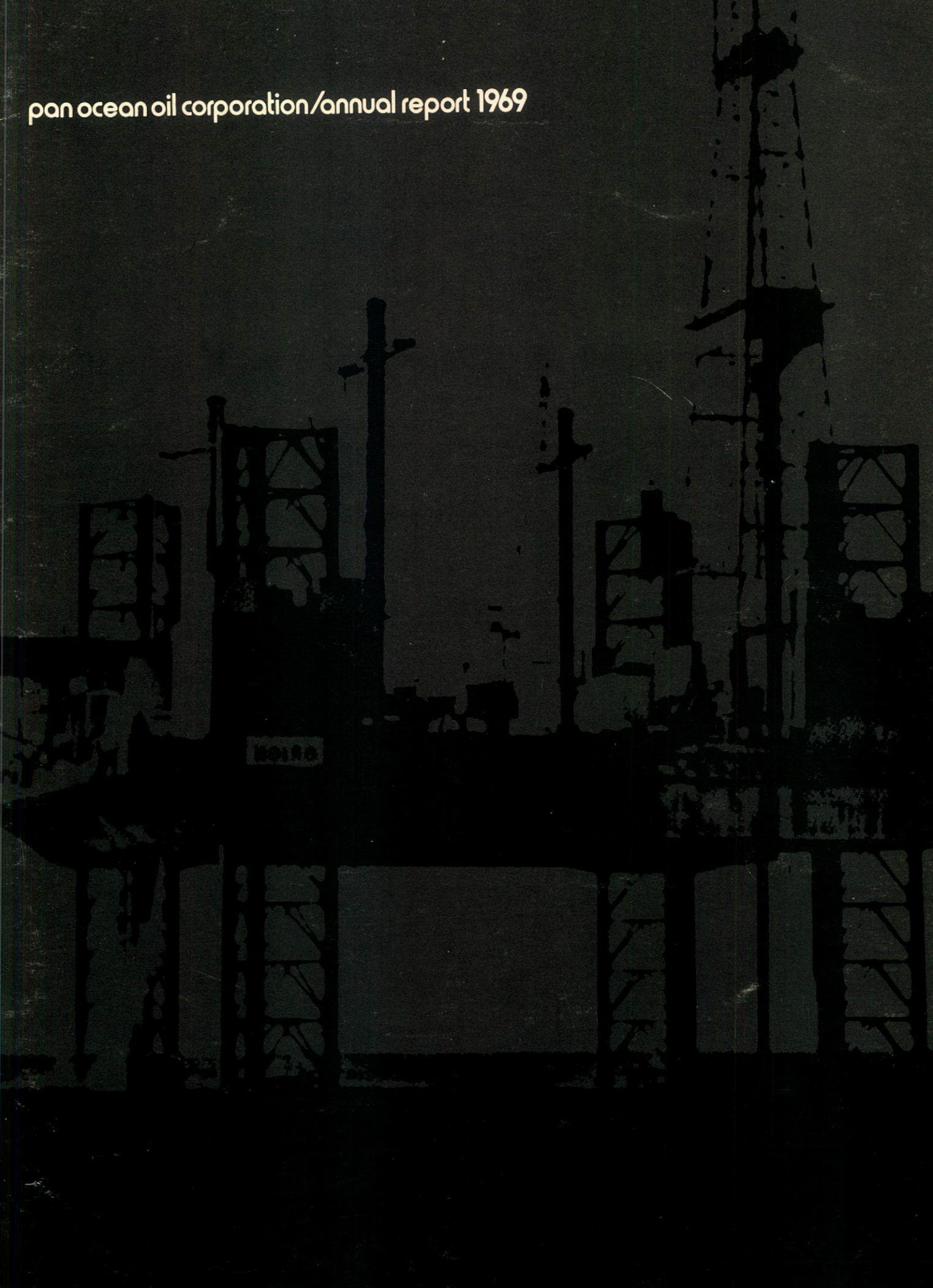


pan ocean oil corporation/annual report 1969





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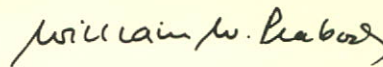


dear shareholder:

This is our first annual report since becoming a public company last September. During this short period your company has grown dramatically, and we welcome the opportunity to review for you those corporate achievements which have contributed most significantly to this record of accomplishment. Developments which have been of particular significance include:

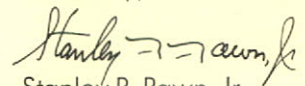
- five separate corporate acquisitions, valued at \$23 million, consummated or agreed to during the last six months in exchange for Pan Ocean stock;
- a more than threefold increase in our cash and other liquid assets, from a base of less than \$3 million raised in our common stock public offering to \$10 million today;
- the establishment of long-term domestic gas and oil reserves totaling 10 million barrels of oil or its equivalent in gas;
- a further broadening of our international exploration interests with the addition of such major reserve areas as Nigeria and Indonesia;
- the implementation of plans to establish a separate Pan Ocean drilling fund to assure a means of readily testing and developing both our present and future acreage;
- a further strengthening of our management and personnel, including the addition of four new directors to the Board.

