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**Plains  
Petroleums  
Limited  
Annual  
Report  
1979**

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OF MANAGEMENT

MAY 20 1980

McMILLAN UNIVERSITY

# Plains Petroleum Limited

2300 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 2Z5

## BOARD OF DIRECTORS

John P. Crone, Calgary, Alberta  
J. Howard Geddes, Calgary, Alberta  
A. M. McIntosh, Calgary, Alberta  
W. H. Waddell, Calgary, Alberta

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## EXECUTIVE OFFICERS

A. M. McIntosh, President  
J. Howard Geddes, Executive Vice-President  
John P. Crone, Vice-President  
Douglas E. Deakin, Treasurer  
T. S. Hoar, Secretary  
N. F. Shaw, Assistant Secretary  
James A. Petty, Assistant Treasurer

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## REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada  
Calgary, Toronto, Vancouver

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## STOCK LISTINGS

Alberta Stock Exchange  
Vancouver Stock Exchange

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## ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Tuesday, June 3, 1980, at 9:00 a.m. in the Company's office, 25th Floor, Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta. Formal notice of this meeting and proxy material has been mailed to all registered shareholders with this report.

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## TO THE SHAREHOLDERS

### Exploration and Production

During 1979, Plains participated in 45 exploratory wells and eight development wells. The majority of these wells were drilled within the Gold Creek and Lator areas of Alberta where the Company had an interest in 41 exploratory wells. Of these wells, 37 were gas wells, one was a dry hole and three were drilling at the end of 1979. Significant gas reserves have been established within Upper and Lower Cretaceous sandstones in this area. Plains' interest in this region varies between 1.66 per cent and 4.66 per cent. It is expected that the activity planned for 1980 on Company lands in the Gold Creek area will add significantly to gas reserves.

The Company has a 5.6 per cent interest in the Shell et al Waterton 7-20 well which reached a total depth of 5 080 metres in June of 1979. The well flowed 287 thousand cubic metres (10 MMcf per day) from the Devonian Wabamun formation.

Average daily production of crude oil and natural gas liquids for 1979 was 9.84 cubic metres (62 barrels), down slightly from the 10.18 cubic metres (64 barrels) produced during 1978. Average daily natural gas sales increased to 58 thousand cubic metres (2,058 Mcf) from a rate of 52 thousand cubic metres (1,826 Mcf) in 1978. Sulphur production was 12.82 tonnes per day, compared with 17.22 tonnes in 1978. The decrease in sulphur production was due to the Coleman field where more gas was taken from the Mississippian formation than the sulphur-rich Devonian formation. Additional crude oil production is anticipated from the new discoveries in the Lator field in 1980.

### Reserves

The Company's gross proven crude oil, natural gas liquids, natural gas and sulphur reserves as of January 1, 1980, and 1979 are summarized in the table below. The Company's gross proven reserves are defined as the Company's share of reserves from working interests and overriding royalties before the deduction of any royalty interest.

#### GROSS PROVEN RESERVES At January 1, 1980 and 1979 (Before Deduction of Royalties)

	1980	1979
Crude Oil - M <sup>3</sup> . . . . .	20 186	15 151
Natural Gas Liquids - M <sup>3</sup> . . . . .	11 829	4 293
Natural Gas - 10 <sup>3</sup> M <sup>3</sup> . . . . .	613 837	451 995
Sulphur - Tonnes . . . . .	76 164	80 877

### Financial Review

Net earnings before an extraordinary item for 1979 amounted to \$427,020 (2.0 cents per share) compared with \$241,148 (1.1 cents per share) for 1978. An extraordinary gain of \$344,718 (1.6 cents per share) arose on the disposal of an investment in an affiliated company. With the extraordinary gain, net earnings totalled \$771,738 (3.6 cents per share).

Gross revenue increased 21 per cent to \$1,136,363 mainly as a result of higher revenues from the Coleman and Killam fields in Alberta.

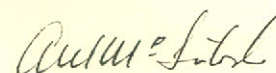
Operating and general expenses decreased from \$444,593 to \$334,985, the reduction being attributable to the Coleman field where a major workover was carried out in 1978. Increased depletion and depreciation expense totalling \$232,097 results from higher production and capital expenditures. Interest expense of \$45,489 was incurred on borrowings to finance the Company's 1979 capital expenditures.

