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Peyto Oils Ltd.

ANNUAL REPORT

Year Ending May 31st, 1974

Peyto Oils Ltd. and Subsidiaries

Peyto Explorations Inc.	100%
Polaris Oil Limited	100%
Polaris Oil Inc.	100%
Polaris Oil (U.K.) Ltd.	100%
Giant Reef Petroleums Limited	65%
Not included in consolidation:	
Enjay Holdings Limited	(40%)
Ensign Oil of Spain Ltd.	(50%)

HEAD OFFICE:

335 Examiner Bldg.
CALGARY, Alberta T2P 1W3
Area Code 403 261-5042, 264-7186

OFFICERS:

WILLIAM WOLODARSKY — President
R. T. VANDERHAM — Vice President
A. N. McCRUDEN — Secretary

DIRECTORS:

W. WOLODARSKY
R. T. VANDERHAM
A. N. McCRUDEN
CARMEN W. BYLER
JEAN Le REUN

BANKERS:

BANK OF MONTREAL
604 - 8th Ave. S.W.
CALGARY, Alberta T2P 2C9

REGISTRAR AND TRANSFER AGENT:

MONTREAL TRUST COMPANY
522 - 8th Ave. S.W.
CALGARY, Alberta T2P 1E7

15 King St. West
TORONTO, Ontario

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.
2600, 500 - 4th Ave. S.W.
CALGARY, Alberta T2P 2V6

STOCK LISTING:

TORONTO STOCK EXCHANGE

OUR COVER:

"PEYTO LAKE" — located 27 miles north of Lake Louise on the Banff-Jasper Highway in Banff National Park. The pale blue color of the lake is a result of the silt carried in the outwash of Peyto Glacier. ALBERTA, Canada

Six Year Financial & Operating Review

	1969	1970	1971	1972	1973	1974
Total Revenue	$ 39,000	$ 144,000	$ 305,000	$ 564,000	$ 581,000	$ 672,000
Cash Flow	18,000	(24,000)	93,000	204,000	90,000	204,000
Cash Flow/Share	2¢	(1¢)	5¢	10¢	4¢	7¢
Depreciation/Depletion	4,000	4,000	88,000	164,000	159,000	226,000
Net Income (loss)	17,000	(11,000)	(33,000)	(35,000)	(249,000)	(292,000)
Net Income (loss)/share	2¢	(1¢)	(2¢)	(2¢)	(11¢)	(10¢)
Total Assets	306,000	2,242,000	2,940,000	3,224,000	4,751,000	6,437,000
Working Capital	208,000	738,000	187,000	384,000	634,362	2,449,432
Long-term Debt	—	—	626,000	629,000	632,000	604,000
Shares Outstanding	880,000	1,753,293	1,753,293	1,953,293	2,431,383	2,831,383
Shareholder's Equity	294,000	1,944,000	1,912,000	2,277,000	3,622,000	5,543,000
Gross wells drilled	10	11	7	14	23	20
Oil/Gas	6	1	2	5	11	10
Dry	4	10	5	9	12	10
Number of Employees	3	3	3	4	5	5

Dear Shareholders:

We welcome the opportunity to report a most eventful year for the Company and provide indication of significant and exciting activities planned for the ensuing year.

Total gross income increased from \$580,951 in 1973 to \$672,110 in 1974. Cash flow amounted to \$204,195 as compared to \$89,726 in 1973. This represents an increase of over 120% in cash flow or approximately 7¢/share. The Company uses the conventional system of accounting, as opposed to the "full cost" method employed by most energy related companies. Under our system of accounting all costs relative to exploration and development of petroleum and natural gas, whether productive or not, are initially capitalized. Unsuccessful expenditures including lease rentals, property surrenders and dry holes are written off in the year they are incurred. Therefore, cash flow would be substantially increased if lease rentals, surrenders and dry holes were capitalized in an accounting procedure using the "full cost" system. This is a significant item to note when comparing the financial statements of oil companies using the "full cost" system to our conventional method of accounting.

Working capital increased from \$752,659 to \$2,429,962 as a result of the sale of 350,000 shares to FRANCAREP, a French Rothschild's subsidiary, in November 1973.

During the period under review the Company participated in 20 wells which resulted in 10 oil and gas completions and 10 dry holes. Five of the ten dry holes were drilled at no cost to the company. This was in keeping with the Company policy to farmout high-risk, expensive ventures to defray exploration expenses. This policy of farming out has given much more explorational exposure to our shareholders than what is reflected in the financial statement.

Most company reports and the industry press have dealt extensively with the increasing difficulty that oil companies are experiencing, around the world, with increased government royalties, non-paid government participation, increased taxation, the removal of exploration incentives, greater governmental control and in some cases outright nationalization of oil properties. It will suffice to say here that we hope, in our own country, the Provinces and the Federal Government will resolve their differences on the sharing of revenues from oil and natural gas production without impairing exploration and development of these resources in our vast country. Canada's self sufficiency in oil and natural gas has, up to now, been brought about by a healthy free enterprise system.

A significant factor in all our daily lives has been the steady rising cost of living. Shortages, higher prices for materials and labour affect your company as well as every individual in this country and in the Western world. The net income per barrel of oil, to the Canadian producer, has been held to those of August 1973. In some provinces, such as Saskatchewan, the net per barrel to the producer, has been substantially lowered below August 1973 prices; due to the taxation policies of the Provincial and the Federal Governments. In summary, it is essential that a reasonable solution for taxation be reached by Federal and Provincial Governments to allow the industry to continue under a hyper-inflationary condition that exists in Canada today.