We deeply appreciate your support during this important period in our corporate history. We look forward to sharing with you the growth and the opportunities for our company in the year ahead.



William W. Peabody
President

Cordially,



Stanley R. Rawn, Jr.
Chairman of the Board
Chief Executive Officer

May 31, 1970

production

During the past several months Pan Ocean has acquired oil and gas reserves through a series of corporate acquisitions and has established a basis for future cash flow from production.

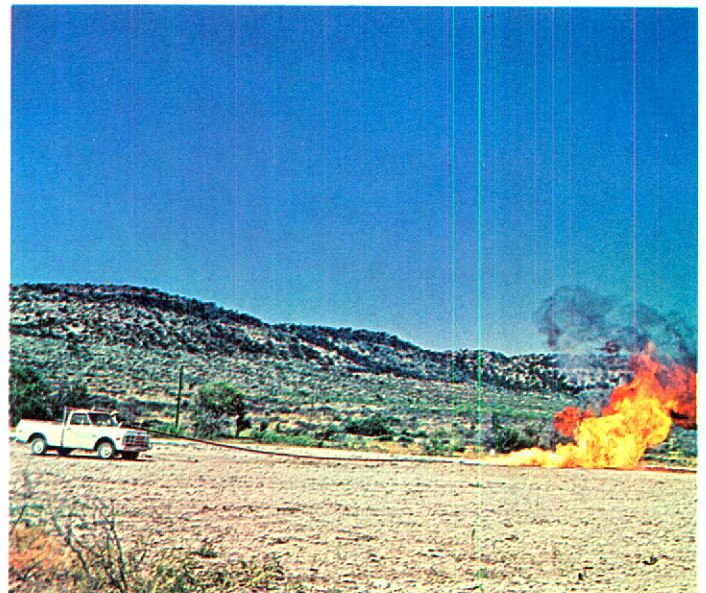
The largest property purchased to date is located in Crockett County, Texas where the company is in the process of acquiring ownership of 47 recently-completed gas wells, a gathering system, a transmission line, and a gasoline plant with a capacity in excess of 25 million cubic feet of gas per day. The plant is scheduled to be completed and on-stream by mid-June, 1970.

Developed gas reserves in the Crockett County property are estimated to be 130 billion cubic feet, with a more-than-equal volume of undeveloped reserves projected. Gas is now being sold on a 20-year contract to a subsidiary of Coastal States Gas Producing Co. at 17¢ per mcf and the liquid products from the plant will be sold locally. The project is calculated to generate an initial annual cash flow rate in excess of \$1.5 million.

Upon transfer of the final interests in June, the company will have issued approximately 454,000 shares of stock and will assume approximately \$1.9 million in bank debt.

Through other corporate acquisitions the company will have accumulated additional reserves of oil and gas located principally in Louisiana, Texas, Oklahoma, Mississippi and New Mexico. This production is expected to generate additional cash flow in excess of \$700,000 per year.

Gas well flare — Crockett County, Texas



Your company's land position has improved both in quantity and prospectiveness. The company presently has filings or permits on 64,809,371 gross acres and 20,141,565 net acres located in the United States and 14 foreign countries, an increase of 44% in net acreage since August, 1969. Most of these holdings are presently in various stages of exploration and evaluation.

The world map on pages 8-9 identifies the locations of the company's interests together with pending applications for concessions. Most of these are discussed in the following pages, commencing with the more significant company interests which have not as yet been evaluated or explored.

In **Alaska**, Pan Ocean holds a 37½% interest and is operator of a joint venture which was the successful bidder on Block 95 awarded in the widely publicized North Slope sale last September. The company will participate in a group seismic survey scheduled for this summer which will include Block 95. Atlantic Richfield has completed a Prudhoe Bay field development well eight miles west of Block 95; Mobil Oil Company is drilling a test well twelve miles to the southeast.

Nigeria is fast becoming one of the major oil producing countries of the world. Through the acquisition of Inter-ocean Oil Company, Pan Ocean will hold a 100% working interest in three onshore areas in Nigeria, designated OPL 51, 99 and 71, and covering an aggregate of 861,440 acres. The license for OPL 51 has been issued and the licenses for the other two blocks are expected shortly. OPL 51 and 99 are contiguous blocks, located on either side of the Niger River in the prospective delta area. Under the license covering OPL 51, the company is committed to drill a total of 20,000 feet within three years, or one well per year for each of the first three years. The company also participated in the industry bidding in March for offshore blocks, the results of which have not yet been announced.

The company has a 25% interest in a recently-awarded concession in **Indonesia** covering 415,000 gross acres. The acreage is situated on and around the island of Simulue, located off the western coast of Sumatra.

Pan Ocean has made a priority filing in the **East China Sea** on 10 million acres. The company has a 70% beneficial interest in the application. Seismic studies by the Woods Hole Oceanographic Institution, the U. S. Navy,

and private geophysical services all confirm the presence of thick sedimentary sections and many structural trapping conditions. As a prospective oil area, this sector of the East China Sea has been favorably compared to the Middle East.

