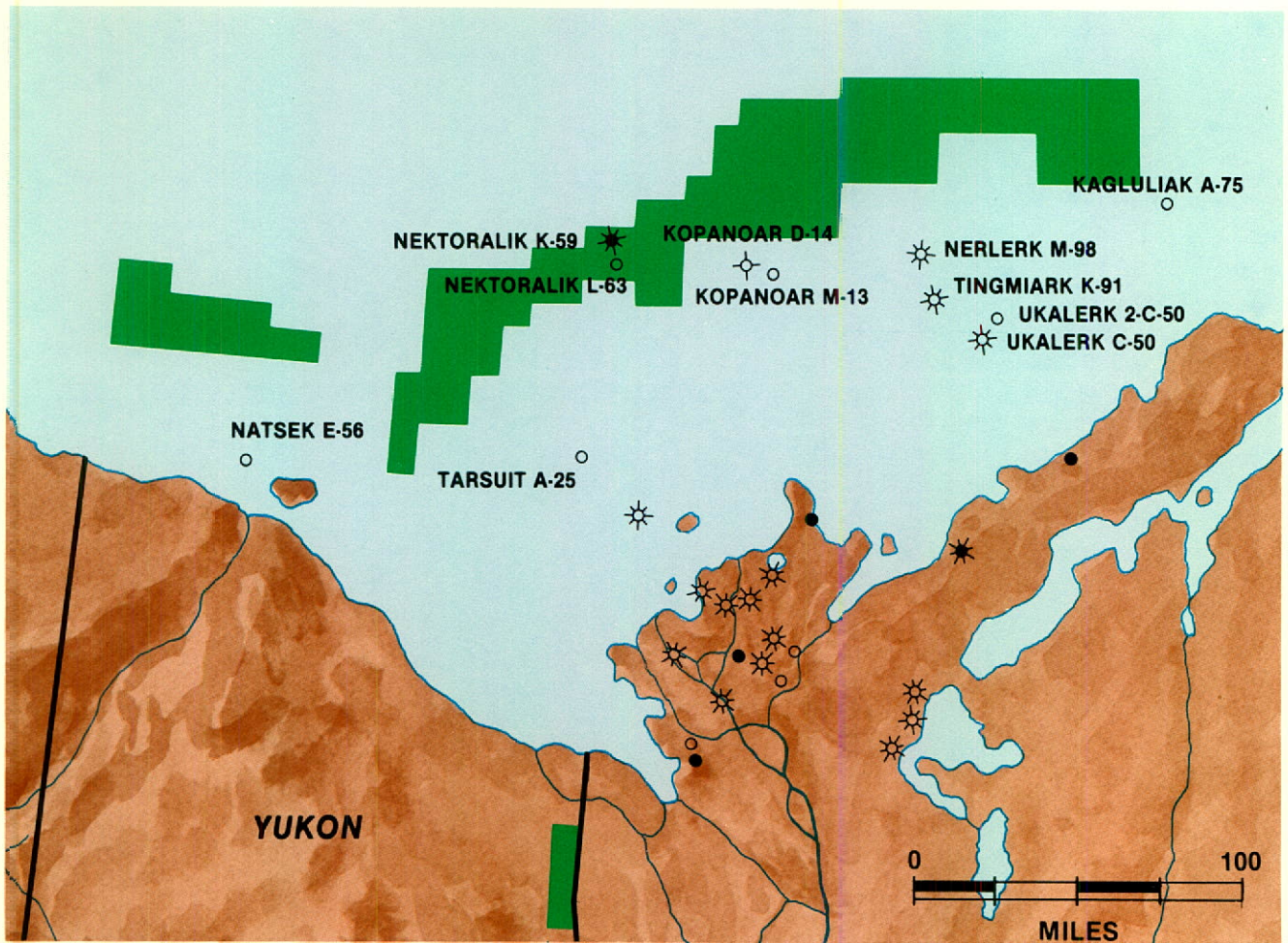
- SUNLITE WORKING INTEREST
- ★ GAS WELL



### EDWAND

- SUNLITE WORKING INTEREST 25%
- SUNLITE WORKING INTEREST 12.5%
- SUNLITE WORKING INTEREST 5%
- ★ GAS WELL
- LOCATION OR DRILLING WELL
- ⊕ ABANDONED





### BEAUFORT SEA

- SUNLITE ROYALTY INTEREST
- LOCATION OR DRILLING WELL
- GAS WELL
- OIL WELL
- ABANDONED

### Beaufort Sea

Sunlite holds a 1 percent gross overriding royalty on 3 million acres in the Beaufort Sea, upon which a discovery well, Nektoralik K-59, was drilled last year. There was no exploratory drilling on Sunlite's holdings during the 1978 drilling season, but Dome Petroleum Limited has continued to have encouraging results from their exploration program. This year's program has confirmed three exploratory successes, and possibly a fourth on the 7.6 million acres in which Dome has an interest. Dome expects to spend more than \$500 million in drilling exploratory wells on 15 prospects in the Beaufort sea during the next five years.

It is estimated that there are 200 undrilled structures in the MacKenzie-Beaufort Sea basin. Potential for the area has been estimated to be 30-40

billion barrels of recoverable oil and 320 trillion cubic feet of gas, and it is projected that production could begin by 1985. With Sunlite's large acreage position including a number of untested structures it is expected that the company will have significant participation in future discoveries.

Of particular interest in this season's program is the exploratory well, Kopanoar M-13, located about ten miles from Sunlite's holdings. The well was reported to be a major discovery, although it could not be tested because of deteriorating weather and ice conditions. An exploratory test on Sunlite's acreage, Nektoralik L-63, to the west of Kopanoar M-13 and ten miles south of Nektoralik K-59, is scheduled to be drilled next year.



