

**NATIONAL
PETROLEUM
CORPORATION
LIMITED**

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**1974
ANNUAL
REPORT**

DIRECTORS DALE J. BERTLING, *Houston, Texas*
 WERNER S. BORCHARDT, *Amsterdam, Holland*
 SEYMOUR LAZAR, *Palm Spring, California*
 ALLEN G. RENZ, *Houston, Texas*

OFFICERS ALLEN G. RENZ, *President*
 CHARLINE MITCHAM, *Secretary-Treasurer*

AUDITORS ENNIS AND JAHNKE
 Calgary, Alberta, Canada

STOCK EXCHANGE LISTINGS The shares of the Company are listed on the Toronto Stock Exchange and also trade in the over-the-counter market in the United States.

TRANSFER AGENTS AND REGISTRARS MARINE MIDLAND BANK NEW YORK, *New York, N. Y.*
 GUARANTY TRUST COMPANY OF CANADA, *at Calgary, Toronto, Vancouver & Montreal, Canada*

REGISTERED OFFICE MacKIMMIE MATTHEWS, *240-4th Avenue S.W., Calgary, Alberta, Canada*

ADMINISTRATIVE OFFICES *10333 Northwest Freeway, Suite 528 Houston, Texas 77018*

This Annual Report is submitted for the general information of the existing shareholders and is not intended to induce the purchase or sale of the Company's shares.

REPORT TO SHAREHOLDERS

This has been a successful year for National Petroleum Corporation Limited, both in operating results and in providing for continuity of profits and future growth.

Your Company has operated profitably for the first time in twelve years. This accomplished the third objective of your present management, as stated to you when we assumed responsibility for operations two years ago.

The 1974 figures, as reported by the financial statements included herein, consolidated with Nationals' subsidiaries, show a continuing reduction in operating expenses. At the same time revenues increased 90% from \$179,224 in 1973 to \$340,776 in 1974. This increase, coupled with a gain of \$96,204 on the sale of rights and interests, resulted in a net profit of \$38,175 compared to a loss of \$220,136 in 1973 and a loss of \$725,798 in 1972.

A positive cash flow of \$153,916 from operations resulted in a positive working capital position at year end, with current assets exceeding current liabilities for the first time in several years.

Our workover programs in Louisiana and Canada, plus successful participation in year end drilling programs, were the main areas of revenue increases. The Company now operates in excess of 100 oil and gas wells and intends to continue to expand its holdings.

Permeator Corporation, in its annual report, has reported similar progress as well as continually increasing acceptance of its PermaFLO* and PermaFIX* chemical sand consolidation and stabilization processes.

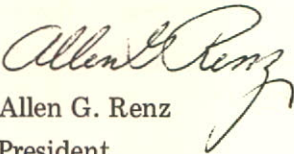
Permeator also announced that it had reached agreement with MAC Services in Victoria, Texas, and VACCO Wireline Service, Inc. in Lafayette, Louisiana to sell and service the processes in those areas. These two experienced multi-office outlets will help Permeator to significantly expand its product exposure on the Gulf Coast.

Now that National has established itself as a profitable operation, we have begun negotiations with a major bank to obtain a substantial open line of credit. If we are successful in this endeavor, we will then be in a position to fully develop our proven properties. We will also be able to follow through with negotiations we have had for the acquisition of additional producing properties.

Your management feels that a great deal was accomplished during 1974 and that we have now established a solid base from which to grow. We look forward to 1975 with high enthusiasm.

Your continued cooperation and support will be appreciated.

Respectfully submitted,


Allen G. Renz
President

April 30, 1975

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

YEAR ENDED NOVEMBER 30, 1974

(with comparative figures for 1973 and 1972)

	1974	1973	1972
Revenue			
Sales and service	\$ 327,444	\$ 177,183	\$ 224,514
Interest and miscellaneous	13,332	2,041	3,622
	<u>340,776</u>	<u>179,224</u>	<u>228,136</u>
Expenses			
Cost of sales and service	109,527	142,446	269,828
Research and development (recovered) ...	24,779	(3,933)	87,774
General and administrative	149,485	183,833	395,158
	<u>283,791</u>	<u>322,346</u>	<u>752,760</u>
Profit (loss) before undernoted items	<u>56,985</u>	<u>(143,122)</u>	<u>(524,624)</u>
Depreciation and depletion	114,683	86,056	108,271
Amortization of patent applications	1,058	21,181	23,387
	<u>115,741</u>	<u>107,237</u>	<u>131,658</u>
	(58,756)	(250,359)	(656,282)
Gain on sale of assets	<u>727</u>	<u>81,184</u>	<u>---</u>
Loss before extraordinary items	<u>(58,029)</u>	<u>(169,175)</u>	<u>(656,282)</u>
Extraordinary items			
Loss on sale of equipment	---	---	(272,470)
Gain on sale of rights	37,679	---	148,650
Gain on sale of mineral interests	58,525	---	---
Decline in value of investments	---	(50,961)	---
Minority interest in loss of subsidiary	---	---	54,304
	<u>96,204</u>	<u>(50,961)</u>	<u>(69,516)</u>
Net profit or (loss) for the year	38,175	(220,136)	(725,798)
Deficit at beginning of year	<u>3,234,798</u>	<u>3,014,662</u>	<u>2,288,864</u>
Deficit at end of year	<u>\$3,196,623</u>	<u>\$3,234,798</u>	<u>\$3,014,662</u>
Gain or (loss) per share			
(Loss) before extraordinary items	(1¢)	(3¢)	(12¢)
Gain or (loss) for the year	1¢	(4¢)	(14¢)