The company's extensive interests in **Canada** total 14,446,010 gross acres and 3,643,995 net acres. This includes acreage in a majority of the areas of current exploration interest in the far north, including the Arctic Islands, the Mackenzie Delta, Foxe Basin, Hudson Bay and offshore Eastern Canada.

Pan Ocean has negotiated several agreements in the area with new partners, involving an assumption of work obligations and, in some cases, a cash bonus for a portion of the company's interest. Included are agreements with the French Petroleum Company of Canada Ltd. on Pan Ocean acreage in the Peary Channel in the Arctic; West-coast Production Company Ltd. on acreage near Ellesmere Island in the Arctic; and Mobil Oil Company covering two million acres in Hudson Bay.

In most areas where the company has interests, it is our policy to conduct our own exploration programs or to participate with our original partners, but in certain remote areas such as the Arctic, the company has elected to minimize its capital outlays through the use of such farmout agreements.

Panarctic Oils, Ltd., partially-owned by the Canadian government, plans to begin drilling a test well, Hecla J-60, this summer on Melville Island in the Arctic. Pan Ocean holds a 25% interest in two 30,000-acre tracts located three miles to the northwest and approximately four miles to the south of the announced drill site. The well will be drilled about 26 miles west of Panarctic's earlier Drake Point tests which had recoveries of hydrocarbons.

In the **Italian Adriatic Sea**, the company holds interests in 122,344 net acres through a 75% owned subsidiary, Oceanica Petroli Italiana. Recent discoveries by Westates Petroleum Company and by Shell-Agip in the vicinity of some of our acreage have been encouraging. A seismic program on our blocks is planned for late 1970.

Your company has also submitted a bid in the recent competition for a 778,000-acre block offshore from Abu Dhabi, one of the Trucial States along the **Arabian Gulf**. Though small in geographic area, this Trucial State is one of the most prolific oil producing countries in the Middle East. Pan Ocean has a 60% interest in the application and has been advised that the results of the bidding will be announced in June, 1970.

exploration

The company has an active exploratory program presently underway around the world, and expects to increase this capability substantially in the near future. The company is proceeding with plans to establish a separate drilling fund, which will greatly augment the in-house exploration funds necessary to test and develop company holdings.

Some of the highlights of the company's exploration and work programs are summarized in the succeeding paragraphs.

In the **Norwegian North Sea**, your company holds a 20% interest in Blocks 11/10 and 11/7, totalling 276,635 gross acres. The Ocean Viking drilled an exploratory well on this acreage in the summer of 1969, which was considered non-commercial and was abandoned. We have plans to drill another exploratory well on an additional feature of interest in the license area.

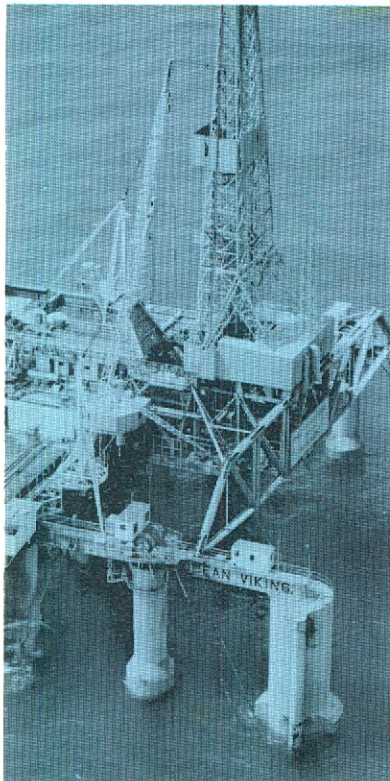
Pan Ocean has a 50% interest in a new exploration license presently being finalized with the Norwegian government which would add 153,620 gross acres to our holdings in the Norwegian North Sea.

In the **Dutch North Sea**, the company holds a 50% interest in a joint venture which was awarded a prospecting license on Block Q/11. The joint venture assigned a 51% working interest in the block to N. V. Nederlandse Aardolie Maatschappij ("NAM") which is owned jointly by the Royal Dutch/Shell group and Standard Oil Company (New Jersey). In return for this interest, NAM repaid our prior exploration costs and drilled at its own expense a 10,000 foot exploratory well on the block. This well encountered interesting gas shows but, after tests, was considered non-commercial and consequently abandoned. Studies are now being made to determine our future program for this block.

Also offshore, Pan Ocean Oil U. K. Ltd., as operator, is negotiating for two blocks in the **U. K. North Sea**. The two blocks are located in the central portion of the North Sea tertiary basin, which has become more prospective as a result of recently-announced oil discoveries in the basin. Pan Ocean has a 40% interest in the application.

In **Colombia** the company is presently completing its first discovery well in the Magdalena Valley area and has recently spudded a second exploratory well in another concession area in the Magdalena Valley. The discovery well, located six miles from a pipeline terminal, is undergoing further testing and evaluation.

The discovery well was the first well to be drilled in a joint exploration program with Empresa Colombiana de Petroleos, a Colombian government-owned corporation.