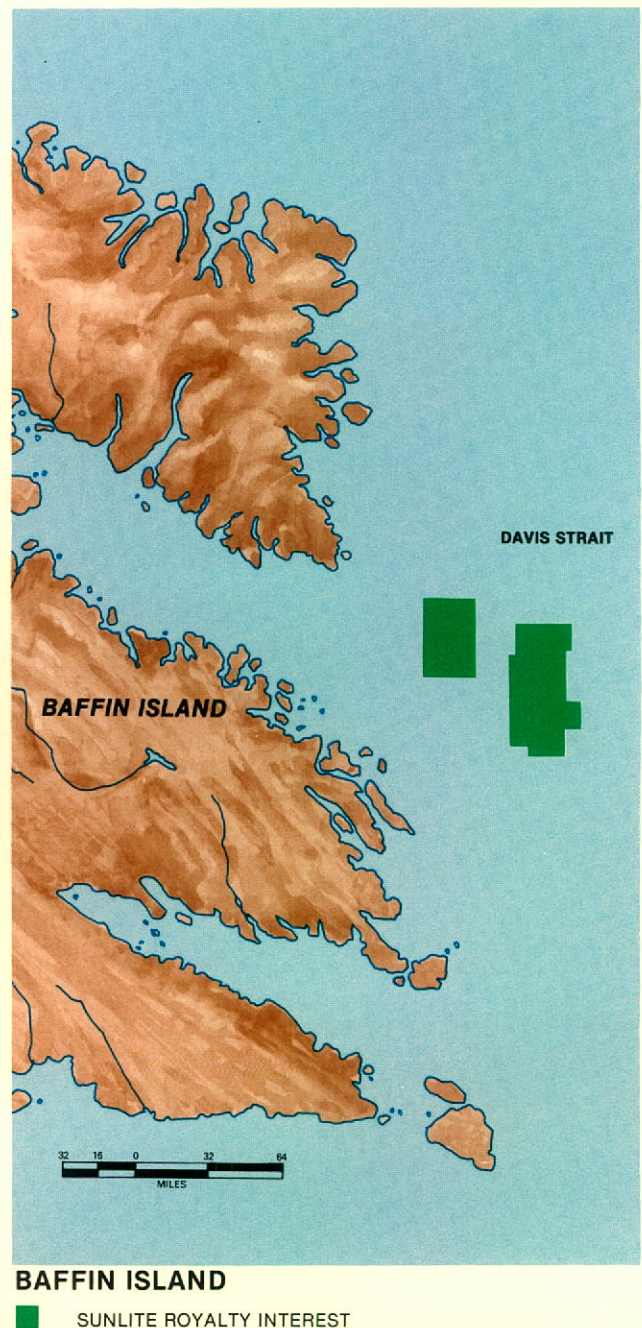
### Arctic and East Coast

Sunlite has 90 percent working interest in 330,000 acres on Ellesmere Island and 75 percent interest in 340,000 acres on Axel Heiberg Island in the northern Arctic region. This acreage has been carried at no cost to Sunlite under terms of two separate exploration agreements with other companies.

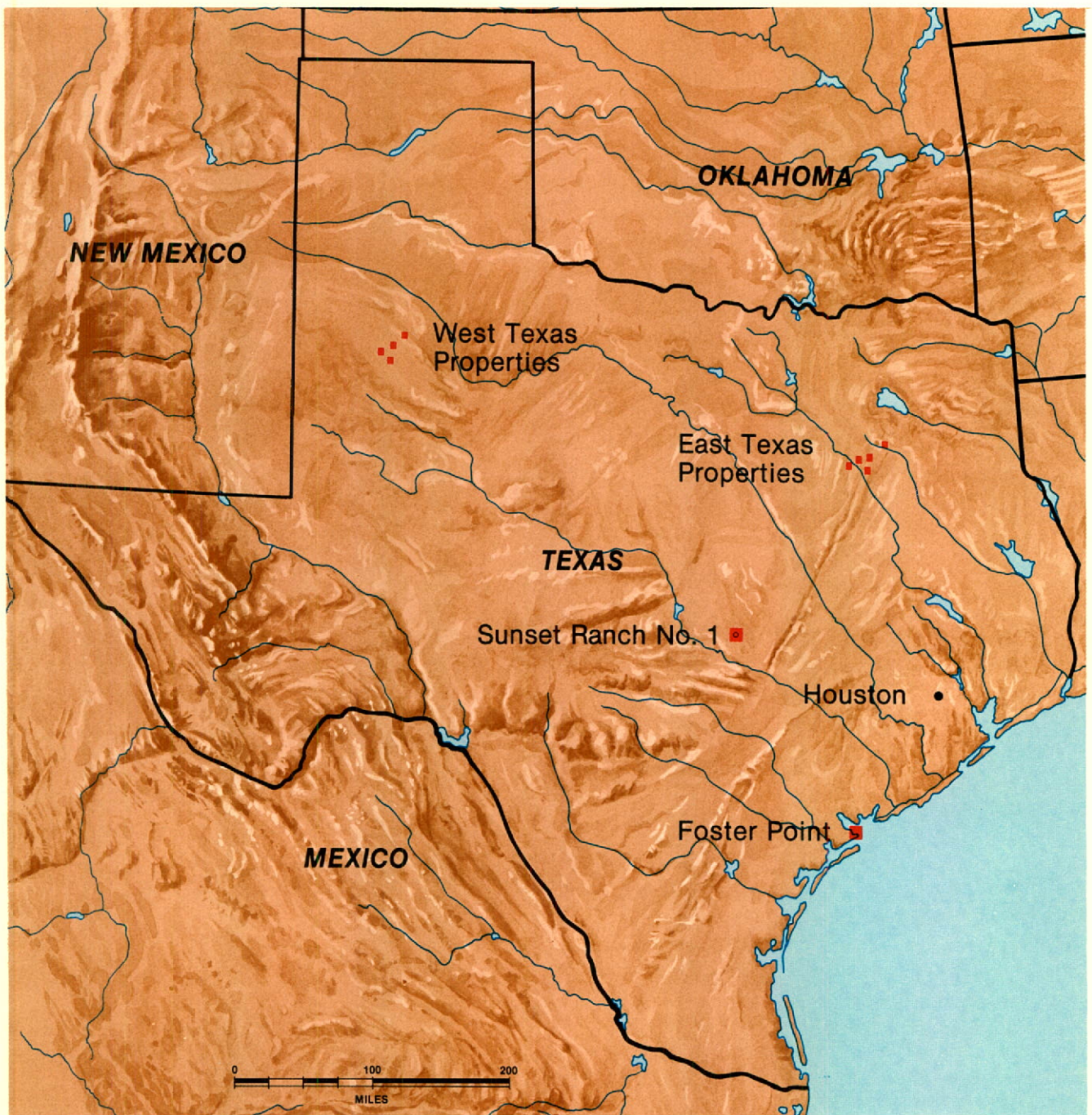
Such Agreements are nearing the end of their initial exploratory term and the operators have advised that no additional expenditures, either in cash or work commitments, are planned and the acreage will be surrendered at the end of this year.