EXPLORATION AND DEVELOPMENT

Western Canada — Alberta

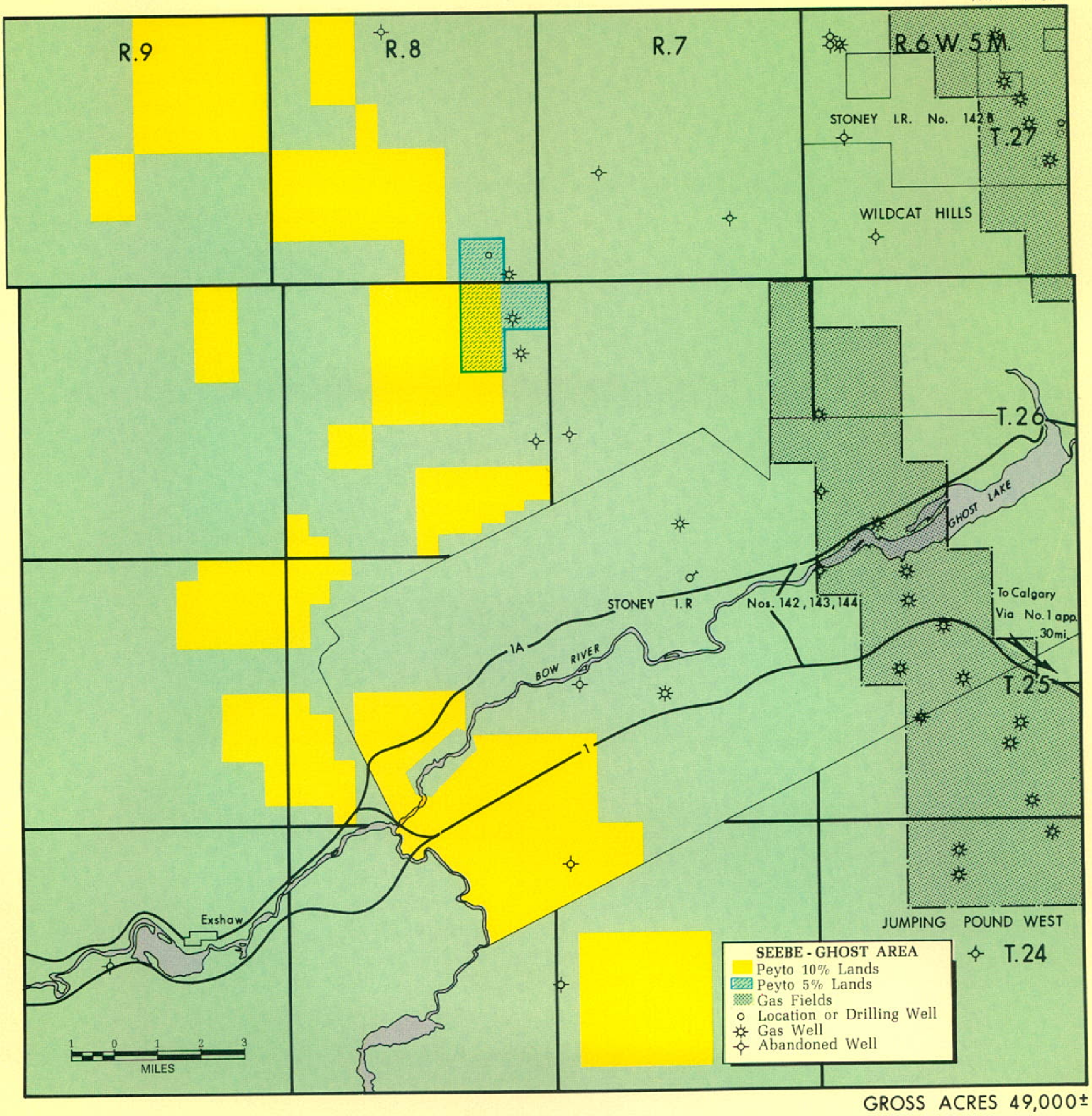
Gas Properties

The following gas properties are ready or in the process of being prepared for production in 1975 and should add substantial revenues in the future. Most of the gas is "new" gas and will qualify for reduced gas royalties under the new scheme proposed by the Alberta Government.

Ghost (see Map #1)

The Ghost feature has now been evaluated by three wells. The discovery, Phillips Ghost 4-36-28-8-W5M had 200′ of net pay in the Turner Valley formation of the Mississippian, a deliverability of 27 MMcf/day of dry gas with a sulphur content of 14.54%. This well is located on lands in which your company

MAP No. 1



GROSS ACRES 49,000±

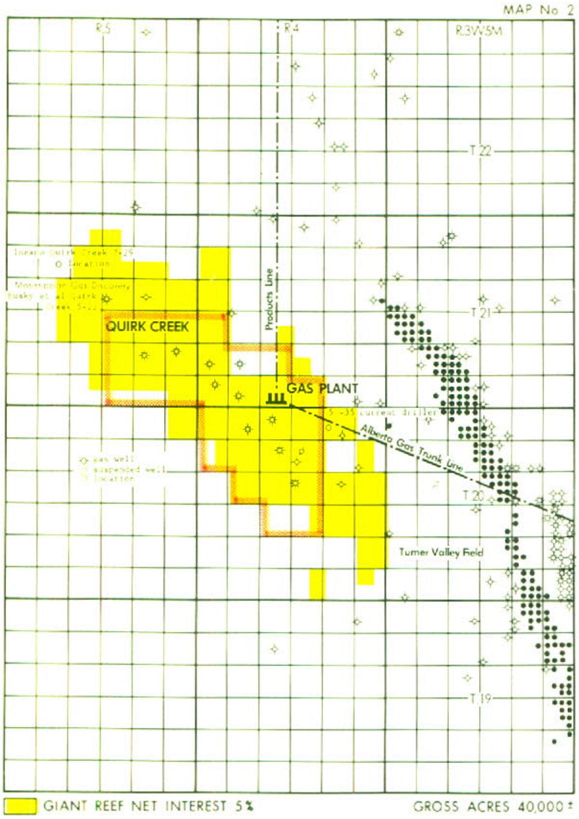
holds a 5% working interest. The other two wells are located on the Ghost feature but are not on Peyto lands. A fourth well is to be drilled shortly in 10-2-27-8-W5M, on company held acreage.