Net flow of funds from operations totalled \$854,298 (4.0 cents per share) compared with \$585,074 (2.8 cents per share) generated in 1978. In addition, the Company received \$595,034 on disposal of investment in an affiliated company. The Company also received \$500,000 from Scurry-Rainbow Oil Limited, its parent company, to partially finance its 1979 capital program.

At December 31, 1979, the Company had a working capital deficiency of \$1,302,684. This substantial deficiency is a result of an increased exploration program in the Gold Creek area and higher interest costs. The Company is concerned about the magnitude of this deficit and is reviewing a number of alternatives to reduce it, including a farmout program to reduce capital demands.

Capital expenditures amounted to \$3,366,466 compared with \$1,162,486 expended in 1978. As in 1978, the Company concentrated its efforts in the exploration and development of its acreage in the Gold Creek area of Alberta.

Submitted on behalf of the Board of Directors.



Calgary, Canada

April 18, 1980

A.M. McIntosh  
President

### LANDHOLDINGS

At December 31, 1979

	<u>Gross Acres</u>	<u>Net Acres</u>
WORKING INTEREST		
Petroleum and Natural		
Gas Leases . . . . .	559,051	48,397
Permits . . . . .	933,303	100,514
Mineral Titles . . . . .	8,878	4,232
Total	<u>1,501,232</u>	<u>153,143</u>
ROYALTY INTEREST		
Gross overriding royalties on leases . . . . .	42,500	9,324
Gross overriding royalties on freehold properties . . . . .	634	317
Total	<u>43,134</u>	<u>9,641</u>

Plains Petroleum Limited

**CONSOLIDATED STATEMENT OF EARNINGS  
FOR THE YEAR ENDED DECEMBER 31, 1979**

	<u>1979</u>	<u>1978</u>
REVENUE		
Operating .....	\$1,126,847	\$ 896,924
Investment .....	9,516	40,187
	<u>1,136,363</u>	<u>937,111</u>
EXPENSE		
Operating and general .....	334,985	444,593
Depletion and depreciation .....	232,097	194,884
Interest on advances .....	1,933	—
Other interest .....	43,556	—
Minority interest .....	28	7
	<u>612,599</u>	<u>639,484</u>
	<u>523,764</u>	<u>297,627</u>
INCOME TAXES		
Current .....	(98,409)	(92,556)
Deferred .....	195,153	149,035
	<u>96,744</u>	<u>56,479</u>
NET EARNINGS BEFORE EXTRAORDINARY ITEM .....	427,020	241,148
EXTRAORDINARY ITEM		
Gain on disposal of investment (net of minority interest) .....	344,718	—
NET EARNINGS .....	<u>\$ 771,738</u>	<u>\$ 241,148</u>
EARNINGS PER SHARE		
Net earnings before extraordinary item .....	2.0¢	1.1¢
Extraordinary item .....	1.6	—
Net earnings .....	<u>3.6¢</u>	<u>1.1¢</u>

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)  
FOR THE YEAR ENDED DECEMBER 31, 1979**

	<u>1979</u>	<u>1978</u>
BALANCE, AT BEGINNING OF YEAR .....	\$ (86,508)	\$ (327,656)
Net earnings .....	771,738	241,148
BALANCE, AT END OF YEAR .....	<u>\$ 685,230</u>	<u>\$ (86,508)</u>

**Plains Petroleum Limited**

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED DECEMBER 31, 1979**

	<u>1979</u>	<u>1978</u>
<b>FUNDS WERE OBTAINED FROM</b>		
Operations .....	\$ 854,298	\$ 585,074
Proceeds on disposal of investment .....	595,034	—
Advances from parent company .....	500,000	—
Deferred production revenue .....	62,485	71,680
Other .....	—	1,589
	<u>2,011,817</u>	<u>658,343</u>
<b>FUNDS WERE USED FOR</b>		
Property, plant and equipment .....	3,366,466	1,162,486
Acquisition of minority interest .....	917	—
Other .....	1,867	—
	<u>3,369,250</u>	<u>1,162,486</u>
DECREASE IN WORKING CAPITAL .....	1,357,433	504,143
WORKING CAPITAL AT BEGINNING OF YEAR .....	54,749	558,892
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR .....	<u>\$(1,302,684)</u>	<u>\$ 54,749</u>
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
<b>INCREASE (DECREASE) IN CURRENT ASSETS:</b>		
Cash and short term deposits .....	\$ (481,053)	\$ (18,822)
Accounts receivable .....	67,270	(10,601)
Income taxes recoverable .....	5,853	22,392
	<u>(407,930)</u>	<u>(7,031)</u>
<b>DECREASE (INCREASE) IN CURRENT LIABILITIES:</b>		
Bank indebtedness .....	(740,000)	—
Accounts payable .....	(209,503)	(497,112)
	<u>(949,503)</u>	<u>(497,112)</u>
DECREASE IN WORKING CAPITAL POSITION .....	<u>\$ 1,357,433</u>	<u>\$ 504,143</u>