Due to the high cost of carrying the northern Arctic acreage beyond this year, Sunlite will also surrender its interest.

On the east coast of Canada, offshore Baffin Island, the company's 1 percent royalty interest in 1.8 million acres has been maintained through credits generated by preliminary exploration work done by others. Three major companies have recently announced that they have requested permission to drill up to 8 wells south and east of Baffin Island starting in 1979.







## TEXAS

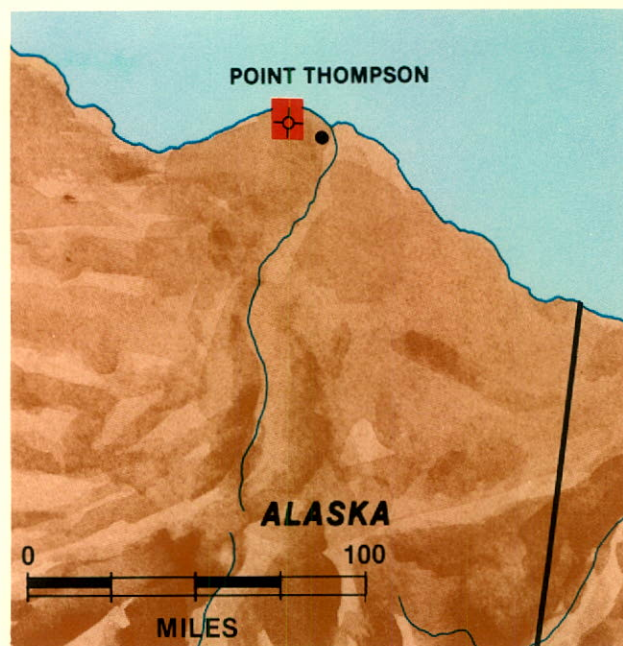
- SUNLITE INTEREST ACREAGE
- DRILLING WELL

## UNITED STATES

### Texas

Last year we reported that the company had leased a number of East Texas prospects. The first of these McFarlane No. 1 Sunset Ranch in which Sunlite has a 25 percent carried working interest, has been drilled in Travis County, Texas. The well encountered numerous hydrocarbon shows in the Ellenburger formation which are being evaluated. Sunlite also has a 25 percent interest in approximately 20,000 acres in the vicinity of the well.





**ALASKA**

- SUNLITE WORKING INTEREST
- OIL WELL
- ⊕ ABANDONED

**Alaska**

Sunlite had a 1 percent working interest in approximately 5,000 acres in the Point Thompson area. The interest was reduced to .5 percent after farming out to a major oil company who drilled a non-commercial oil discovery which was abandoned. Seismic and geological interpretations are now being reviewed.

**INTERNATIONAL**

**Ras al Khaimah**

Sunlite was carried in another test drilled on the "B" structure which was dry and abandoned. The RAK No. A-2 offsetting last year's discovery was also dry. As a result of these developments and increased governmental demands, Sunlite elected to relinquish its small interest (.4%) to the other participants.

**Umm al Qaiwain**

A second well on this concession (Sunlite 2% working interest) offsetting the discovery well was drilled to a depth of 18,600 feet to test the Arab zone. This zone was dry and while attempting to complete in the Upper Cretaceous Thamma and Elam zones the well was abandoned due to mechanical problems. This well cost over \$12,000,000. Because of the extreme costs in this area Sunlite and its partners are attempting to farm out the concession.

Five additional East Texas prospects have been farmed out and are scheduled to be drilled over the next six to eighteen months depending upon seismic results and rig availability. Sunlite retained varying royalty interests in four of these prospects approximating 10 per cent, and a 20 percent rever-sionary working interest in one of the prospects.

In West Texas, Sunlite leased four drilling blocks in Terry and Hockley Counties in areas which we believe to be prospective in Pennsylvanian Reefs and in the Fusselman and Siluro-Devonian formations. Sunlite subsequently sold 50 percent of its interest in these leases to another company which has an option to drill a well at its sole cost. Sunlite will have a 25 percent carried working interest in the first well on each prospect. Depending on results of seismic and geological studies being carried out, one or more of these prospects will be drilled within the next twelve months.

**Mississippi**

Sunlite purchased a carried working interest in certain properties in Southern Mississippi. Included in this purchase are eight completed wells and four wells in various stages of completion in the Waveland Field. Sunlite's net interest in the Waveland Field averages about two percent after payout which is expected to occur in 1980. In addition, approximately 15,000 net acres of non-productive leases are included in the package.



### United Kingdom

Sunlite and its partners have relinquished 50 percent in the U.K. North Sea production licences obtained in the Fourth Round, as required by licence terms, retaining the areas considered to be most prospective.

The 16/26-2 well (Sunlite 6.25%) which reported a gas discovery in the Cretaceous has been further evaluated seismically. While there are believed to be substantial reserves of gas and condensate in this reservoir, future economic conditions will have to be resolved before further development is justified.

Sunlite and its partners are continuing efforts to interest the Gas Council in marketing the shut-in gas on Block 48/12.