The Ghost 4-36 well was drilled on a structural feature which is presently estimated by this company to have 300 to 350 Bcf of proven reserves. More than half of the structural feature appears to be on Peyto 5% and 10% held acreage. The majority of any probable reserves would probably be located on company held lands. At present Phillips Petroleum, the operator, is studying the possibilities of building a gas plant on site or laying a pipeline to the Fina Wildcat Hills gas plant (15 miles to the east). It is hoped the construction of facilities will begin early in 1975. Production from the Ghost Field has been classified as "new gas".

The discovery well was drilled at no cost to the company. Peyto Oils will pay its proportionate share in the drilling of any future wells on company held lands.

Quirk Creek (see Map #2)

Peyto's 65% subsidiary, Giant Reef Petroleums Limited, has a 5% working interest in the Quirk Creek Field and the gas plant.



QUIRK CREEK

A new pool discovery, Husky et al Quirk Creek 5-22-21-5-W5M, drilled last year, has now been production tested. The well has ±200' of net pay in the Mississippian Turner Valley formation and is capable of delivering 14.5 MMcf of gas per day with 26.8 barrels of condensate per MMcf of gas per day. The sulphur content is 12.2%. This well was drilled on a large geophysical anomaly to the north of the Quirk Creek Field. The Inexco Shell team is presently drilling a well (7-29-21-5-W5M) 1½ miles from the 5-22 well; on the west flank of the North Quirk feature.

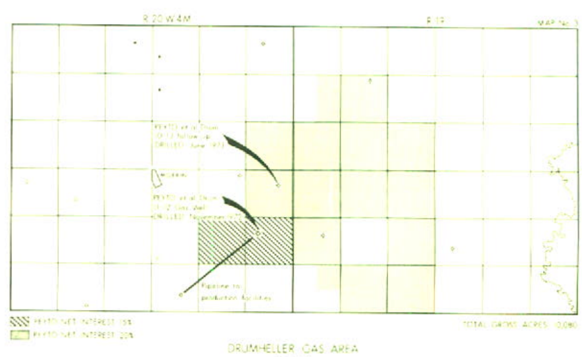
A second well was drilled on another substantial feature to the south of the Quirk Creek field; this anomaly is called the South Quirk feature. The well, 11-27-20-4-W5 was suspended after encountering hole difficulties. It did not reach its destined objective. A third well, 5-35-20-4-W5M is currently drilling below 11,000' to test this anomaly. Both North and South Quirk are Mississippian prospects below the horizon producing in the Quirk Creek field.

Revenues from the Quirk Creek area should increase in 1975 due to the following reasons: (1) In November of this year the price of gas at the Quirk Creek field will increase from 16¼¢ per Mcf to 26¢, (2) The company has recently completed a contract for selling liquid sulphur from the Quirk Creek field. Previous to this Giant Reef's share of sulphur was being stockpiled. The entire block of stockpiled sulphur has also been sold which should add a substantial sum of revenue for Giant Reef in 1974, (3) The tie-in and commencement of production from the 5-22 North Quirk discovery well will hopefully take place in 1975. The North Quirk discovery well will be classified as "new gas" and be subject to reduced royalty rates.

More drilling is anticipated in this area in 1975. The 5-22, 11-27 and 5-35 wells were drilled at no cost to Giant Reef. Future costs will be borne proportionately by Giant Reef.

Drumheller (see Map #3)

The Peyto et al Drum 11-12-31-20-W4 gaswell has been tied into the Ghost Pine Gas Plant and is ready for production as soon as the Unit approves acceptance and sets processing charges. A follow-up well drilled in June of 1973 was abandoned. The solitary well, Peyto et al Drum 11-12-31-20-W4M, has a minimum rate of take of 1 MMcf/day and a maximum of 2.33 MMcf/day. The starting price would be 60¢/Mcf and would qualify as "new gas". Peyto's working interest in this well is 15%. The well was drilled at no cost

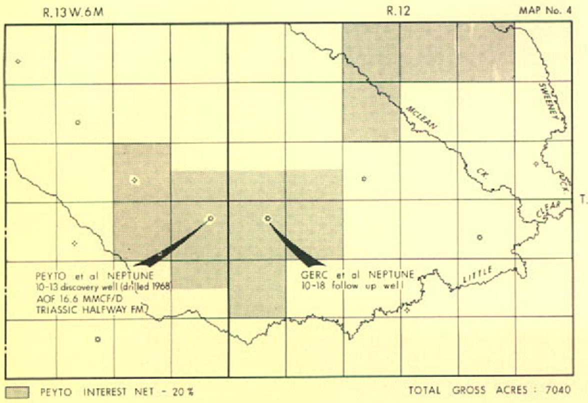


DRUMHELLER GAS AREA
ALBERTA

to the company. The company will possibly participate for a 20% working interest in future development on an 8800 acre Petroleum and Natural Gas lease adjacent to the discovery. Reserves for this well are estimated to be 12 Bcf of saleable gas.

Neptune (see Map #4)

Gas in this area of North Western Alberta was discovered by the Company in 1968. The gas is contracted to Pan Alberta. As soon as regulatory approval is obtained by that company we will commence the building of a gas plant. The plant would be designed to process 5 to 6 MMcf of gas per day. Peyto's net, after royalties, should be approximately 800 Mcf per day. This shut in gas has also been classified as "new gas" by the Alberta Energy Conservation Board. The proven reserves are estimated to be 22 Bcf in the field area. Starting gas price would be 65¢ per Mcf. Peyto's working interest in this prospect is 20%.