"Ocean Viking" — Drilling, Norwegian North Sea



Pan Ocean holds a 25% interest in the venture, which has the right to explore 467,917 gross acres onshore. The company must meet 50% of the exploration costs up to completion of the first discovery well, and the government has a 17% royalty interest.

With the acquisition of Interocean Oil Company, Pan Ocean will hold a 2½% interest in approximately one million acres located offshore Colombia in the Caribbean Sea adjacent to the Guajira Peninsula. Seismic work has been encouraging and it is anticipated that an exploratory well will be commenced early in 1971.

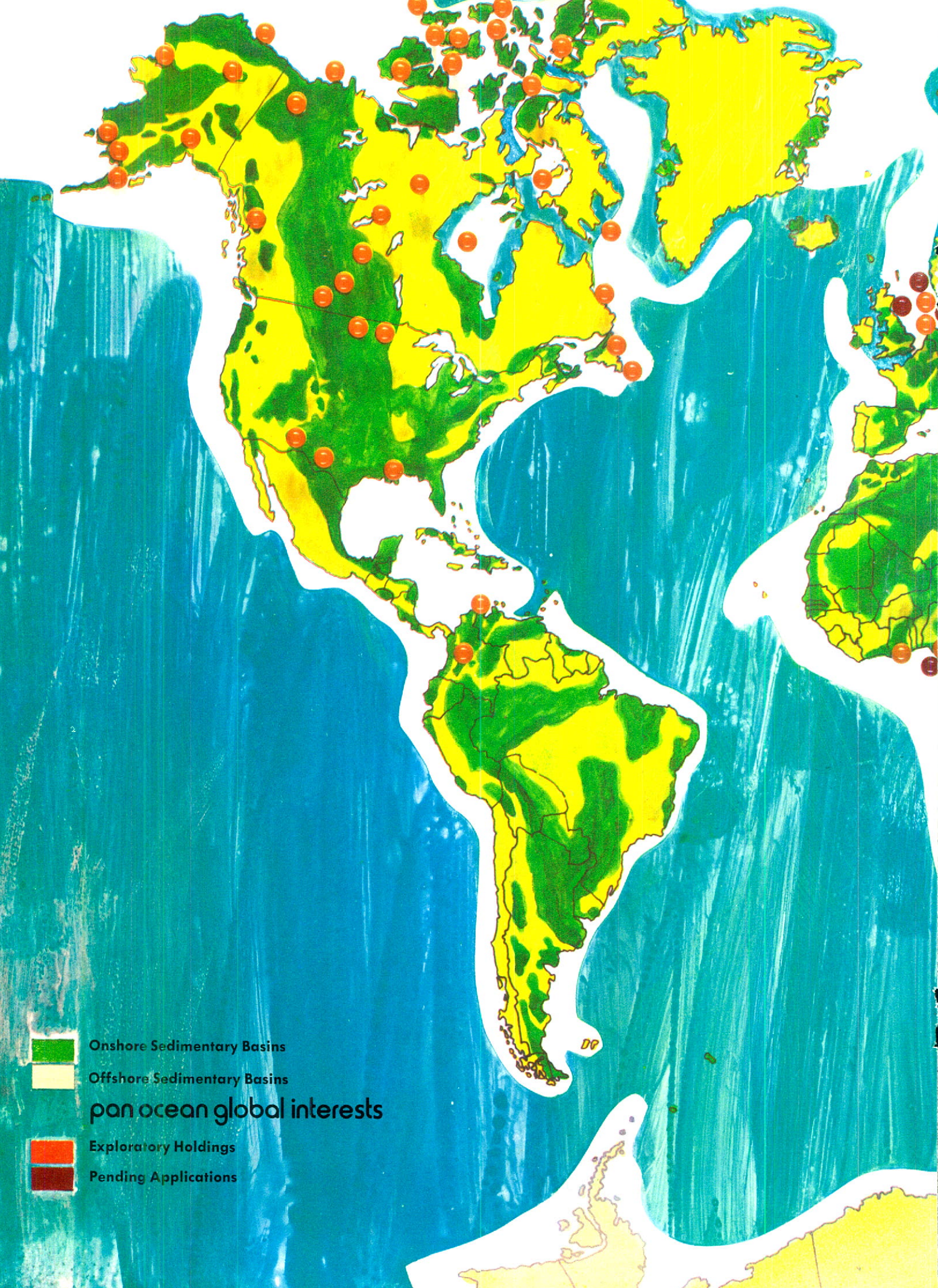
Through an affiliate, Tur-Kan Petrol Ltd., the company has a 30.5% interest in licenses on 494,200 gross acres in **Turkey**. Geological and geophysical exploration is presently being carried out on the acreage and Tur-Kan intends to spud its first well in the license area this year.

A gravimetric study has been conducted on the company's acreage in the **Maldiv Islands**, which is a recently established republic located in the Indian Ocean. An interpretation of these data suggests the presence of as much as 10,000 feet of sedimentary section. The results are being studied to determine the nature of a more intensive exploratory program. The company has a 22.5% interest in an exploration license covering 25,600,000 acres located on and offshore.