### Germany

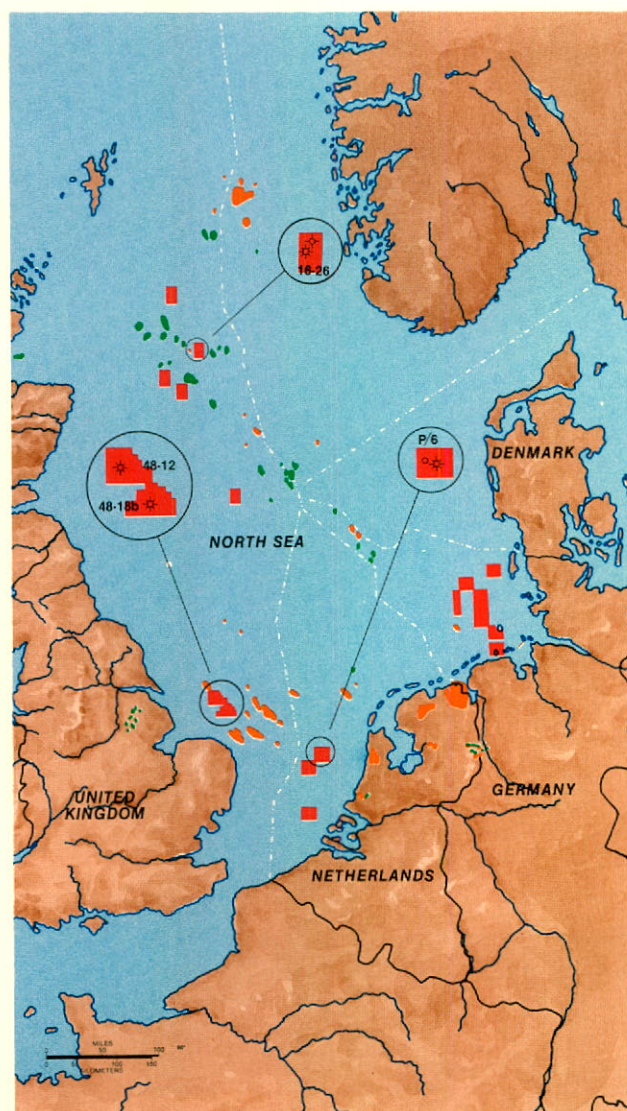
Another well was drilled by others on Block J-13 to the west of our Block J-14 in which Sunlite owns a 7.5 percent interest. This well flowed a substantial volume of gas from the Rotliegendes formation but the gas had a low BTU content and is unmarketable at the present time. Sunlite has applied for an extension of its German permits to August, 1981 to study the possibilities of additional exploratory tests.

Union Texas has advised us that the Jade Plate test (Sunlite 5% carried interest) will be drilled early next year.

### Holland

Sunlite relinquished its interest in Block Q/7 after the operator proposed a test that we did not feel had sufficient technical merit. This well was subsequently drilled and was dry and abandoned.

Sunlite farmed out its P/6 interest (5%) to Newmont for cash and a 1.25 percent net profits interest. A Rotliegendes test P/6-4 located to the west of the discovery well, P/6-3, has been drilled and is currently being tested.



### NORTH SEA

- SUNLITE WORKING INTEREST
- GAS FIELD
- OIL FIELD
- ☆ GAS WELL
- OIL WELL
- ⊕ ABANDONED



# Financial Review

Revenue from oil and gas sales for the year ended June 30, 1978, was \$1,415,204, a decrease of 10% from the previous year. The reduction, partially offset by price increases, was due to lower government production allowables and to some extent due to lower well productivity. Lease sales reflect profits realized on the farm-out of certain Texas leases whereby we recovered 100% of our costs and in addition retained a royalty interest. Investment income decreased again as we withdrew funds from investments to meet exploration obligations.

Well operating and general and administrative expenses increased slightly but should remain relatively static until production levels and the level of exploration activity increase.

Cash flow from operations was \$418,552, down from \$692,489 in 1977. The net loss for the year was \$1,349,148 or \$.45 per share.

Fixed asset additions totalling \$2,263,744 are summarized as follows: Five development wells in Canada and three development wells in the United States amounted to \$111,500; six gas discoveries in Canada and a gas-condensate discovery on United Kingdom Block 16/26 cost \$271,000; lease acquisitions in Canada and the United States amounted to \$436,000 and the purchase of a package of producing and non-producing interests in Mississippi cost \$1,443,000 (\$999,000 financed by notes due over the next five years).

Dryhole costs primarily reflect the cost of an unsuccessful confirmation well in Umm al Qaiwain.

Exploration costs totalling \$116,839 include the cost of seismic programs in Alberta in the amount of \$14,000 and in the U.K. and Dutch sectors of the North Sea in the amount of \$46,000 and the cost of inventory write-downs in our United Kingdom exploration group in the amount of \$57,000.

Property surrenders and write-offs amounted to \$1,206,554. Interests in Ras al Khaimah and on Block Q/7 in the Dutch North Sea were surrendered as projected economics did not support further expenditures. The costs written off were \$675,000 and \$216,000 respectively. Other write-offs included the cost of certain leases in Alaska in the amount of \$142,000 and in Texas in the amount of \$149,000.

Working capital at June 30, 1978, is \$483,583, a decrease of \$843,592 for the year.

## Index to Financial Statements

**Consolidated Balance Sheet**  
As at June 30, 1977 and 1978

**Consolidated Statement  
of Earnings**

For the Years Ended June 30, 1977 and 1978 And For  
The Nine Months Ended June 30, 1977

**Consolidated Statement of  
Changes in Financial Position**

For the Years Ended June 30, 1977 and 1978 And For  
The Nine Months Ended June 30, 1977

**Notes to Consolidated  
Financial Statements**

**Auditors' Report**

# SUNLITE OIL COMPANY LIMITED

## Consolidated Balance Sheet as at June 30, 1977 and 1978

ASSETS	<u>1978</u>	<u>1977</u>
CURRENT ASSETS		
Cash .....	\$ 458,689	\$ 637,371
Accounts receivable (notes 3 and 4) .....	<u>1,056,959</u>	<u>1,149,549</u>
	<u>1,515,648</u>	<u>1,786,920</u>
PROMISSORY NOTES (note 4) .....	<u>681,600</u>	<u>591,100</u>
FIXED ASSETS (note 1)		
Petroleum and natural gas leases, and rights together with development and equipment thereon		
Producing, at cost .....	3,479,617	3,374,156
Accumulated depletion and depreciation .....	<u>1,064,236</u>	<u>808,361</u>
	<u>2,415,381</u>	<u>2,565,795</u>
Non-producing, at cost		
Leases .....	1,901,027	2,040,306
Royalty rights .....	658,989	154,386
Capped wells and work in progress .....	<u>3,302,044</u>	<u>3,192,995</u>
	<u>8,277,441</u>	<u>7,953,482</u>
OTHER ASSETS .....	<u>15,220</u>	<u>18,486</u>
	<u><u>\$10,489,909</u></u>	<u><u>\$10,349,988</u></u>



**LIABILITIES**

	<u>1978</u>	<u>1977</u>
<b>CURRENT LIABILITIES</b>		
Bank Loan .....	\$ 555,000	\$ —
Accounts payable .....	<u>477,065</u>	<u>459,745</u>
	<u>1,032,065</u>	<u>459,745</u>
 LONG TERM DEBT (note 5) .....	 <u>1,557,910</u>	 <u>723,641</u>
 DEFERRED INCOME TAXES (note 1) .....	 <u>512,085</u>	 <u>445,637</u>