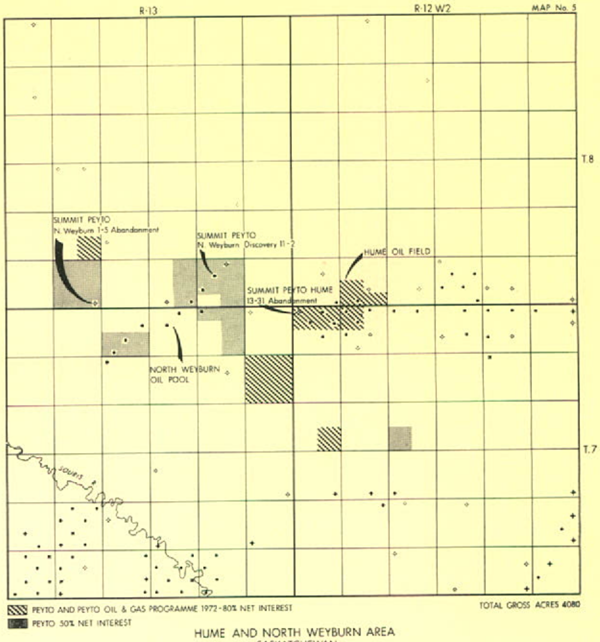


NEPTUNE GAS AREA
ALBERTA

Saskatchewan — Hume and North Weyburn (See Map #5)

At Hume your company drilled a west offset in 13-31-7-12-W2M which was unsuccessful. The company with Peyto Oil and Gas Program 1972 Drilling Fund produces from six oilwells in this pool.

The North Weyburn pool was discovered by your company in the preceding year. Five oilwells and one abandonment have been completed during the year under discussion. There are now six producing oilwells from the Midale Formation in this pool in which your



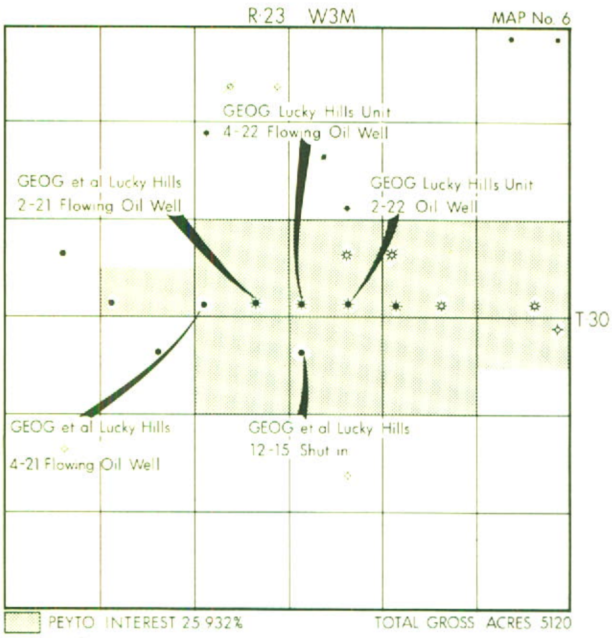
HUME AND NORTH WEYBURN AREA
SASKATCHEWAN

company holds a 50% working interest. Further development of this new field has been temporarily discontinued due to adverse taxation policies and surcharges imposed by the Saskatchewan and Federal Governments. These taxation policies have resulted in a substantial decrease in the net price per barrel of oil to the company since January of 1974. Further taxation by the Federal Government, as proposed in the last Budget, would result in a net loss for every barrel of oil produced from the field.

Lucky Hills (see Map #6)

We have continued an active development program in this area because of an advantageous recently implemented Provincial Government scheme to rebate 60% of the royalty surcharge on new production.

Two oilwells 4-22 and 2-22-30-23-W3M have been drilled in the year ending May 31, 1974. To date, two more wells in 4-21 and 2-21-30-23-W3 have been successfully completed. The most recent well in 4-21 flowed 108 bbls. of oil from the Viking formation, through a 16/64" choke on a 14 hour test, after swabbing. The 4-22 and 2-21 wells are currently producing over 90 barrels of oil per day. The 2-22 well produces currently at 30 barrels of oil per day. The preceding wells are all classified as "new oil". The company



LUCKY HILLS-VIKING SAND OIL & GAS POOL
SASKATCHEWAN

holds 25.932% working interest in 5,120 acres in this field. There are 10 producing oilwells which also produce concurrently 800 Mcf/day of gas. We expect a much greater revenue from this property in the coming year. We intend to pursue an active development program in this area for the remainder of the current year.

Foreign

The most exciting and significant exploratory ventures planned by the company for the following year will take place outside Canada. Two offshore wells in the British North Sea in which the company will have a working interest could be drilled in 1975. Another well in the British North Sea where your company has an equity interest is also anticipated. In Turkey an onshore venture is to be commenced in January of 1975.

In Tunisia an offshore well may be drilled depending on the results of a seismic rework.

Since the British North Sea represents such a vast portion of next year's exploratory activity and may have a profound influence on the fortunes of the Company, it may be well to say a few words on the political development affecting the oil industry in that country.

The British Government has indicated that they will seek to obtain a 51% interest in future concessions granted in the North Sea. For presently held concessions they will attempt to negotiate some form of Government participation. We are to be called to discuss this matter in the near future. It is our opinion that the British Government will not nationalize or impede greatly the development of free enterprise in the North Sea, at this time, for the following reasons:

1) They desperately need rapid development of their oil reserves to offset the deficit in their balance of payments. This deficit has been aggravated by the increased price of crude oil.

2) The financial plight of the British Government renders them unable to finance the large amounts of money needed to develop the oil resources of the North Sea.

3) The British Government does not have enough technical personnel nor can they supply enough labour, steel or sophisticated drilling equipment to develop their oil resources at the speed and scale that private enterprise is capable.

North Sea — Block 3/7 (see centrefold map)

The Ninian field now has three known productive oilwells and is believed to be one of the new North Sea giants. The field is being compared in size with the Forties field which has 1.8 billion barrels of recoverable reserves. The discovery well was drilled by Burmah Oil whose industry sources have indicated 320′ of Jurassic oil bearing sands. It was reported by Burmah that the 3/3-1 well had been flow tested at rates ranging from 2600 to 8200 barrels of oil per day on restricted choke sizes. Burmah's second well 3/3-2 has confirmed the existence of oil considerably down the West flank of the Ninian structural feature. It may be significant to note that this second well although structurally lower than the 3/3-1 well reported 370′ of productive Jurassic section.