In **New Zealand**, where the company has a 12.5% interest in 1,710,560 gross acres located on and offshore in the Taranaki Basin area, a drilling program is now underway. Four test wells have been abandoned so far after encountering non-commercial indications of gas at approximately 3,000 feet. Further shallow drilling is planned later this year. Three significant gas condensate wells were recently completed by Shell/BP/Todd in the offshore portion of the Taranaki Basin approximately 75 miles from the company's acreage.

The company owns a 26% interest in approximately 7,000,000 acres in the Port Elizabeth area of **South Africa**. Southern Oil Exploration Corporation (Pty.) Ltd., a government affiliated company, has been carrying out an exploratory drilling program on the concession area under a farmout agreement.

The South African Geological Survey, a government agency, has also been drilling within the concession area and has recently recovered small amounts of free oil at 7,300 feet on a drillstem test in their Colchester Well. This is significant because it is the first free oil recovery onshore in South Africa. Superior Oil is continuing its offshore drilling following last year's initial gas condensate discov-



Onshore Sedimentary Basins



Offshore Sedimentary Basins

pan ocean global interests



Exploratory Holdings



Pending Applications



ery on their offshore block near Port Elizabeth.

Following evaluation of a grid seismic program on Block C(b) offshore South Africa and Blocks 8A and 8B offshore Southwest Africa, Pan Ocean and its partners relinquished those blocks.

After an extensive seismic program Pan Ocean and its partners elected not to exercise their option to acquire Block IV offshore Liberia.

In Ghana the company holds indirectly a 2% interest in a license covering a total of approximately 1,885,440 acres in two blocks onshore and offshore. An offshore seismic program was completed and an agreement was entered into with Hamilton Brothers Oil Company which provides for the drilling of two wells. The first offshore well began drilling this month.

The company has a half interest in 140,284 gross acres in Montana and North Dakota. One of the company's plays consists of an approximate 80,000 acre spread immediately west of the Tiger Ridge Montana gas field on which we anticipate at least eight exploratory wells will be drilled this summer. These tests will be drilled at no cost to the company which will still retain an undivided 12½-25% interest in the area.

A seismic program will be started soon on the Towner North Dakota prospect, following encouraging results from a recent gravity survey.

the Rockefeller family, has working interests in domestic producing properties in several states in addition to a mineral exploration program in Australia, and certain capital investments.

Vaneil Properties Inc. holds working interests in producing properties and leasehold interests located principally in Texas, Oklahoma, Louisiana and Mississippi.

Interocean Oil Company, Inc. owns or expects to own shortly full working interests in three concessions in Nigeria, plus an offshore interest in Colombia. It also has a 1½% carried interest in two experimental steam recovery projects encompassing a possible recoverable reserve of 30 million net barrels at Cold Lake, Alberta. Five steam injection wells and thirteen producing wells are currently involved in the pilot projects.

Ocean Platinum Company holds 14,000 acres of offshore permits geologically well positioned with respect to the only known major platinum source in the United States, located at Goodnews Bay, Alaska. Extensive offshore mineral exploration is planned by others in the Goodnews Bay area during 1970. From an air pollution standpoint, platinum is a necessary element in the production of lead-free gasolines and, for this and other reasons, is expected to experience increasing demand.

corporate acquisitions

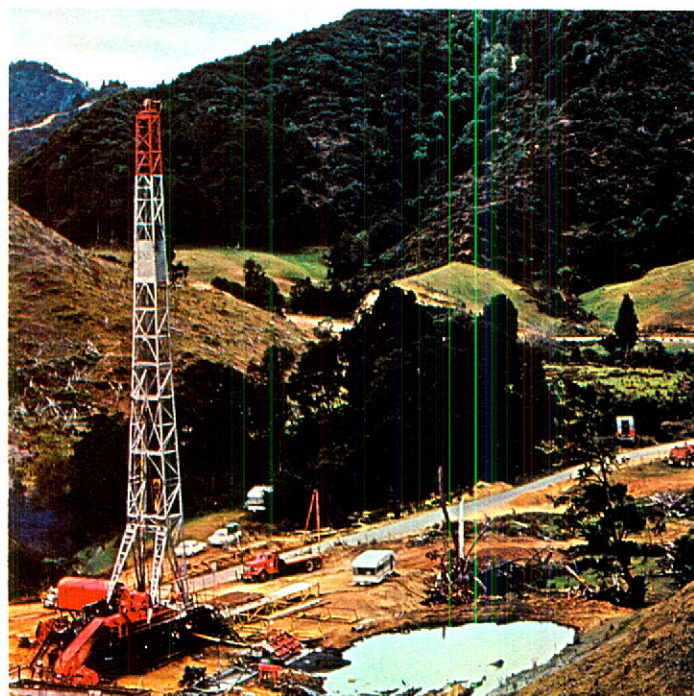
In addition to the acquisition of gas wells, pipelines and processing facilities in Crockett County, Texas described earlier, the company during the past four months has acquired or reached agreements to acquire all of the outstanding shares of the following four corporations:

- Pocantico Oil and Gas Corporation
- Vaneil Properties, Inc.
- Interocean Oil Company, Inc.
- Ocean Platinum Company

Each acquisition involves an exchange of shares for Pan Ocean stock. The aggregate agreed value of the four transactions is \$12 million.