**SHAREHOLDERS' EQUITY**

<b>CAPITAL STOCK (note 6)</b>		
Authorized		
6,000,000 shares without nominal or par value		
Issued		
2,984,770 shares (2,976,313 shares in 1977) .....	11,234,257	11,218,225
DEFICIT .....	<u>(3,846,408)</u>	<u>(2,497,260)</u>
	<u>7,387,849</u>	<u>8,720,965</u>

SIGNED ON BEHALF OF THE BOARD

*Edwin D. James*  
Director

*B. W. Swan*  
Director

<u>\$10,489,909</u>	<u>\$10,349,988</u>
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# SUNLITE OIL COMPANY LIMITED

## Consolidated Statement of Earnings

	Year Ended June 30, 1978	Year Ended June 30, 1977  (Unaudited)	Nine Months Ended June 30, 1977
<b>REVENUE</b>			
Oil and gas sales .....	\$ 1,415,204	\$ 1,576,148	\$ 1,194,878
Property sales .....	82,829	—	—
Investments .....	75,141	165,593	135,830
	<u>1,573,174</u>	<u>1,741,741</u>	<u>1,330,708</u>
<b>EXPENSE</b>			
Well operating .....	311,364	285,547	195,480
General and administrative .....	672,025	665,474	529,842
Interest on long term debt .....	36,447	—	—
Carrying charges on non-producing properties .....	82,146	86,185	71,350
Dry hole costs .....	197,915	603,049	474,349
Exploration .....	116,839	417,670	211,417
Property surrenders and write-offs .....	1,206,554	992,571	237,588
Depletion and depreciation .....	259,675	277,447	185,498
	<u>2,882,965</u>	<u>3,327,943</u>	<u>1,905,524</u>
Loss before income taxes .....	<u>(1,309,791)</u>	<u>(1,586,202)</u>	<u>(574,816)</u>
Recovery of (provision for) income taxes			
Current .....	27,091	54,416	33,318
Deferred .....	(66,448)	184,932	(17,386)
	<u>(39,357)</u>	<u>239,348</u>	<u>15,932</u>
<b>LOSS FOR THE PERIOD</b> .....	<u><b>\$(1,349,148)</b></u>	<u><b>\$(1,346,854)</b></u>	<u><b>\$ (558,884)</b></u>
LOSS PER SHARE (based upon weighted average number of shares outstanding) .....			
	<u>\$ (.45)</u>	<u>\$ (.45)</u>	<u>\$ (.19)</u>

## Consolidated Statement of Deficit

	Year Ended June 30, 1978	Year Ended June 30, 1977  (Unaudited)	Nine Months Ended June 30, 1977
DEFICIT AT BEGINNING OF PERIOD .....	\$(2,497,260)	\$(1,150,406)	\$(1,938,376)
Loss for the Period .....	(1,349,148)	(1,346,854)	(558,884)
DEFICIT AT END OF PERIOD .....	<u><b>\$(3,846,408)</b></u>	<u><b>\$(2,497,260)</b></u>	<u><b>\$(2,497,260)</b></u>



# SUNLITE OIL COMPANY LIMITED

## Consolidated Statement of Changes in Financial Position

	Year Ended June 30, 1978	Year Ended June 30, 1977	Nine Months Ended June 30, 1977
		(Unaudited)	
<b>WORKING CAPITAL DERIVED FROM</b>			
Loss for the period .....	\$(1,349,148)	\$(1,346,854)	\$ (558,884)
Add items not affecting working capital .....	1,520,958	1,270,834	569,174
	<u>171,810</u>	<u>(76,020)</u>	<u>10,290</u>
Add dry hole costs and exploration expenditures charged to operations .....	<u>246,742</u>	<u>768,509</u>	<u>558,251</u>
<b>Working capital derived from operations before dry hole costs and exploration expenditures .....</b>	<b>418,552</b>	<b>692,489</b>	<b>568,541</b>
Reduction in notes receivable .....	149,500	549,450	240,000
Proceeds on sale of fixed assets .....	488,541	—	—
Issue of capital stock (note 6) .....	16,032	2,100	1,100
Proceeds from long term debt .....	999,000	369,600	369,600
	<u>2,071,625</u>	<u>1,613,639</u>	<u>1,179,241</u>
<b>WORKING CAPITAL APPLIED TO</b>			
Dry hole costs .....	197,915	495,407	380,740
Exploration expenditures .....	48,827	273,102	177,511
	<u>246,742</u>	<u>768,509</u>	<u>558,251</u>
Fixed assets .....	2,263,744	740,245	531,840
Repayment of gas contract advances, net .....	164,731	178,560	175,738
Reclassification of notes receivable .....	240,000	100,000	100,000
	<u>2,915,217</u>	<u>1,787,314</u>	<u>1,365,829</u>
<b>DECREASE IN WORKING CAPITAL .....</b>	<b>(843,592)</b>	<b>(173,675)</b>	<b>(186,588)</b>
Working capital at beginning of period .....	<u>1,327,175</u>	<u>1,500,850</u>	<u>1,513,763</u>
<b>WORKING CAPITAL AT END OF PERIOD .....</b>	<b>\$ 483,583</b>	<b>\$ 1,327,175</b>	<b>\$ 1,327,175</b>

# SUNLITE OIL COMPANY LIMITED

## Notes to Consolidated Financial Statements

For the Nine Months Ended June 30, 1977 and  
The Year Ended June 30, 1978

### NOTE 1 - ACCOUNTING POLICIES

#### Principles of Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Sunlite International Inc., and Sunlite Oil Company (U.K.) Limited.

Amounts in foreign currency are converted to Canadian dollars on the following bases:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- (ii) Other assets and liabilities, at the rate of exchange in effect at the time the original transactions took place.
- (iii) Other expenses and revenues, excluding depletion and depreciation which are converted at the rate of exchange applicable to the related asset, at the average rate of exchange for the year.

#### Petroleum and Natural Gas Properties

The cost of acquisition of leases and royalty rights, including drilling expenditures and exploratory dry holes which earn an interest, are capitalized. Costs are charged to earnings when properties are surrendered or are determined to be of decreased value. The costs of producing leases and royalty interests are amortized using the unit of production method.