**AUDITORS' REPORT**

To the Shareholders of Plains Petroleum Limited

We have examined the balance sheet of Plains Petroleum Limited as at December 31, 1979 and the 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 financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its 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.

Calgary, Canada  
February 22, 1980

Thorne Riddell & Co.  
Chartered Accountants

Plains Petroleum Limited

BALANCE SHEET AS AT DECEMBER 31, 1979

ASSETS	1979	1978 <u>Consolidated</u>
CURRENT ASSETS		
Cash and short term deposits .....	\$ 21,016	\$ 502,069
Accounts receivable .....	229,954	162,684
Income taxes recoverable .....	98,409	92,556
	<u>349,379</u>	<u>757,309</u>
INVESTMENT, at cost .....	<u>—</u>	<u>250,000</u>
PROPERTY, PLANT AND EQUIPMENT,		
at cost (note 1) .....	9,995,452	6,641,603
Accumulated depletion and depreciation .....	2,136,636	1,917,475
	<u>7,858,816</u>	<u>4,724,128</u>
OTHER ASSETS .....	19,057	17,190
	<u>\$8,227,252</u>	<u>\$5,748,627</u>

LIABILITIES

CURRENT LIABILITIES		
Bank indebtedness (note 2) .....	\$ 740,000	\$ —
Accounts payable .....	912,063	702,560
	<u>1,652,063</u>	<u>702,560</u>
ADVANCES FROM PARENT COMPANY,		
Scurry-Rainbow Oil Limited (note 3) .....	500,000	—
DEFERRED PRODUCTION REVENUE .....	134,165	71,680
DEFERRED INCOME TAXES .....	738,107	542,954
MINORITY INTEREST .....	<u>—</u>	<u>254</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
30,000,000 shares of no par value		
Issued		
21,196,776 shares .....	4,439,687	4,439,687
CONTRIBUTED SURPLUS .....	78,000	78,000
RETAINED EARNINGS (DEFICIT) .....	685,230	(86,508)
	<u>5,202,917</u>	<u>4,431,179</u>
	<u>\$8,227,252</u>	<u>\$5,748,627</u>

Approved on behalf of the Board:

 Director

 Director

## Plains Petroleums Limited

### NOTES TO 1979 FINANCIAL STATEMENTS

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the results of the Company and Williams Creek Explorations Limited, its 99.91% owned subsidiary, to the date of its liquidation on December 31, 1979.

#### Oil and Gas Operations

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against earnings as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities.

Costs are depleted using the unit of production method based upon estimated proven developed reserves, as determined by Company engineers. Natural gas reserves and production are converted to equivalent cubic metres of crude oil based on the relative energy content.

#### Depreciation

Depreciation of plant and equipment has been provided in the accounts of the Company on a straight-line basis at rates which are estimated to amortize the costs of the assets less salvage value over their useful lives.

#### Note 1 Property, Plant and Equipment

	1979		1978	
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights, including exploration and development . . . . .	\$9,625,410	\$2,065,881	\$7,559,529	\$4,491,311
Production equipment . . . . .	370,042	70,755	299,287	232,817
	<u>\$9,995,452</u>	<u>\$2,136,636</u>	<u>\$7,858,816</u>	<u>\$4,724,128</u>

#### Note 2 Bank Indebtedness

Bank indebtedness is secured by accounts receivable and certain interests in petroleum and natural gas leases.

#### Note 3 Advances from Parent Company

The advances from parent company, Scurry-Rainbow Oil Limited, bear interest at bank prime lending rate plus 1% and have no fixed terms of repayment.