B. P. Ranger 3/8-1 drilled the apex of the Ninian structure as did Burmah, then followed up with a well down the west flank of the structure. The 3/8-2 well was recently announced to have flowed 3100 bbls/day through a 36/64 inch choke and is currently being completed.

Your company owns a 10% working interest in block 3/7; the east border of which is one mile from the Ranger 3/8-2 well.

From seismic work it is this company's opinion that the Ninian feature extends into the Northeast corner of the 3/7 block. Drilling by the group is expected sometime in early 1975 if the political situation is favorable.

A seismic program in conjunction with two major oil companies has been conducted in the southwest corner of block 3/7 where an anomaly has been previously identified. A well to be drilled by Shell-Esso in block 3/12 has recently been announced and will evaluate this anomaly.

Block 211/2 (see centrefold map)

The Company, through Enjay Holdings Limited, holds a 40% working interest in this British North Sea block and is the operator. In February of 1973, 126 miles of marine seismic was completed on this area and adjoining Norwegian waters to the east. Approximately 250 miles of additional seismic data was traded and bought this year from competitor companies.

Our interpretation indicates a viable structural feature on the 211/2 block. The water-depth at the apex of the structure is 1200'. A well drilled on this block would be in the deepest water thus far drilled in the North Sea and would take the record of being the most northerly offshore well in the world.

This block is currently under seismic option to a major oil company. The results of their decision of whether they will drill should be known shortly. Notification of their intent will immediately be conveyed to the shareholders in a special announcement.

The most intensive activity in the North Sea is taking place south of this area in Thistle, Frigg, Brent and Dunlin areas (see map).

A most recent discovery 18 miles south of 211/2 has been made by British Petroleums and has been named the Magnus Field. It is a significant oil discovery but no formal release has yet been made by that company.

Berry Wiggins (see centrefold map)

Berry Wiggins (see map) is expected to commence the first well on its considerable land spread in the northern part of British North Sea sector. Your company holds 226,000 shares of Berry Wiggins stock which represents a 1.4% interest in that company. This exploratory well is to be drilled on block 15/8.

Turkey (see map #7)

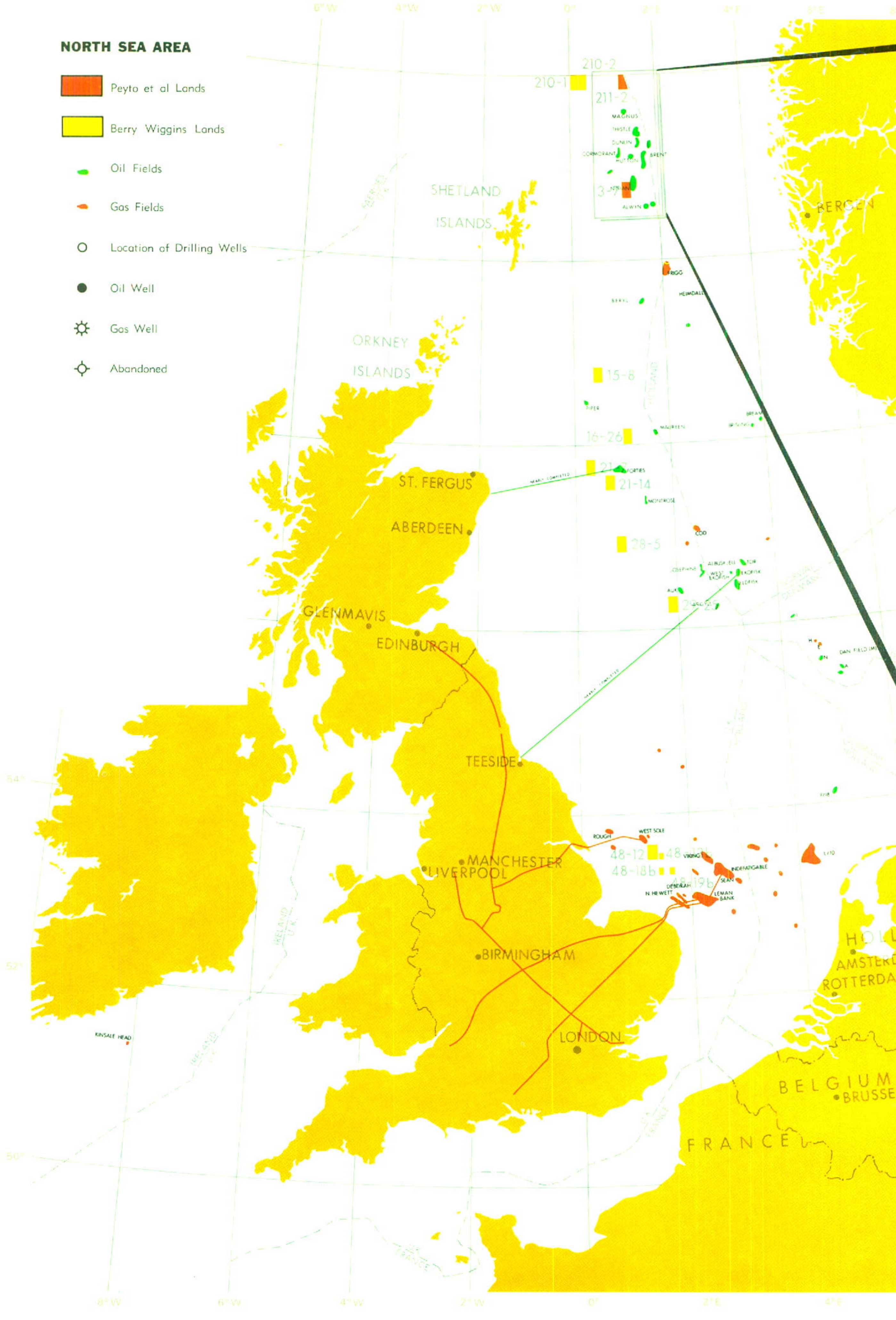
These concessions were originally filed for by Oxoco and Peyto in 1969. After having others conduct 155 miles of offshore seismic and 65 miles of onshore seismic, a structure was outlined onshore, less than 2 miles from the Mediterranean Sea. The anomaly has ±400' of closure and is interpreted to be a Miocene Reef. Miocene reefoid carbonates outcrop in the Taurus mountains and indicate favorable reservoir characteristics. A Mobil well in the adjoining Adana sedimentary basin is currently producing Miocene oil from reefoid carbonates.