Exploration expenses, other than dry holes which earn an interest, and carrying charges of both producing and non-producing properties are charged to earnings as incurred. The costs of drilling a productive well, including the cost of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

#### Other Mineral Rights

The costs of acquisition, evaluation and development of mineral properties are capitalized. Such costs will be amortized using the unit of production method or, when properties are proven to be uneconomical, they are charged to earnings.

#### Income Taxes

The companies follow the tax allocation method of accounting for income taxes under which the income tax provision is based upon earnings reported in the accounts.

### NOTE 2 - CHANGE IN YEAR END

The company changed its year end from September 30 to June 30 effective for the period ended June 30, 1977.

### NOTE 3 - ACCOUNTS RECEIVABLE

Included in accounts receivable at June 30, 1977 and 1978 is an amount of \$190,000 U.S. representing the amount due on sale of mineral properties. During October, 1971, the company commenced legal action to collect the amount.

The company's claim was denied by a trial decision dated June 26, 1978. The Trial Judge also awarded the defendant its counter-claim for 50% of its expenditures during the period in which it operated the properties. The amount awarded is to be ascertained by audit but in the opinion of the company's legal counsel, the amount should not exceed \$150,000 U.S. Both of the above decisions have been appealed and the company has therefore not provided for the possible non-collectibility of the account receivable nor for the possible liability arising from the counter-claim.

### NOTE 4 - PROMISSORY NOTES

	1978	1977
Due from officers and directors in 1979 and 1983, non-interest bearing .....	\$340,000	\$340,000
Non-interest bearing notes, receivable in equal annual installments to July 1, 1980 (less discount for 10% imputed interest) .....	<u>491,100</u>	<u>626,700</u>
	831,100	966,700
Current maturity included in accounts receivable .....	<u>149,500</u>	<u>375,600</u>
	<u>\$681,600</u>	<u>\$591,100</u>

An extension of five years was granted to two officers and directors for repayment of notes due on January 2, 1978 in the amount of \$120,000 each. A fee of 1/2 of 1% per year was charged for the extension. As a result, amounts shown as current maturity at June 30, 1977 have been reclassified as long term notes receivable.



## NOTE 5 - LONG TERM DEBT

	<u>1978</u>	<u>1977</u>
Gas contract advances, repayable from 50% of future gas sales from certain wells and secured by the specified properties .....	<b>\$ 189,310</b>	\$354,041
Convertible note payable, at Canadian dollar equivalent of \$350,000 U.S., bearing interest at 125% of a bank prime lending rate and due January 20, 1980 (see note 6) .....	<b>369,600</b>	369,600
6% Notes payable, at Canadian dollar equivalent of \$900,000 U.S., repayable in varying amounts, secured by certain oil and gas properties and due July 5, 1982 .....	<b>999,000</b>	—
	<u><b>\$1,557,910</b></u>	<u>\$723,641</u>

The estimated amounts of long term debt maturities for the five years subsequent to 1978 are as follows: 1979 - Nil, 1980 - \$536,100, 1981 - \$277,500, 1982 - \$222,000, 1983 - \$333,000.

## NOTE 6 - CAPITAL STOCK

Changes in capital stock during the nine months ended June 30, 1977 and the year ended June 30, 1978 were as follows:

	<u>Number of Shares</u>	<u>Consideration</u>
Balance at September 30, 1976 .....	2,975,813	\$11,217,125
Shares issued for cash on exercise of stock options .....	500	1,100
Balance at June 30, 1977 .....	2,976,313	11,218,225
Shares issued for cash on exercise of stock options .....	8,457	16,032
Balance at June 30, 1978 .....	<u>2,984,770</u>	<u>\$11,234,257</u>

## Share Subscription Agreement

During the nine months ended June 30, 1977, pursuant to an agreement dated May 27, 1976, Sunlite received from Mesa Petroleum Co. \$350,000 (U.S.) cash for a promissory note of the company (bearing interest at 125% of a bank prime lending rate) redeemable at the company's discretion for cash or at maturity for fully paid shares of common stock issued at \$5.00 (U.S.) per share. Mesa can at its discretion convert the promissory note to fully paid shares of common stock issued at \$5.00 (U.S.) per share. The agreement expires on January 20, 1980 (extended in 1978 by two years). If the note is converted, the issue of the additional 70,000 shares to Mesa would increase Mesa's holdings to 634,881 shares, representing 20.8% of the then outstanding common stock of the company, assuming no other issuances of such shares.

## Stock Options

As at June 30, 1978, there were 137,275 common shares of the company (June 30, 1977 - 147,500 common shares) reserved for exercise from time to time to 1981, of employee stock options at prices ranging from \$2.42 to \$3.66 per share. The exercise prices were equal to or greater than the market price of the shares at the date of granting. As at June 30, 1978 10,400 of these options (June 30, 1977 - 14,000) are exercisable as "market growth" options under which the optionee is not required to make a cash payment and receives shares on the excess of the market value at the date of exercise over the option price. Changes in the number of optioned shares were as follows:

	<u>Officers &amp; Directors</u>	<u>Other Employees</u>	<u>Total</u>	<u>Consideration</u>
Outstanding at September 30, 1976 .....	126,500	1,500	128,000	
Cancelled at \$6.50 .....	(4,000)	—	(4,000)	
Cancelled at \$6.00 .....	(110,000)	—	(119,000)	
Granted at \$2.50 to \$3.33 .....	134,000	—	134,000	
Exercised at \$2.20 .....	—	(500)	(500)	\$ 1,100
Outstanding at June 30, 1977 .....	136,500	11,000	147,500	
Reclassification .....	9,500	(9,500)	—	
Exercised at \$2.42 to \$2.75 .....	(10,225)*	—	(10,225)	\$16,032
	<u>135,775</u>	<u>1,500</u>	<u>137,275</u>	

\*Exercise of "market growth" options on 3,600 options resulted in the issuance of 1,832 shares.

## NOTE 7 - REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the year ended June 30, 1978 to directors and senior officers totalled \$215,000 (Nine months ended June 30, 1977 - \$141,000).



## AUDITORS' REPORT

To the Shareholders of  
Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited as at June 30, 1977 and 1978 and the consolidated statements of earnings, deficit and changes in financial position for the nine months ended June 30, 1977 and the year ended June 30, 1978. 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.

