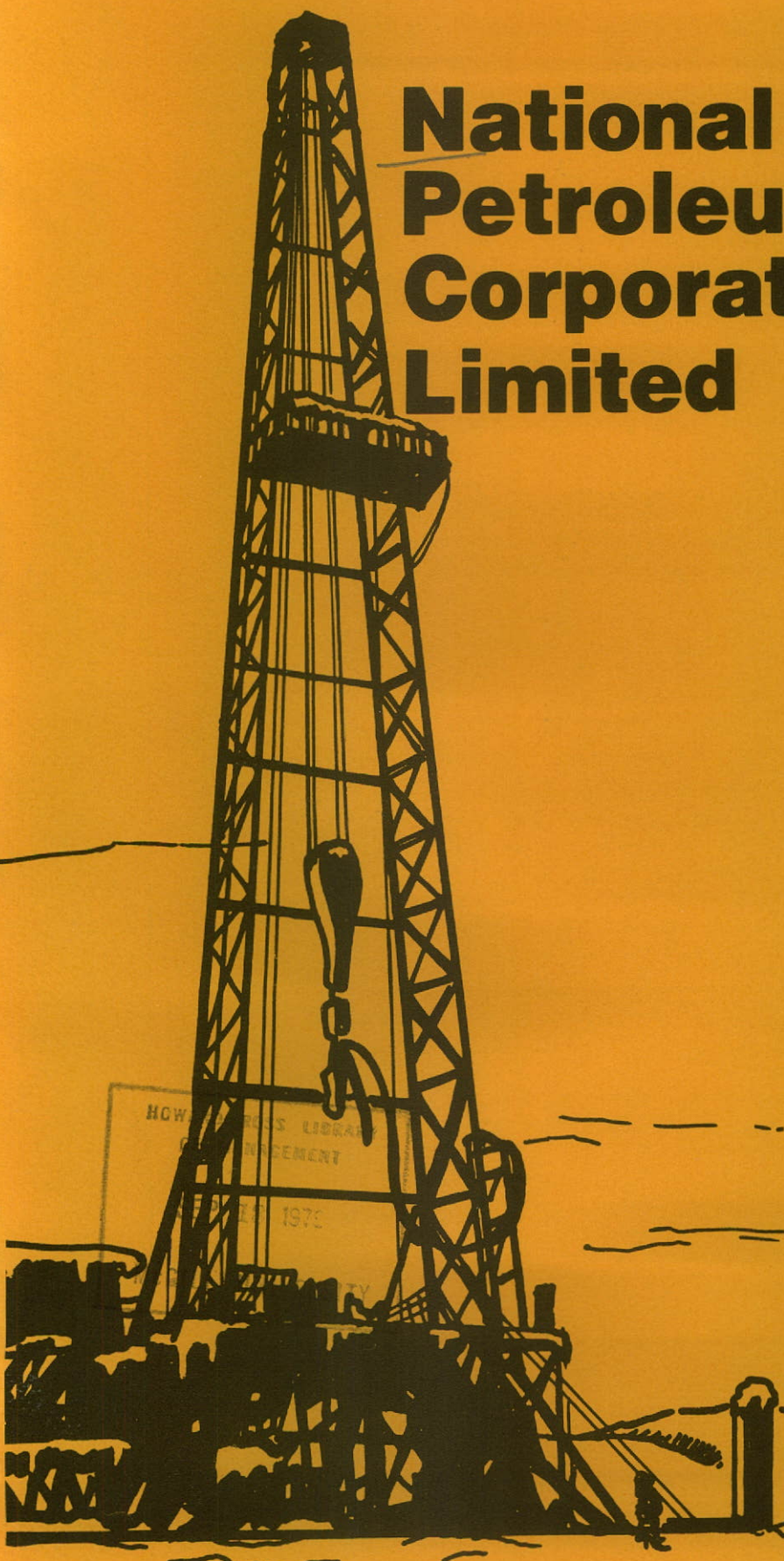


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National Petroleum Corporation Limited



1978
Annual
Report

DIRECTORS DALE J. BERTLING, Houston, Texas
WERNER S. BORCHARDT, Amsterdam, Holland
ROMAN P. DERKACH, Calgary, Alberta
GORDON C. ENNIS, Calgary, Alberta
THOMAS H. GORKOFF, Calgary, Alberta
SEYMOUR LAZAR, Palm Springs, California
ALLEN G. RENZ, Houston, Texas
B. A. ROSS SMITH, Calgary, Alberta

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

AUDITORS DAVIS, DAIGNAULT, SCHICK & CO.
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 5200 Mitchelldale St., Suite F-30
Houston, Texas 77092

Report To Shareholders

During the fiscal year ending November 30, 1978, National set a record in revenues, topping one million dollars for the first time in its history. This was a 22% increase over 1977 revenues.