Peyto is the operator and holds a 27.175% working interest in this prospect. This exploratory venture will be the second well drilled in the Antalya Basin. The well is anticipated to be commenced in January 1975. It is hoped that this prospect will be farmed out to others; to decrease or eliminate drilling costs to the Company.

MAP No. 7

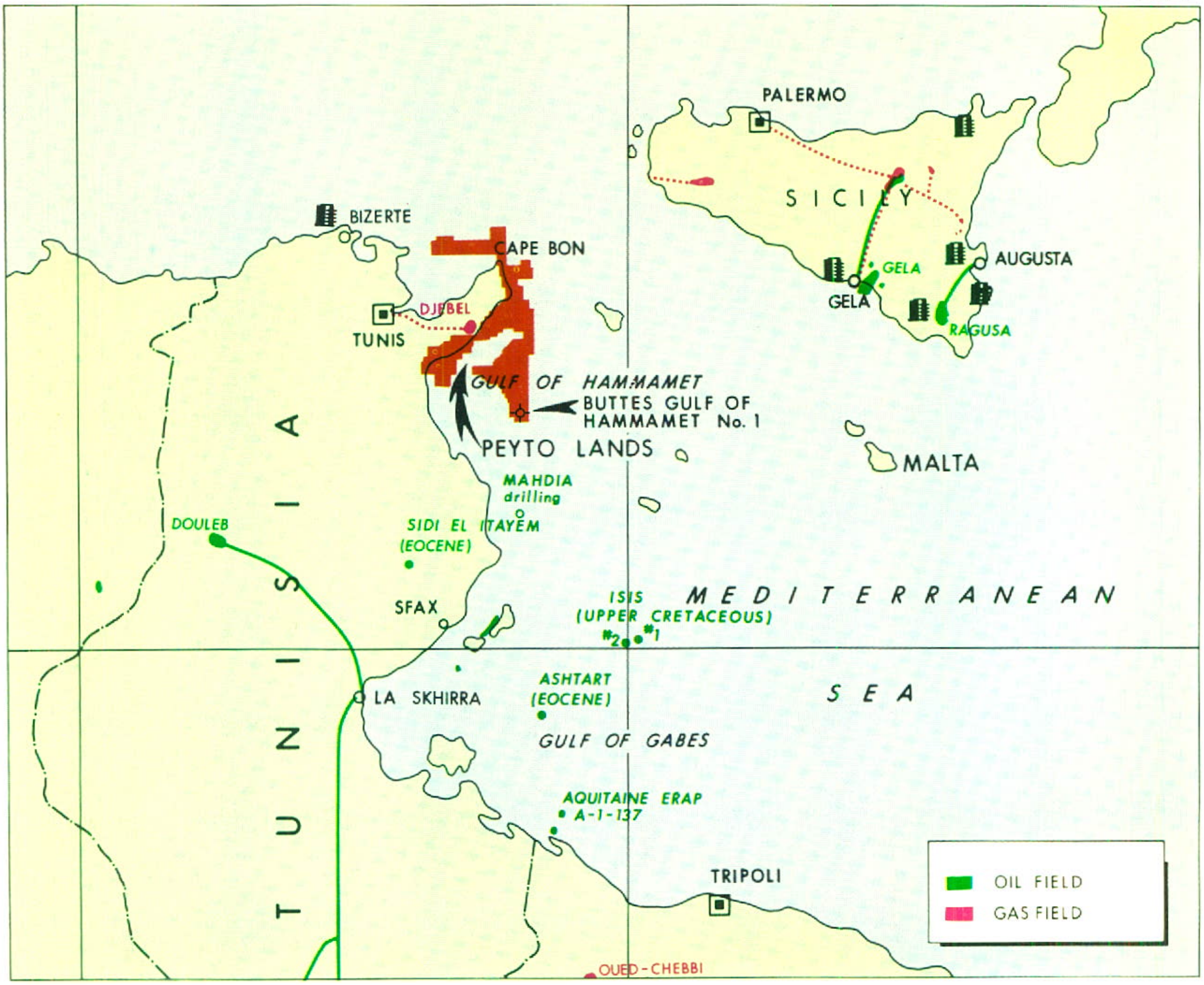
PEYTO NET INTEREST 27.175% CONCESSIONS GROSS 250,000 ACRES

ANTALYA. TURKEY PROSPECT


NORTH SEA AREA
Peyto et al Lands
Berry Wiggins Lands
Oil Fields
Gas Fields
Location of Drilling Wells
Oil Well
Gas Well
Abandoned
210-2
210-1
211-2
SHETLAND ISLANDS
ORKNEY ISLANDS
BERGEN
15-8
16-26
21-14
28-5
ST. FERGUS
ABERDEEN
GLENMAVIS
EDINBURGH
TEESIDE
MANCHESTER
LIVERPOOL
BIRMINGHAM
LONDON
48-12
48-18b
ROUGH
WEST SOLE
INDEFATIGABLE
LEMAN BANK
KINSALE HEAD
BELGIUM
FRANCE