As described in note 3, the company is involved in litigation the outcome of which cannot presently be determined.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at June 30, 1977 and 1978 and the results of its operations and the changes in its financial position for each of the periods then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Riddell & Co.

Chartered Accountants

Calgary, Canada  
September 8, 1978



# SUNLITE OIL COMPANY LIMITED

## Consolidated Earnings Summary

	For the Year Ended June 30, 1978	For the Year Ended June 30, 1977	1978 as to 1977 Increase (Decrease)	Item	For the Nine Months Ended June 30, 1977	For the Year Ended September 30,		
		(unaudited)				1976	1975	1974
<b>REVENUE</b>								
Oil and gas sales	\$ 1,415,204	\$ 1,576,148	\$ (160,944)	(1)	\$ 1,194,878	\$ 1,142,705	\$ 710,468	\$ 445,873
Lease sales	82,829	—	82,829	(2)	—	81,514	—	778,186
Investments	75,141	165,593	(90,452)	(3)	135,830	214,989	267,234	293,901
Other	—	—	—		—	—	4,292	15,483
	<u>1,573,174</u>	<u>1,741,741</u>	<u>(168,567)</u>		<u>1,330,708</u>	<u>1,439,208</u>	<u>981,994</u>	<u>1,533,443</u>
<b>EXPENSES</b>								
Well operating	311,364	285,547	25,817	(4)	195,480	185,135	96,315	74,309
General and administrative	672,025	665,474	6,551	(5)	529,842	532,592	444,903	464,394
Interest on long term debt	36,447	—	36,447		—	—	—	—
Carrying charges on non- producing properties	82,146	86,185	(4,039)		71,350	68,636	131,699	67,495
Exploration and dry hole costs	314,754	1,020,719	(705,965)	(6)	685,766	1,258,302	385,334	208,135
Property surrenders and write-offs	1,206,554	992,571	213,983	(7)	237,588	910,521	498,036	120,488
Depletion and depreciation	259,675	277,447	(17,772)	(8)	185,498	239,159	102,324	110,199
	<u>2,882,965</u>	<u>3,327,943</u>	<u>(444,978)</u>		<u>1,905,524</u>	<u>3,194,345</u>	<u>1,658,611</u>	<u>1,045,020</u>
Earnings (loss) before income taxes and extraordinary item	<u>(1,309,791)</u>	<u>(1,586,202)</u>	<u>276,411</u>		<u>(574,816)</u>	<u>(1,755,137)</u>	<u>(676,617)</u>	<u>488,423</u>
Recovery of (provision for) income taxes								
Current	27,091	54,416	(27,325)		33,318	65,533	40,000	(409,601)
Deferred	(66,448)	184,932	(251,380)		(17,386)	246,624	219,041	94,200
	<u>(39,357)</u>	<u>239,348</u>	<u>(278,705)</u>		<u>15,932</u>	<u>312,157</u>	<u>259,041</u>	<u>(315,401)</u>
Earnings (loss) before extraordinary item	<u>(1,349,148)</u>	<u>(1,346,854)</u>	<u>(2,294)</u>		<u>(558,884)</u>	<u>(1,442,980)</u>	<u>(417,576)</u>	<u>173,022</u>
Realization of tax benefit of prior period losses	—	—	—		—	—	—	409,601
<b>NET EARNINGS (LOSS)</b>	<u><u>\$(1,349,148)</u></u>	<u><u>\$(1,346,854)</u></u>	<u><u>\$ (2,294)</u></u>		<u><u>\$ (558,884)</u></u>	<u><u>\$(1,442,980)</u></u>	<u><u>\$ (417,576)</u></u>	<u><u>\$ 582,623</u></u>
<b>NET EARNINGS (LOSS) PER SHARE</b>	<u><u>\$(.45)</u></u>	<u><u>\$(.45)</u></u>	<u><u>\$ —</u></u>		<u><u>\$(.19)</u></u>	<u><u>\$(.50)</u></u>	<u><u>\$(.16)</u></u>	<u><u>\$.24</u></u>



# Management's Discussion and Analysis of the Consolidated Earnings Summary

ITEM  
NO.

(1), OIL AND GAS SALES

(4), 1978 income from oil and gas sales was \$1,415,204, a decrease of 10% from the previous year. The reduction, although partially offset by price increases, was due to a reduction in production levels due mainly to a reduction in government production allowables and to some extent due to lower well productivity. The large increases in oil and gas sales during the twenty-one months ended June 30, 1977 reflect a peaking of production. Such levels should remain relatively static or will possibly continue a gradual decline until we are allowed to commence production of reserves presently shut-in in Alberta. WELL OPERATING costs showed a modest increase during the year ended June 30, 1978 as the large increases had occurred during the previous twenty-one months as production levels peaked. DEPLETION AND DEPRECIATION for the current year decreased reflecting lower production levels, the effect of which was partially offset by higher depletion rates on certain properties where reserve estimates were cut sharply. The increase in the provision for the twenty-one months ended June 30, 1977 resulted from the corresponding increase in production levels.

(2) LEASE SALES

Lease sales for the current year resulted from the sale of the company's working interest in certain Texas leases. Sunlite retained an overriding royalty interest. Lease sales in 1976 resulted from the forfeiture to Sunlite of prepayments by a major oil company who chose not to exercise its option on certain Alaska coal leases.

(3) INVESTMENT INCOME

Income from temporary investments has decreased during the current year as it did in the previous twenty-one months and reflects the withdrawal of funds from investments to meet exploration obligations.

(5) GENERAL AND ADMINISTRATIVE EXPENSE

The level of general and administrative expense had risen steadily over the twenty-one months ending June 30, 1977 partially due to inflation and partially due to a heavy foreign exploration program. The current year showed a modest increase and we expect the expense to remain relatively static except for the on-going effect of inflation.

(6) EXPLORATION AND DRY HOLE COSTS

For the year ended June 30, 1978:

EXPLORATION COSTS totalling \$116,839 include the cost of seismic programs in Alberta in the amount of \$14,000 and in the UK and Dutch sectors of the North Sea in the amount of \$46,000 and the cost of inventory write-downs in our UK North Sea exploration group in the amount of \$57,000.

DRY HOLE COSTS primarily reflect the cost of an unsuccessful confirmation well in Umm al Qaiwain.