However, inspite of these record revenues, your company ended the year with a loss of \$51,815 compared with a profit of \$10,819 in 1977. This was caused entirely by subsidiary losses created by shut down of production due to weather conditions, higher interest rates on notes payable and a reserve for bad debt of \$43,651.

Steps have been taken to reduce field operating expenses in the subsidiaries and this along with oil price increases of better than 20% will place subsidiary operations in a much improved position.

Also, one subsidiary, Permeator Corporation, entered into four turnkey drilling contracts at year end for a total turnkey price of \$8,317,750. If the program is successful, 268 shallow wells will be drilled prior to December 31, 1980. It is projected that Permeator will earn approximately 10% on the turnkey price and will receive a 25% interest after the investors have received their investment back. Investor payout is estimated at 18 months.

Secondly, Permeator completed the acquisition of the gold mining concession in Liberia that was mentioned in last year's annual report. The gold is placer deposits in river beds originating from nearby mountains. Natives have panned gold from these river beds by crude methods for years.

An engineering study made in 1978 indicated between 0.5 to 4.0 ounces of gold per ton. Our own engineering staff has just returned from a six week exploration trip and have confirmed these figures by visual analysis. However, the results of assays of the sampling will be needed for definite confirmation. It is not anticipated that this project will affect 1979 operating results, but if successful it will have significant affect on 1980 and subsequent years.

On August 1, 1978, National completed the acquisition of oil and gas properties from eight drilling partnerships. The acquisition cost was 1,400,000 shares of common stock and warrants to purchase 1,000,000 shares of common stock over a 3 year period at \$1.75 U.S.

Estimated recoverable reserves from the properties are 49,398 barrels of oil and 592,815 MCF of gas with future net income of \$1,114,723. Net income from the properties for the four months, August thru November, averaged \$20,000 per month. An additional eight months of production for the 1979 fiscal year should add approximately \$150,000 of net income.

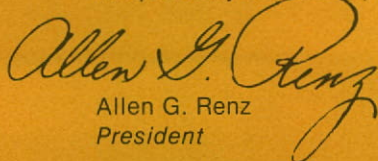
National has also signed a letter of intent to acquire Trio Producers, Inc. of Oklahoma. Trio has producing properties in Nowata and Rogers Counties, Oklahoma. The acquisition price is \$75,000 cash, 1,250,000 shares of National common stock and the assumption of \$300,000 of debt.

Estimated recoverable reserves from Trio's six producing leases is 667,263 barrels of oil with future net income of \$6,186,054. An investment of \$490,000 will be required to obtain these results. Present net income is approximately \$20,000 per month. With the stated expenditures mentioned, it is estimated that net monthly income will reach \$39,000 per month.

These properties also have the Mississippi lime present at lower levels. It has recently been determined that commercial gas production can be obtained from this zone. However, no value was given to this potential in the above analysis.

All things considered, in spite of the relatively poor showing in 1978, your company has never been in a better position than it is today. We look forward to reporting our progress during 1979.

Respectfully submitted,


Allen G. Renz
President

April 30, 1979

STATEMENT A

**NATIONAL PETROLEUM CORPORATION LIMITED
AND SUBSIDIARY COMPANIES**

Consolidated Statement of Loss and Deficit

YEAR ENDED NOVEMBER 30, 1978

(with comparative figures for 1977 through 1974)

Revenue	1978	1977	1976	1975	1974
Sales and service	\$ 990,403	\$ 807,983	\$ 602,228	\$ 411,411	\$ 327,444
Interest and miscellaneous . . .	66,067	60,033	42,917	31,822	13,332
Total revenue	<u>1,056,470</u>	<u>868,016</u>	<u>645,145</u>	<u>443,233</u>	<u>340,776</u>
Expenses					
Cost of sales and service	512,077	427,147	261,557	186,049	109,527
General and administrative					
Note 4	310,338	175,963	134,923	133,612	149,485
Interest on long term debt	90,243	51,787	23,681	1,331	—
Research and development	22,928	21,367	20,470	26,770	24,779
Depreciation, depletion and amortization	235,434	180,933	133,693	119,151	115,014
Foreign exchange gain on translation - Note 2	(62,735)	—	—	—	—
Total expenses	<u>1,108,285</u>	<u>857,197</u>	<u>574,324</u>	<u>466,913</u>	<u>398,805</u>
(Loss) income before provision for income taxes and extra- ordinary item	(51,815)	10,819	70,821	(23,680)	(58,029)
Provision for income taxes	<u>43,560</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss) income before extra- ordinary item	<u>(95,375)</u>	<u>10,819</u>	<u>70,821</u>	<u>(23,680)</u>	<u>(58,029)</u>
Extraordinary items					
Recovery of income taxes					
Note 9	43,560	—	—	—	—
Gain on sale of rights	—	—	157,696	—	37,679
Gain (loss) on sale of leases . . .	—	—	(14,684)	—	58,525
	<u>43,560</u>	<u>—</u>	<u>143,012</u>	<u>—</u>	<u>96,204</u>
Net (loss) income for the year . . .	(51,815)	10,819	213,833	(23,680)	38,175
Deficit, beginning of year	<u>2,995,651</u>	<u>3,006,470</u>	<u>3,220,303</u>	<u>3,196,623</u>	<u>3,234,798</u>
Deficit, end of year					
Statement B	<u>\$3,047,466</u>	<u>\$2,995,651</u>	<u>\$3,006,470</u>	<u>\$3,220,303</u>	<u>\$3,196,623</u>
Earnings (loss) per share					
Note 12					
(Loss) income before extra- ordinary items	<u>(1.8c)</u>	<u>0.2c</u>	<u>1c</u>	<u>(1/2 c)</u>	<u>(1c)</u>
Net (loss) income for the year . .	<u>(1.0c)</u>	<u>0.2c</u>	<u>4c</u>	<u>(1/2 c)</u>	<u>1c</u>