1°E
2°E
62° N
61° N
210
211
33
2
3
29
60°
58°
56°
54°
52°
50°
6°E
MAGNUS
THISTLE
DUNLIN
MOBIL 33/12 DISCOVERY
CORMORANT
BRENT
HUTTON
UNION 2/5 DISCOVERY
BURMAH 3/3-2
BURMAH 3/3-1 DISCOVERY
NINIAN
BP-RANGER 3/8-1
BP-RANGER GROUP 50,017 ACRES
ALWYN
UNITED KINGDOM
NORWAY
10 STATUTE MILES
OIL FIELD
OIL DISCOVERY

MAP No. 8



PEYTO NET INTEREST 6.66%

3.33% IN AREA OF GULF OF HAMMAMET No.1

GROSS ACRES 1,500,000

TUNISIA GULF OF HAMMAMET

Tunisia (map #8)

Buttes Gulf of Hammamet #1 well was abandoned in March of this year at a depth of 15,170′. The well was drilled at a cost of $5,500,000. Peyto farmed out its interest and retained 3.3% in the southern half of the concession; where the well was drilled. This staggering well cost expenditure is a good example of the tremendous capital requirements in offshore exploration today. The well did provide valuable stratigraphic information of the shallower horizons.

ISIS #1 and #2, drilled by Compagnie Francaise des Petroles, an affiliate of Total have encountered an Upper Cretaceous oil well, 100 miles to the southeast of our concession. They reported a flow of 2700 barrels of oil on a 5 hour test. Net pay is reported to be 120′ at a drilling depth of 8000′.

Drilling at Gulf of Hammamet #1 tested a deep-seated structure of Lower Cretaceous or Jurassic Age. At least four smaller structural features outlined in the 1400 miles of seismic, done on this permit, are being re-evaluated in the light of the ISIS discovery. If the seismic rework is successful a well may be drilled to evaluate the most promising feature.

Guyana

A seismic survey of 305 miles was conducted in the preceding year and the concessions were dropped. The results of the survey indicated that the geologically and seismically interesting area lay further to the south. An application for approximately 1,115,000 acres was submitted to the Guyana Government for their approval and is pending. The Company's interest in these concessions, if granted, would be 15%.

Gambia

Some 350 miles of marine seismic work, a rework of competitor seismic and a brief geological study of well logs in Gambia and Senegal was accomplished. The Gambia concession comprises 1,500,000 acres, offshore, in which Peyto has a 5% interest. The results of the seismic survey do not look favorable and the concession will probably be relinquished.

India

An application with a group of Canadian companies for a 9 million acre concession in India was applied for and rejected by that Government. Late this summer the Indian Government offered to re-open negotiations, once more; on another concession of 6 million acres, not yet awarded. This renewed offer is being investigated at this time.

Mining

At Maggie, the company plans to reduce its holdings from 159 to 17 claims. This reduction has been brought about by the lack-lustre results of our drilling program the previous year and the new British Columbia mining regulations which have virtually halted exploration activity in that Province. Four percussion drill holes are to be drilled this fall on a gold showing indicated in last year's drilling program.

Announcements and Conclusions

We are pleased to announce the appointment of Mr. Jean Le Reun of FRANCAREP, Paris, France, to the Board of Directors.

The oncoming year promises an exciting exploratory program in the North Sea, Turkey and possibly Tunisia. The success of any one of these ventures could mean the addition of substantial new reserves to the company.

The Company is continuing its efforts to farmout its acreage in Colorado and is investigating drilling on selected prospects in the United States. The exploitation of oil reserves and the tie-in of new gas in those fields, mentioned in the text of this letter, should enhance next year's financial results and those to follow. The ultimate profitability of these developments, especially in oil, is now being determined by the Provincial and Federal Governments. This long shadow of doubt as to the eventual profit to be had from your company's successful explorational efforts is a new factor in our rapidly changing society.

We once more reiterate our hope that in Canada, as well as in other countries in the world, that a reasonable solution will be reached by Governments that will encourage the development and exploration of oil and natural gas resources by free enterprise.

ON BEHALF OF THE BOARD OF DIRECTORS

W. Wolodarsky,
President.

Peyto Oils Ltd.
and Subsidiaries

Consolidated Balance Sheet May 31, 1974
(with comparative figures for 1973)

ASSETS	1974	1973
Current assets:		
Cash	$ 48,058	$ 77,218
Deposit receipts, including accrued interest	2,429,962	752,659
Accounts receivable (Note 5)	107,167	105,895
Current portion of notes receivable	—	20,000
Prepaid expenses and deposits	—	12,989
Total current assets	2,585,187	968,761
Property, plant and equipment (Notes 1, 2 & 5):		
Cost	3,998,223	3,743,694
Less accumulated depletion and depreciation	639,518	419,042
	3,358,705	3,324,652
Other assets:		
Investments, at cost (quoted market value $759,818) (Note 3)	453,998	435,088
Other investments, at cost less amounts written off (no quoted market value) (Note 4)	15,313	—
Refundable deposits	14,247	13,250
Incorporation costs	9,238	9,238
Subtotal of other investments	492,796	457,576
	$6,436,688	$4,750,989

See accompanying notes

LIABILITIES	1974	1973
Current liabilities:		
Accounts payable and accrued liabilities	$ 60,755	$ 121,845
Current portion of long-term debt (Note 5)	75,000	75,000
Due on purchase of investment	—	137,554
Total current liabilities	135,755	334,399
Long-term debt (Note 5)		
Bank loan, net of current portion	604,000	632,000
Minority interest in subsidiary company	153,861	162,135
Shareholders' equity:		
Share capital (Note 6)		
Authorized: 6,000,000 shares without nominal or par value		
Issued: 2,831,383 shares (1973 — 2,431,383 shares)	6,222,010	4,009,510
Deficit	678,938	387,055
	5,543,072	3,622,455
	$6,436,688	$4,750,989

Approved on behalf of the Board:

R. T. Vanderham, Director

W. Wolodarsky, Director

See accompanying notes.