Pocantico Oil and Gas Corporation, purchased from

Test well — New Zealand



financial position

Pan Ocean's financial position is very strong. At the end of December, a \$2,750,000 private placement resulted in the issuance of 103,615 shares of unregistered common stock. The company's cash and marketable securities have grown since year-end to a present total of \$10 million; current liabilities presently stand at approximately \$750,000. Upon consummation of the Pocantico Oil and Gas Corporation acquisition and the final transfer to the company of the Crockett County, Texas properties, the company will have assumed approximately \$3,800,000 of long-term debt.

management & offices

The rapid growth which has marked these past months of Pan Ocean's progress has been paralleled by a strengthening of management and staff.

Of particular significance, the board has been expanded by the appointment of four new directors. The new directors are Yasuhiro Goh, Peter A. Banker, Neil A. McConnell, and Donald B. Lamont.

Mr. Goh, a resident of Tokyo, is a founder and director of Bridgestone Liquefied Petroleum Gas Company of Japan, which pioneered the development of liquified petroleum gas in Japan and owns the world's largest LPG tanker fleet. Mr. Banker, a vice president of Pan Ocean, was previously an attorney for Standard Oil Company (New Jersey), with responsibilities in international operations. Mr. McConnell, a partner in the investment firm of McConnell, Melhado, previously served as president of Vaneil Properties Inc. prior to its merger with Pan Ocean. Mr. Lamont, who has become a full-time working director, is president of Interocean Oil Company, Inc. and was, for many years, an officer and director of several oil and gas exploration companies operating principally abroad.

In addition to the new directorships, the company has made several key appointments, including a corporate controller and several highly qualified geologists. Also named was Hunter L. Sharp as president of Pan Ocean Oil Corporation (Texas). Mr. Sharp will manage the gas production and processing facilities in Crockett County.

These appointments complement a recent expansion of your company's facilities. New York headquarters will be relocated at year-end to a new 22-story building presently under construction. The building, located on the southeast corner of Madison Avenue and 60th Street, will be named the Pan Ocean Building.

The Denver office has recently moved into expanded facilities. Since August of 1969, Pan Ocean has opened new offices in Lagos, Nigeria and Midland, Texas.

Pan Ocean Oil Corporation and Subsidiaries
consolidated balance sheet

December 31, 1969

Assets

Current assets:

Cash	\$ 3,105,522
Marketable securities, at cost which approximates market	1,800,000
Accounts receivable and other assets	<u>155,829</u>
Total current assets	5,061,351

Properties and equipment, at cost:

Developed natural gas properties and related equipment (Note 2)	5,258,345
Undeveloped leaseholds and mineral rights (Note 3)	<u>3,025,889</u>
	8,284,234

Deferred preoperating expenses and income (Note 4)	556,934
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Loan to officer (Note 5)	160,000
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Other assets	<u>17,023</u>
	<u>\$14,079,542</u>

Liabilities and shareholders' equity

Current liabilities:

Note payable to bank	\$ 150,000
Accounts payable and accrued liabilities	411,319
Estimated foreign income taxes payable	<u>36,364</u>
Total current liabilities	597,683

Minority interest	40,000
-------------------	--------

Shareholders' equity:

Common stock \$.01 par value—authorized 10,000,000 shares; issued and outstanding 3,812,604 shares	38,126
Capital in excess of par value	<u>13,403,733</u>
	13,441,859

Commitments and contingent liabilities (Note 6)	<u>\$14,079,542</u>
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The accompanying notes are an integral part of these statements

statement of common stock and capital in excess of par value

for the Period from September 4, 1968 to December 31, 1969 (Note 1)

	Common Stock	Capital in excess of par value
Exchange of 875,001 shares of common stock for undeveloped leaseholds and mineral rights (Note 3)	\$ 8,750	\$ 1,741,252
Proceeds from various sales of 2,091,115 shares of common stock for cash	20,911	3,529,065
Proceeds from public offering of 400,000 shares of common stock, less \$410,319 expense of issue	4,000	2,785,681
Proceeds from sales of 240,000 shares of common stock under stock option plan and stock purchase agreement (Note 5)	2,400	187,600
Exchange of 206,488 shares of common stock for developed natural gas properties (Note 2)	2,065	5,160,135
	<u>\$38,126</u>	<u>\$13,403,733</u>

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400000
240000
206.488
3812604

notes to financial statements

Note 1—Organization and Reporting: The Company was incorporated in the State of Delaware on September 4, 1968 under the name of Oceania Oil Corporation, which name was subsequently changed to Pan Ocean Oil Corporation. Its activities to December 31, 1969 have involved principally the acquisition of developed natural gas properties in Texas and undeveloped leasehold and mineral rights in North America and twelve foreign countries.