NATIONAL PETROLEUM CORPORATION LIMITED
(Incorporated under the laws of Alberta, Canada)
and subsidiary companies

STATEMENT B

Consolidated Balance Sheet — November 30, 1978

(with comparative figures at November 30, 1977)

ASSETS

Current	1978	1977
Cash	\$ 286,271	\$ 278,781
Accounts receivable	223,435	148,041
Inventories	53,865	56,891
Marketable securities	29,960	57,225
Prepaid expenses	31,750	15,806
Total current assets	625,281	556,744
Note Receivable - Note 4	224,971	526,754
Property and equipment — Note 5	3,130,727	2,030,476
Patent rights, less amortization	45,164	42,310
Sundry investments	19,387	23,679
Sundry deposits	9,209	9,260
Goodwill	9,933	9,933
	<u>\$4,064,672</u>	<u>\$3,199,156</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 353,030	\$ 240,609
Bank note payable	—	426,883
Drilling fund deposits - Note 6	236,814	—
Current portion of long term debt	513,246	332,857
Total current liabilities	1,103,090	1,000,349
Agreement payable - Note 7(a)	911,645	—
Notes payable secured - Note 7(b)	300,490	412,545
Total liabilities	<u>2,315,225</u>	<u>1,412,894</u>

SHAREHOLDERS' EQUITY

Share capital - Note 7 and 8		
Authorized - 10,000,000 shares, par value .25¢ each		
Issued - 5,189,872 shares (5,139,872 - 1977)	1,297,468	1,284,968
Contributed surplus	3,499,445	3,496,945
Deficit - Statement A	(3,047,466)	(2,995,651)
Total shareholders' equity	<u>1,749,447</u>	<u>1,786,262</u>
	<u>\$4,064,672</u>	<u>\$3,199,156</u>

Approved by the Board

DALE BERTLING, Director
ALLEN G. RENZ, Director

STATEMENT C

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

Consolidated Statement of Changes in Financial Position

YEAR ENDED NOVEMBER 30, 1978

(with comparative figures for 1977)

	<u>1978</u>	<u>1977</u>
Working capital was provided from:		
Operations		
Net (loss) income for the year	\$ (51,815)	\$ 10,819
Add back depreciation, depletion and amortization	<u>235,434</u>	<u>180,933</u>
Working capital provided from operations	183,619	191,752
Repayment of notes receivable	301,783	4,821
Proceeds from sale of investments	4,343	—
Proceeds on agreement payable	799,590	388,667
Issuance of share capital	<u>15,000</u>	<u>42,000</u>
Total working capital provided	<u>1,304,335</u>	<u>627,240</u>
Working capital was used for:		
Additions to property and equipment	1,330,666	1,086,121
Additions to patent rights	7,873	13,506
Purchase of investments	<u>—</u>	<u>1,892</u>
Total working capital used	<u>1,338,539</u>	<u>1,101,519</u>
Decrease in working capital	34,204	474,279
Working capital (deficiency), beginning of year	<u>(443,605)</u>	<u>30,674</u>
Working capital (deficiency), end of year	<u>\$ (477,809)</u>	<u>\$ (443,605)</u>

NATIONAL PETROLEUM CORPORATION LIMITED
and subsidiary companies

Notes to the Consolidated Financial Statements

YEAR ENDED NOVEMBER 30, 1978

NOTE 1: Accounting Policies:

(a) 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 51% owned subsidiary, and its wholly owned subsidiaries, Navarro Petroleum Corp. and Chemergy Corporation. The accounts of Permeator Corporation (Canada) Ltd., and PermaCo, Inc., wholly owned subsidiaries of Permeator Corporation, have not been consolidated herein as they are inactive and the inclusion of these 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 expenses at average rates for the year except for depreciation, depletion and amortization which are on the same basis as the related assets.