NATIONAL PETROLEUM

(Incorporated under the

and subsidiary

CONSOLIDATED BALANCE

(with comparative figures)

ASSETS

	<u>1974</u>	<u>1973</u>
CURRENT ASSETS		
Cash	\$ 53,731	\$ 13,014
Accounts receivable	118,805	64,904
Inventories, at lower of cost and net realizable value	28,460	9,887
Prepaid expenses	<u>7,917</u>	<u>3,656</u>
	<u>208,913</u>	<u>91,461</u>
INVESTMENT IN NORTHLAND OILS LIMITED (note 2).	<u>87,604</u>	<u>128,784</u>
OTHER ASSETS		
Investment in limited partnership		15,000
Royalties, at cost less amortization (note 4)		39,731
Advances to joint ventures	13,777	13,182
Sundry deposits	<u>8,904</u>	<u>8,904</u>
	<u>22,681</u>	<u>76,817</u>
PROPERTY AND EQUIPMENT, at cost (note 5)	2,786,185	3,026,691
Less accumulated depreciation and depletion	<u>1,436,131</u>	<u>1,751,143</u>
	<u>1,350,054</u>	<u>1,275,548</u>
INTANGIBLES AND DEFERRED CHARGES		
Patent applications, less amortization	9,522	63,412
Property offering costs		9,799
Goodwill	<u>9,933</u>	
	<u>19,455</u>	<u>73,211</u>
	<u>\$1,688,707</u>	<u>\$1,645,821</u>

Approved by the Board

DALE J. BERTLING, Director

ALLEN G. RENZ, Director

CORPORATION LIMITED

laws of Alberta, Canada)

companies

SHEET—NOVEMBER 30, 1974

es at November 30, 1973)

LIABILITIES

1974

1973

CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>145,417</u>	<u>140,706</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 12)

Authorized

10,000,000 shares, par value \$.25 each

Issued

4,999,872 shares	1,249,968	1,249,968
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CONTRIBUTED SURPLUS	3,489,945	3,489,945
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DEFICIT	(3,196,623)	(3,234,798)
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\$1,688,707

\$1,645,821

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED NOVEMBER 30, 1974

(with comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
SOURCE OF FUNDS		
Proceeds from sale of property and equipment	\$ 174,134	\$ 84,384
Sundry deposits refunded		41
Proceeds from sale of investments	42,768	316,490
Proceeds from sale of royalty interest		11,000
Proceeds from surrender of life insurance		14,227
Funds provided from operations	<u>56,985</u>	
	<u>273,887</u>	<u>426,142</u>
APPLICATION OF FUNDS		
Funds applied to operations		139,000
Additions to property and equipment	147,502	67,668
Additions to intangibles and deferred charges	10,580	17,072
Additions to royalty interests		921
Advances to joint venture	595	
Purchase of investments	<u>2,469</u>	
	<u>161,146</u>	<u>224,661</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>112,741</u>	<u>201,481</u>
WORKING CAPITAL (DEFICIENCY) AT		
BEGINNING OF YEAR	<u>(49,245)</u>	<u>(250,726)</u>
WORKING CAPITAL (DEFICIENCY)		
AT END OF YEAR	<u><u>63,496</u></u>	<u><u>(49,245)</u></u>

NATIONAL PETROLEUM CORPORATION LIMITED
and subsidiary companies
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 1974

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of National Petroleum Corporation Limited; its wholly-owned subsidiary, National Oil Field Service Ltd., and Permeator Corporation, a 53% owned subsidiary, and its wholly-owned subsidiaries, Permeator Corporation (Canada) Ltd. and Chemergy Corporation. The accounts of PermaCo Inc., a wholly-owned subsidiary of Permeator Corporation, have not been consolidated herein as it is inactive and the inclusion of its accounts would have no material effect on these consolidated financial statements.

The subsidiary companies' accounts maintained in United States dollars have been translated to Canadian dollars as follows:

Current assets and current liabilities, at exchange rates prevailing at period end; other assets at rates in effect at dates of acquisition; revenue and expense at average rates for the year except for depreciation, depletion and amortization which are on the same basis as the related assets.