Pioneer Properties Co. (a partnership), Pentagon Petroleum, Inc., and certain related individuals own more than 50% of the outstanding common stock of Pan Ocean Oil Corporation.

The consolidated balance sheet includes the accounts of the Company and its majority owned subsidiaries.

Note 2—Developed Natural Gas Properties: The Company entered into various agreements on December 29, 1969 to acquire certain natural gas wells and related facilities in Crockett County, Texas, in exchange for approximately 454,280 shares of common stock. The net assets to be received in exchange will be recorded at a total amount of approximately \$11,357,000. Such amount is supported by preliminary estimates made by an independent appraisal engineer of future cash flow discounted at 8%.

Certain of the wells and properties were acquired on December 30, 1969 for 206,488 shares of common stock and have been included in the accompanying balance sheet at an amount of \$5,162,000. In March, 1970 additional wells and properties were acquired for 148,567 shares of common stock. The remaining wells and properties will be acquired in June, 1970.

Pentagon Petroleum, Inc. and, indirectly, another shareholder of the Company held significant interests in the Texas properties prior to the above exchange.

Note 3—Undeveloped Leaseholds and Mineral Rights: A portion of the Company's interests in undeveloped leaseholds and mineral rights involved the assignment of interests from Pentagon Petroleum, Inc. for 500,001 shares of common stock and acquisition of all the outstanding stock of Saratoga Minerals Ltd. for 375,000 shares of common stock. Saratoga was a nonaffiliated company whose only asset consisted of interests in undeveloped leases and concessions in the Norwegian North Sea, Dutch North Sea, South Africa and South West Africa. The Pentagon assignment comprised an interest in the Maldive Islands (Indian Ocean) and interests in the same leases and concessions held by Saratoga. The Pentagon and Saratoga interests have been recorded at \$1,000,002 and \$750,000, respectively. In the opinion of the Board of Directors, such amounts represent the fair value of the acquired properties.

In accordance with accounting principles utilized by the Company, all costs of acquisition, exploration and development have been capitalized as undeveloped leaseholds and mineral rights. With respect to title to foreign undeveloped leaseholds and mineral rights, the Company has relied on the representations of the various governments which have granted such interests and on the terms contained in the documents which have been delivered to it evidencing such interests.

While undeveloped leaseholds and mineral rights are in properties which are substantially unexplored, management believes the investment therein of \$3,025,889 will be recovered through either sale or future exploration and development of such properties.

Note 4—Deferred Preoperating Expenses and Income: The Company has been in the development stage of operations and has

elected to defer all preoperating income and expenses from September 4, 1968 to December 31, 1969 as follows:

Income:

Net proceeds from sales of undeveloped oil and gas interests	\$170,458
Miscellaneous income	81,542
	<u>252,000</u>

Expenses:

Provision for loss on certain interests in undeveloped leaseholds and mineral rights to be abandoned in 1970	504,413
General and administrative expense	304,521
	<u>808,934</u>
Net deferred preoperating expenses and income	<u>\$556,934</u>

The above deferred preoperating expenses and income will be included in the statement of income for the year 1970.

Note 5—Common Stock and Stock Option Plan: On August 22, 1969, pursuant to a Stock Purchase Agreement dated as of May 31, 1969 between the Company and an officer, the Company issued 60,000 shares of common stock for \$160,000 in cash. In connection with this transaction, the Company on August 25, 1969 loaned such officer \$160,000 with interest at 7% per annum, to be repaid in equal installments on June 1, 1971, 1972 and 1973. The Agreement provides that such shares are subject to certain restrictions which, if violated, may result in forfeiture of the shares. Such restrictions lapse with respect to 30,000 shares on May 31, 1971, with respect to an additional 15,000 shares on May 31, 1972 and on the remainder of the shares on May 31, 1973. In the event any of the shares are forfeited, the Company is obligated to repurchase such shares for the purchase price thereof (\$2.67 per share).

Under a qualified stock option plan ratified by the shareholders on March 5, 1969, an option was granted to an officer in December, 1968 to purchase up to 180,000 shares of common stock at a price of \$.16 $\frac{2}{3}$ per share. This option was exercised one year from the date of grant. Additional options were granted under the plan in August, 1969 to other officers and employees aggregating 79,500 shares at a price of \$8.00 per share. These options expire on August 27, 1974. The options become exercisable one year after the date of grant. A total of 300,000 shares are reserved for stock options under the plan.

Note 6—Commitments and Contingent Liabilities: The agreements, leases and permits through which the Company holds direct and indirect interests in undeveloped leaseholds and mineral rights involve various obligations in the form of exploratory work programs and drilling of wells in order to retain the rights to the acreage. At December 31, 1969, the Company had commitments for the years 1970, 1971 and 1972 of approximately \$649,000, \$874,000 and \$799,000, respectively.

The Company has entered into a ten year commitment for office space at a yearly rental cost of approximately \$400,000. It is anticipated that through subleasing the actual expenditure will be materially less than the commitment.