For the nine months ended June 30, 1977:

EXPLORATION COSTS totalling \$200,000 include \$65,000 spent on a seismic program offshore Canada's east coast; \$23,000 spent in Alberta; \$32,000 spent on United Kingdom North Sea prospects; \$45,000 spent evaluating offshore California blocks; and \$27,000 spent in evaluating possible participation in the Irish sector of the Celtic Sea.

DRY HOLE COSTS totalling \$485,000, include the cost of four dry holes in Alberta costing \$156,000; our share of two dry holes (Blocks 15/8 and 28/5) in the United Kingdom North Sea costing \$90,000; and our share of the costs of two dry holes (Blocks H/9 and J/4) in the German sector of the North Sea costing \$220,000.

For the year ended September 30, 1976:

EXPLORATION COSTS totalling \$290,000 resulted from seismic programs in the U.K. North Sea in preparation for the Fifth Round Bidding; in the Jade Plate area of the German North Sea and in Alberta. DRY HOLE COSTS principally reflect the expenditure for three unsuccessful North Sea exploratory wells amounting to \$800,000; five abandonments in Alberta amounting to \$100,000 and an unsuccessful Austin Chalk test in Southwest Texas amounting to \$75,000.

(7) PROPERTY SURRENDERS AND WRITE-OFFS

For the year ended June 30, 1978:

Costs totalling \$1,206,554 include the write-off of our interest in Ras al Khaimah in the amount of \$675,000 (Re-negotiation of government participation made the prospect non-economical); the write-off of our interest in Dutch North Sea Block Q/7 in the amount of \$216,000 (economics did not support additional required drilling expenditures); the write-off of certain leases in Alaska in the amount of \$142,000 and in Texas in the amount of \$147,000 and the write-off of other oil and gas and coal rights costing \$27,000.

For the Nine months ended June 30, 1977:

Costs totalling \$238,000 include write-offs of two producing properties in Alberta which became non-economic amounting to \$83,000; write-off of other non-producing rights in Alberta of \$42,000; the write-off of certain non-producing rights in Louisiana amounting to \$36,000; the write-off of the cost of our Gambia concession amounting to \$25,000; the cost of Dutch North Sea blocks D/6 and D/12 amounting to \$30,000 and the cost of certain German North Sea blocks amounting to \$18,000.

For the year ended September 30, 1976:

These costs reflect the write-offs of U.K. North Sea Block 21/7 amounting to \$490,000; the write-off of our North Dakota acreage amounting to \$116,000; the write-off of our mineral claims in the La Ronge area of Saskatchewan amounting to \$193,000 and the write-off of other acreage in Canada and the U.S.A. amounting to \$110,000.



## Summary of Reserves and Production

	Crude Oil		Natural Gas	
	Production	Reserves	Production	Reserves
	Barrels Per Day	Barrels, net before royalties	Thousands of cubic feet per day	Thousands of cubic feet, net before royalties
June 30, 1978:				
Canada	115	366,000(1)	2,136	26,930,000(1)
United States of America	13	19,000	364	944,000
Foreign	—	—	—	16,313,000(2)
	<u>128</u>	<u>385,000</u>	<u>2,500</u>	<u>44,187,000</u>
June 30, 1977:				
Canada	147	798,000	3,388	31,842,000
United States of America	18	24,000	502	1,122,000
Foreign	—	—	—	25,875,000
	<u>165</u>	<u>822,000</u>	<u>3,890</u>	<u>58,839,000</u>

(1) The decrease in reserves other than normal production results from a revision in estimated recoverable reserves due to the decline in performance of wells in certain fields.

(2) As a result of a farm-out, the company's interest in reserves on Dutch North Sea Block P/6 was reduced to 1.25% from 5%.

## Price Range Of Common Stock On Vancouver Stock Exchange

	Year Ended June 30, 1978		Year Ended June 30, 1977	
	High	Low	High	Low
First Quarter .....	\$3.45	\$3.00	\$4.90	\$2.60
Second Quarter .....	\$5.15	\$3.50	\$3.70	\$2.30
Third Quarter .....	\$4.75	\$3.65	\$4.10	\$3.25
Fourth Quarter .....	\$6.75	\$4.40	\$3.75	\$3.25



**Directors**

J. STEWART FISHER,  
Barrister and Solicitor  
Didsbury, Alberta  
GAINES L. GODFREY,  
Vice President - Finance  
Mesa Petroleum Co.  
Amarillo, Texas  
DONALD E. HOCKADAY, Jr.,  
Executive Vice President  
of the Company  
Houston, Texas  
JIM L. HUDSON  
General Manager  
Mesa Petroleum (N.A.) Co.  
Calgary, Alberta  
EDWIN C. JAMES,  
President of the Company  
Houston, Texas  
JACK K. LARSEN,  
Group Vice President  
and Director  
Mesa Petroleum Co.  
Amarillo, Texas  
DONALD O. MacARTHUR,  
Land Manager of the Company  
Calgary, Alberta  
BARRY W. SWAN,  
Treasurer of the Company  
Calgary, Alberta

**Officers**

EDWIN C. JAMES,  
President  
DONALD E. HOCKADAY, Jr.,  
Executive Vice President  
J. STEWART FISHER,  
Secretary  
BARRY W. SWAN,  
Treasurer  
E. CHRISTA HINOJOSA,  
Assistant Secretary

**Head Office**

1517 Norcen Tower  
715 - 5 Avenue S.W.  
Calgary, Alberta T2P 2X6

**Branch Office**

2500 One Allen Center  
Houston, Texas 77002

**Subsidiary Companies**

SUNLITE INTERNATIONAL INC.  
SUNLITE OIL COMPANY (U.K.) LIMITED

**Bankers**

CANADIAN IMPERIAL BANK OF COMMERCE  
Calgary, Alberta  
CONTINENTAL ILLINOIS NATIONAL BANK  
Chicago, Illinois  
CAPITAL NATIONAL BANK  
Houston, Texas

**Auditors**

THORNE RIDDELL & CO.  
Calgary, Alberta

**Solicitors**

J.S. FISHER  
Didsbury, Alberta  
KRIST & McMURREY  
Houston, Texas

**Transfer Agent**

THE CANADA TRUST COMPANY  
Calgary, Alberta  
FIRST NATIONAL CITY BANK  
New York, New York

**Common Shares Listed**

VANCOUVER STOCK EXCHANGE  
(Symbol - SLTV)  
OTC - NASDAQ LIST  
(Symbol - SNLTF)