Peyto Oils Ltd.

and Subsidiaries

Consolidated Statement of Earnings and Deficit
Year ended May 31, 1974

(with comparative figures for 1973)

	1974	1973
Revenue:		
Oil and gas	$ 521,113	$ 449,475
Geological and consulting fees	29,664	87,257
Interest earned	117,868	33,260
Other	3,465	10,959
	672,110	580,951
Expenses:		
Operating	168,787	213,802
Lease rentals on non-producing properties	72,508	30,089
General and administrative	160,209	200,675
Interest:		
Long-term	66,411	46,282
Other	—	377
	467,915	491,225
Cash flow from operations	204,195	89,726
Non-cash charges (credits):		
Depletion	124,847	83,424
Depreciation	99,739	75,793
Dry holes and property abandonment	262,572	241,693
Write down of investments	—	3,046
Loss (gain) on sale of properties and investments	12,023	(62,608)
	499,181	341,348
Loss before the following	294,986	251,622
Minority interest in loss of subsidiary	3,103	2,317
Net loss	291,883	249,305
Deficit at beginning of year	387,055	99,210
Share issue expenses	—	38,540
Deficit at end of year	$ 678,938	$ 387,055
Loss per share	$ 0.10	$ 0.11

See accompanying notes

Peyto Oils Ltd.
and Subsidiaries

Consolidated Statements of Changes in Financial Position
Year ended May 31, 1974
(with comparative figures for 1973)

	1974	1973
Source of working capital:		
Cash flow from operations	$ 204,195	$ 89,726
Decrease in notes receivable	—	20,000
Increase in long-term debt, net of current portion	—	3,000
Issue of capital stock	2,212,500	1,633,485
Sale of properties	5,415	74,983
Other	—	2,382
Total working capital provided	2,422,110	1,823,576
Application of working capital:		
Property, plant and equipment	538,648	1,238,431
Increase in other assets:		
Investments	34,223	284,407
Other	997	11,666
Decrease in long-term debt — net of current portion	28,000	—
Share issue expenses	—	38,540
Purchase of shares of a subsidiary	5,172	—
Total working capital applied	607,040	1,573,044
Increase in working capital	1,815,070	250,532
Working capital at beginning of year	634,362	383,830
Working capital at end of year	$2,449,432	$ 634,362

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies:

The consolidated financial statements include the accounts of all wholly-owned subsidiary companies and a 65% held subsidiary, Giant Reef Petroleums Limited.

The excess of the purchase price of the shares of Giant Reef Petroleums Limited over the underlying net book value, at dates of acquisition, has, on consolidation, been added to the cost of developed oil and gas properties and is being depleted on the unit of production method.

Under the conventional system of accounting as used by the company (as opposed to the "full cost" method) all costs relative to exploration for and development of petroleum and natural gas whether productive or non-productive are initially capitalized. The costs of non-producing properties, including development and exploration cost thereon, less any proceeds on disposal, are charged against earnings in the year of disposal, abandonment or surrender. Costs pertaining to producing properties are depleted on a unit of production method based on estimated reserves. Carrying costs on undeveloped properties are charged against earnings in the year incurred.

Lease and well equipment and gas plants are depreciated over their estimated useful lives.

2. Property, plant and equipment:

	1974		1973	
	Cost	Accumulated depletion and depreciation	Cost	Accumulated depletion and depreciation
Developed oil and gas properties and equipment thereon	$2,405,782	$467,033	$2,144,203	$295,821
Gas plant	985,266	172,485	973,620	123,221
Undeveloped oil, gas and mineral properties	607,175	—	625,871	—
	$3,998,223	$639,518	$3,743,694	$419,042

3. Investments:

During the year the company's investment in the shares of Sea Search Limited, a United Kingdom company, were exchanged for shares of Berry Wiggins & Co. Ltd., a United Kingdom public company. The investment is carried at a cost of $429,198 in the accompanying balance sheet and at May 31, 1974 the market value of these shares was $678,000.

Owing to the number of shares involved, the market value of the investments is not necessarily indicative of the value that the Company would receive if the shares were to be sold.

4. Other investments:

Included in other investments is a United Kingdom company, Enjay Holdings Ltd. of which the company owns 40% of the outstanding common shares at a cost of $5,302.

5. Long-term debt:

Although the bank loan is subject to call on demand, under the agreed terms of repayment approximately $75,000 will be repaid within the next twelve months. The loan is secured by an assignment of certain interests in developed properties and accounts receivable of a subsidiary company.

6. Capital stock:

During the year the company increased its authorized share capital by the creation of an additional 3,000,000 shares without nominal or par value.

The following changes were made in the issued capital stock of the company:

	Shares	Amount
Balance May 31, 1973	2,431,383	$4,009,510
Shares issued for cash:		
Pursuant to share purchase warrants granted June, 1971	50,000	112,500
Other	350,000	2,100,000
Balance May 31, 1974	2,831,383	$6,222,010

During the year the company granted an option to purchase 50,000 shares of its capital stock, exercisable as follows:

$7.50 per share if exercised prior to November 30, 1974
$9.00 per share if exercised prior to November 30, 1975

7. Remuneration of Directors and Officers:

The aggregate remuneration paid to senior officers (as defined by The Companies Act, Alberta, which term includes the five highest paid employees of the company) during the year amounted to $84,000. No remuneration was paid to directors as such.

8. Income taxes:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. At May 31, 1974 the following amounts remain to be carried forward and applied against future taxable income to the maximum amounts permitted annually under the Income Tax Act.

Drilling, exploration and lease acquisition costs	$2,561,000
Undepreciated capital cost	$1,111,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peyto Oils Ltd. and subsidiaries as of May 31, 1974 and the consolidated statements of earnings and 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.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at May 31, 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.

Calgary, Alberta
July 26, 1974

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

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