On January 7, 1970, the Company guaranteed a \$500,000 bank loan of Alpine Oil Company, Inc., a non-affiliated company (see Note 7).

Note 7—Acquisitions: On February 9, 1970 the Company acquired all the outstanding stock of Vaneil Properties, Inc. for 326,531 shares

of common stock. Vaneil Properties, Inc. was owned principally by one of the founders of the Company. Vaneil Properties, Inc., at date of acquisition, had assets consisting mainly of domestic producing petroleum and natural gas properties, and marketable securities. During the period from February 9, 1970 to April 30, 1970 the marketable securities were sold for cash of \$4,786,000. The net assets of Vaneil Properties, Inc. at date of acquisition had a preliminary estimated fair market value of \$5.6 million, after making provision for an estimated \$1.5 million capital gains tax to be incurred relating to the sale of the marketable securities.

The Company will treat this acquisition as a purchase transaction for accounting purposes and hence the assets and liabilities of Vaneil Properties, Inc. will be recorded in 1970 at their estimated fair values. The Company has agreed that if an independent appraisal of the producing petroleum and natural gas properties, which appraisal may be submitted to the Company no later than September 15, 1970, results in a valuation in excess of \$2,448,500, the Company will issue

up to 300,000 additional shares of its common stock valued at \$24.50 equal to such excess.

On April 24, 1970, the Company entered into an agreement to acquire all of the outstanding shares of Interocean Oil Company, Inc. Subject to the Company's satisfaction regarding certain title matters, the Company will issue 150,000 shares of its common stock in the exchange.

The Company plans to acquire all of the outstanding shares of Pocantico Oil and Gas Corporation for 140,000 shares of common stock. The acquisition has been approved by the boards of both companies.

It is anticipated that an agreement will be executed shortly to acquire all of the outstanding shares of Alpine Oil Company Inc., in exchange for shares of the Company's common stock.

The Company has agreed to acquire all of the outstanding shares of Ocean Platinum Company for approximately 13,500 shares of its common stock.

opinion of independent accountants

To the Shareholders and the
Board of Directors of
Pan Ocean Oil Corporation

We have examined the consolidated balance sheet of Pan Ocean Oil Corporation as of December 31, 1969 and the related statement of common stock and capital in excess of par value for the period from incorporation on September 4, 1968 to December 31, 1969. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 4 to the consolidated financial statements, the Company has been in the development stage of operations and has elected to defer all preoperating income and expenses from September 4, 1968 to December 31, 1969. Its interests in undeveloped leaseholds and mineral rights are in properties which are substantially unexplored.

In our opinion, the accompanying consolidated balance sheet and related statement of common stock and capital in excess of par value present fairly the financial position of Pan Ocean Oil Corporation and consolidated subsidiary companies at December 31, 1969, in conformity with generally accepted accounting principles.

60 Broad Street
New York, New York 10004
May 25, 1970

Price Waterhouse & Co.

Board of Directors

Peter A. Banker, *Vice President*

John M. Emery

Partner, Breed, Abbott & Morgan, New York

*Yasuhiro Goh

Director, Bridgestone Liquefied Petroleum Gas Company, Tokyo

Donald B. Lamont

President, Interocean Oil Company, Inc., New York

Dan W. Lufkin

Chairman of the Board, Donaldson, Lufkin & Jenrette, Inc., New York

*Louis Marx, Jr., *Chairman of the Executive Committee*

Neil A. McConnell

Partner, McConnell, Melhado, New York

*William W. Peabody, *President*

*Stanley R. Rawn, Jr., *Chairman of the Board*

Samuel P. Reed

Vice President, Engelhard Minerals & Chemicals Corporation,
New Jersey

**Members of the Executive Committee*

Corporate Offices

110 East 59th Street

New York, New York 10022

515 Majestic Building

Denver, Colorado 80202

Operations Offices

Pan Ocean Oil Corporation (Texas)

200 Wilkinson-Foster Building

Midland, Texas 79701

Pan Ocean Oil (Canada) Ltd.

970 No. 3 Calgary Place

Calgary 1, Alberta, Canada

Pan Ocean Oil U. K. Ltd.

9 Upper Grosvenor Street

London W. 1, England

Oceanica Petroli Italiana, S. p. A.

Via Lungotevere Mellini 44

00193 Rome, Italy

H.M. Pan Ocean-Syracuse Oil South Africa (Pty.) Limited

Metal Industries House

84 Marshall Street

Johannesburg, South Africa

Pan Ocean Oil (Nigeria) Ltd.

Western House

8/10 Yakubu Gowon Street

Lagos, Nigeria

Transfer Agent and Registrar

Bankers Trust Company

New York, New York

Legal Counsel

Breed, Abbott & Morgan

New York, New York

Independent Accountants

Price Waterhouse & Co.

New York, New York

Members of the Board

Left Column: Stanley R. Rawn, Jr., Donald B. Lamont, Samuel P. Reed;

Middle Column: Peter A. Banker, William W. Peabody, Louis Marx, Jr.;

Right Column: Dan W. Lufkin, Yasuhiro Goh, John M. Emery, Neil A. McConnell.