The gain or loss resulting from the translation of currencies is included in income.

(b) Inventory is recorded at net realizable value.

(c) Marketable securities are recorded at cost.

(d) The Company follows 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 expenses, carrying charges on productive and unproductive wells. Proceeds received on disposal of properties are credited against such costs. Depletion of the net costs is provided using a composite unit of production method based on total estimated proved developed reserves. Gains or losses realized on the sale of the last property in an area of interest are reflected in income as an extraordinary item.

(e) Depreciation on equipment is provided on a diminishing balance method at rates of 20% and 30% which are designed to amortize the asset costs over its estimated useful life.

(f) Patent costs are being amortized on a diminishing balance method at a rate of 10% per annum.

Note 2: Change in accounting policies:

In prior years the gain or loss resulting from the translation of currencies was included in accrued liabilities. There has been a prospective change in that the gain or loss is now charged to income. Had this change been applied retroactively the beginning of the year deficit would have been reduced by \$20,882. 1977 earnings per share would have been greater by .4¢ per share.

Note 3: The 1977 comparative figures reported in these financial statements have in some instances been reclassified to conform with 1978 financial statement presentation.

Note 4: Note receivable:

The company sold various properties and patented processes in 1976 in exchange for a note receivable, secured by producing properties which in turn have been assigned as collateral for notes payable. In 1978, National Oil Field Service Ltd., a subsidiary company, acquired a one-third interest in the properties pledged as security for the note. General and administrative expenses for 1978 include a special allowance of \$43,651 as a reserve for the uncollectability of the total loan receivable and interest thereon.

Additionally, as a result of providing services to various drilling funds, in prior years, the company holds various non-recourse notes receivable secured by specified interests in petroleum properties. The value of these properties is not reflected in these financial statements as the properties were acquired at no cost.

Note 5: Property and equipment:

	1978		1977	
	Original Cost	Accumulated Depreciation and depletion	Net Book Value	Net Book Value
Oil and gas properties and development costs	\$4,102,457	\$1,182,915	\$2,919,542	\$1,846,764
Equipment	1,012,659	821,340	191,319	163,846
Land	19,866	—	19,866	19,866
	<u>\$5,134,982</u>	<u>\$2,004,255</u>	<u>\$3,130,727</u>	<u>\$2,030,476</u>

Note 6: Drilling fund deposits:

During the year the company entered into turnkey drilling contracts whereby it is anticipated the company will drill 28 wells by May 31, 1981. In the immediate future two wells will be drilled with revenue amounting to \$236,814.

Note 7: Long Term Debt:

	1978	1977
(a) Agreement payable	<u>\$911,645</u>	<u>—</u>
On August 1, 1978, National Oil Field Service Ltd., a wholly owned subsidiary, acquired the petroleum properties of several oil and gas drilling limited partnerships; the consideration given being 1,400,000 shares of and 1,000,000 warrants to acquire 1,000,000 shares of National petroleum Corporation Limited. At the date of preparation of these financial statements the said shares and warrants have not been issued to the limited partnership. However, legal counsel for the limited partnerships has indicated that they will complete the sale transaction and accordingly the assets, income and expenses associated with the transaction have been included in the accompanying financial statements.		
	1978	1977
(b) Secured notes payable	<u>\$300,490</u>	<u>\$412,545</u>

The notes are secured by various oil and gas properties and are repayable in U.S. funds.

Note 8: Share capital:

At November 30, 1978, officers and employees held options to purchase 60,000 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. During the year, officers exercised their option to purchase 50,000 shares at the option price of 30¢.

The options expire in 1979.

Note 9: Income Taxes:

The Company has recovered current year's income taxes by application of losses carried forward. The Company had capital cost allowance for income tax purposes in excess of depreciation for accounting purposes in the amount of \$383,488 available for application against future taxable income.

Note 10: 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 \$232,639 (1977 - \$209,439) than the minority interest in the capital stock and contributed surplus of the subsidiaries.

As a result, the company recognized 100% of the subsidiary losses or gains. During the year the minority interest recognized amounted to \$93,134 debit (1977 - \$16,745 debit).

Note 11: Statutory information:

Officers' and directors' remuneration for the year was \$93,552.

Note 12: Earnings per share:

Earnings per share is based on a weighted average of shares outstanding during the year.

Auditor's 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, 1978, and the consolidated statements of income and 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 companies as at November 30, 1978, 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. Further in our opinion, except for the changes in the method of accounting for the gain or loss resulting from the translation of foreign currencies as described in Note 2 to the financial statements, such accounting principals are applied on a basis consistent with that of the preceding year.

Denis Daigault Schick & Co.

CHARTERED ACCOUNTANTS

CALGARY, ALBERTA
January 22, 1979