The gain resulting from the translation of currencies is included in accrued liabilities.

2. INVESTMENT IN OTHER COMPANY

	<u>1974</u>	<u>1973</u>
Northland Oils Limited, 3.7% owned (5.4% in 1973)		
392,500 shares, at cost (quoted market value		
1974, \$31,400; 1973, \$121,700)	<u>\$ 87,604</u>	<u>\$128,784</u>

Because of the number of shares held, the quoted market value is not necessarily indicative of the amount that could be realized if the shares were sold.

3. NOTES RECEIVABLE

As a result of providing services to various drilling funds, the companies held various non-recourse notes receivable secured by specified interests in petroleum properties. The companies estimate the value of the properties securing the notes receivable to be \$649,365 which is not reflected in these consolidated financial statements as the properties were acquired at no cost.

4. ROYALTIES

These represent the cost of interests in production proceeds from oil and gas leases, and have been transferred to property and equipment account and depletion provided in 1974 in accordance with note 5.

5. PROPERTY AND EQUIPMENT

	<u>1974</u>		<u>1973</u>
	Cost	Accumulated Depreciation and Depletion	Net
Petroleum properties and development costs	\$1,828,262	\$ 710,751	\$1,117,511
Equipment	957,923	725,380	232,543
	<u>\$2,786,185</u>	<u>\$1,436,131</u>	<u>\$1,350,054</u>
			<u>\$1,275,548</u>

The companies follow the full-cost method of accounting wherein all costs related to the exploration for and development of oil, gas and related reserves are capitalized. Such costs include acquisition costs, geological and geophysical expense, carrying charges on non-productive properties and costs of drilling both productive and unproductive wells. Proceeds received on disposal of properties are credited against such costs. Depletion on these net costs is provided using a composite unit of production method based on total estimated proven developed reserves. Gains or losses realized on the sale of the last property in an area of interest are reflected in the consolidated statement of income as an extraordinary item.

Depreciation on equipment is provided on a straight-line basis over its estimated useful life.

continued on next page

NATIONAL PETROLEUM CORPORATION LIMITED
and subsidiary companies
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED NOVEMBER 30, 1974

6. INTANGIBLES AND DEFERRED CHARGES

The costs of patent rights, applications and development costs are being amortized over ten years.

7. INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES

The minority interest in the subsidiary companies is negative due to the losses of the subsidiary companies applicable to the minority interest in the subsidiaries being greater by \$1,649,400 (1973 — \$1,655,700) than the minority interest in the capital stock and contributed surplus of the subsidiaries.

As a result, the company recognizes 100% of the subsidiary losses or gains. During the year this amounted to \$4,905 credit (1973 — \$74,721 debit).

8. INCOME TAXES

Not recognized in the accounts is the income tax effect of the following:

- (a) the excess of the undepreciated capital cost of production equipment over the net value reflected in the financial statements. The excess amounts to approximately \$775,000 (1973 — \$802,000).
- (b) exploration and development costs which total \$993,000 (1973 — \$950,000) and are deductible in determining taxable income.
- (c) losses carry-forward which amount to \$228,431 and are deductible in determining taxable income as follows:

<u>Year of Loss</u>	<u>Amount of Loss</u>	<u>Available To</u>
1970	\$ 52,029	1975
1971	90,288	1976
1972	66,335	1977
1973	19,779	1978
	<u>\$228,431</u>	

9. OTHER STATUTORY INFORMATION

During 1974 the aggregate direct remuneration of directors and officers was \$69,050 (1973 — \$77,325).

10. CAPITAL STOCK

At November 30, 1974 officers and employees held options to purchase 250,000 shares of the capital stock of the company at \$.30 per share, such price being in excess of the market value on the date the options were granted.

11. RECLASSIFICATION OF COMPARATIVE FIGURES

The 1973 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1974.

AUDITORS' REPORT


To the Shareholders of

National Petroleum Corporation Limited

We have examined the consolidated balance sheet of National Petroleum Corporation Limited and subsidiary companies as at November 30, 1974 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, and we have received all of the information and explanations we have required, except as follows:

Permeator Corporation has acted as an intermediary between various drilling funds and drilling contractors whereby it contracted to provide drilling funds for amounts substantially in excess of the amounts it paid to the drilling contractors. The difference was loaned to the drilling funds in exchange for non-recourse notes receivable secured by specified interests in petroleum properties. Contingent liabilities, if any, arising from these transactions are not presently determinable.

In our opinion, subject to the determination of liabilities, if any which may arise from the transactions described above, these consolidated financial statements present fairly the financial position of the companies as at November 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


Chartered Accountants

Calgary, Alberta

February 20, 1975

